Waterstone Financial, Inc.
Form 424B3
November 22, 2013

Filed pursuant to Rule 424(b)(3)

Registration Statement No. 333-189160

Prospectus Supplement

Interests in

WATERSTONE BANK SSB 401(k) PLAN

Offering of Participation Interests in up to 427,169 Shares of

WATERSTONE FINANCIAL, INC.
Common Stock

In connection with the conversion and reorganization of Lamplighter Financial, MHC from the mutual holding company to the stock holding company form of organization, Waterstone Financial, Inc., a newly formed Maryland corporation (“New Waterstone”), is offering shares of common stock for sale. New Waterstone is allowing participants in the WaterStone Bank SSB 401(k) Plan (the “Plan”) to invest all or a portion of their accounts in the common stock of New Waterstone.

Based upon the value of the Plan assets at June 30, 2013, the trustee of the Plan could purchase or acquire up to 427,169 shares of the common stock of New Waterstone, at the purchase price of $10.00 per share. This prospectus supplement relates to the initial election of Plan participants to direct the trustee of the Plan to invest all or a portion of their Plan accounts in the New Waterstone Stock Fund at the time of the stock offering.

New Waterstone’s prospectus, dated November 6, 2013, accompanies this prospectus supplement. It contains detailed information regarding the conversion and stock offering of New Waterstone common stock and the financial condition, results of operations and business of WaterStone Bank SSB. This prospectus supplement provides information regarding the Plan. You should read this prospectus supplement together with the prospectus and keep both for future reference.

For a discussion of risks that you should consider, see the “Risk Factors” section of the prospectus.

The interests in the Plan and the offering of common stock of New Waterstone have not been approved or disapproved by the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, the Wisconsin Department of Financial Institutions, the Federal Deposit Insurance Corporation or any other federal or state agency. Any representation to the contrary is a criminal offense.

The securities offered in this prospectus supplement and in the prospectus are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

This prospectus supplement may be used only in connection with offers and sales by New Waterstone, in the stock offering, of interests or shares of common stock in the New Waterstone Stock Fund of the Plan. No one may use this prospectus supplement to re-offer or resell interests or shares of common stock of New Waterstone acquired through the Plan.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. New Waterstone, WaterStone Bank SSB and the Plan have not authorized anyone to provide you with information that is different.

This prospectus supplement does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. Neither the delivery of this prospectus supplement and the prospectus nor any sale of common stock of New Waterstone common stock shall under any circumstances imply that there has been no change in the affairs of WaterStone Bank SSB or any of its subsidiaries or the Plan since the date of this prospectus supplement, or that the information contained in this prospectus supplement or incorporated by reference is correct as of any time after the date of this prospectus supplement.

The date of this prospectus supplement is November 6, 2013.

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THE OFFERING

Securities Offered	New Waterstone is offering participants in the WaterStone Bank SSB 401(k) Plan (the "Plan") the opportunity to purchase participation interests in the common stock of New Waterstone. The ownership of common stock of New Waterstone in the Plan is referred to as a "participation interest" since the common stock will be titled in the name of the Plan and not directly in a participant's name. Given the purchase price of $10.00 per share in the stock offering, the Plan may purchase (or acquire) up to 427,169 shares of New Waterstone common stock in the stock offering. Only employees of WaterStone Bank SSB may become participants in the Plan and only participants may purchase stock in the New Waterstone Stock Fund. Your investment in stock in connection with the stock offering through the New Waterstone Stock Fund is subject to the purchase priorities contained in the Plan of Conversion and Reorganization of Lamplighter Financial, MHC. Information with regard to the Plan is contained in this prospectus supplement and information with regard to the financial condition, results of operations and business of New Waterstone is contained in the accompanying prospectus. You should read both documents before making a purchase decision. The address of the principal executive office of New Waterstone and WaterStone Bank SSB is 11200 West Plank Court, Wauwatosa, Wisconsin 53226. All questions about this prospectus supplement should be addressed to Ian Konrath, PHR, Human Resources Director, WaterStone Bank SSB, 11200 West Plank Court, Wauwatosa, Wisconsin 53226; telephone number (414) 459-4127; or e-mail Ian Konrath at IanKonrath@wsbonline.com. Questions about the common stock being offered or about the prospectus may be directed to the Stock Information Center at (414) 459-4700.
New Waterstone Stock Fund	In connection with the stock offering, you may elect to transfer all or part of your account balances in the Plan to the New Waterstone Stock Fund, to be used to purchase common stock of New Waterstone issued in the stock offering. The New Waterstone Stock Fund is a new fund in the Plan established to hold shares of common stock of New Waterstone.

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Purchase Priorities

All Plan participants are eligible to direct a transfer of funds to the New Waterstone Stock Fund. However, such directions are subject to the purchase priorities in the Plan of Conversion and Reorganization of Lamplighter Financial, MHC, which provides for a subscription offering and a community offering. In the offering, the purchase priorities are as follows and apply in case more shares are ordered than are available for sale (an "oversubscription"):

Subscription Offering:

(1) Depositors of WaterStone Bank SSB with $50 or more on deposit at the close of business on December 31, 2011, get first priority.

(2) WaterStone Bank SSB's tax-qualified plans, including the employee stock ownership plan, get second priority.

(3) Depositors of WaterStone Bank SSB with $50 or more on deposit at the close of business on September 30, 2013 who are not eligible under priority #1 get third priority.

(4) Depositors of WaterStone Bank SSB as of the close of business on October 31, 2013 who are not eligible under priority #1 or #3 get fourth priority.

Community Offering:

(5) Natural persons (including trusts of natural persons) residing in the Wisconsin counties of Milwaukee, Washington and Waukesha get fifth priority.

(6) The public stockholders of Waterstone Financial, Inc., a federal corporation ("Waterstone-Federal") as of October 31, 2013 get sixth priority.

(7) Other members of the general public get seventh priority.

If you fall into subscription offering categories (1), (3) or (4), you have subscription rights to purchase shares of New Waterstone common stock in the subscription offering and you may use funds in the Plan to pay for the common stock. You may also be able to purchase shares of New Waterstone common stock in the subscription offering even though you are ineligible to purchase through subscription offering categories (1), (3) or (4) by purchasing stock in the Plan through subscription offering category (2), reserved for WaterStone Bank SSB's tax-qualified employee plans.

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Purchases in the Offering and Oversubscriptions

The trustee of the New Waterstone Stock Fund will purchase common stock of New Waterstone in the stock offering in accordance with your directions. Once you make your election, the amount that you elect to transfer from your existing investment options for the purchase of common stock in connection with the stock offering will be sold from your existing investment options and transferred to the New Waterstone Stock Fund and held in a money market account pending the formal closing of the stock offering, several weeks later. After the end of the stock offering period, we will determine whether all or any portion of your order will be filled (if the offering is oversubscribed you may not receive any or all of your order, depending on your purchase priority, as described above). The amount that can be used toward your order will be applied to the purchase of common stock of New Waterstone and will be denominated in stock in the Plan.

In the event the offering is oversubscribed, i.e., there are more orders for common stock of New Waterstone than shares available for sale in the offering, and the trustee is unable to use the full amount allocated by you to purchase interests in common stock of New Waterstone in the offering, the amount that cannot be invested in common stock of New Waterstone, and any interest earned on such amount, will be reinvested in the existing funds of the Plan, in accordance with your then existing investment election (in proportion to your investment direction for future contributions). The prospectus describes the allocation procedures in the event of an oversubscription. If you choose not to direct the investment of your account balances towards the purchase of any shares of common stock of New Waterstone through the New Waterstone Stock Fund in connection with the offering, your account balances will remain in the investment funds of the Plan as previously directed by you.

Value of Plan Assets

As of June 30, 2013, the market value of the assets of the Plan was approximately $4,271,697.

Election to Purchase Stock in the Stock Offering

In connection with the stock offering, the Plan will permit you to direct the trustee to transfer all or part of the funds which represent your current beneficial interest in the assets of the Plan to the New Waterstone Stock Fund. The trustee of the Plan will subscribe for New Waterstone common stock offered for sale in connection with the stock offering, in accordance with each participant's direction. In order to purchase stock representing an ownership interest in common stock of New Waterstone in the stock offering through the Plan, you must order at least 25 shares in the offering through the Plan. The prospectus describes maximum purchase limits for investors in the stock offering. The trustee will pay

$10.00 per share of stock in the offering, which will be the same price paid by all

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other persons who purchase shares in the subscription and community offerings.

How to Order Stock in the Stock Offering	You can elect to transfer (in whole percentages or dollar amounts) all or a portion of your account balance in the Plan to the Stock Purchase account. Please note the following conditions concerning this election:

· You can direct all or a portion of your current account to the New Waterstone Stock Fund in increments of $10.00.

· Your election is subject to a minimum purchase of 25 shares of common stock, which equals $250.

· Your election, plus any order you place outside the Plan, are together subject to a maximum purchase of 300,000 shares, which equals $3,000,000.

· The election period closes at 5:00 p.m., Central Time, on December 10, 2013.

· Your election to purchase common stock in the offering through the Plan will be accepted by Principal Financial Group, the recordkeeper of the Plan. After your election is accepted by Principal Financial Group, it will be rounded down to the closest dollar amount divisible by $10.00, and will be used by the trustee to purchase shares of common stock sold in the offering. This difference will remain in the Stock Purchase account until the formal closing of the offering has been completed, several weeks after the election period ends. At that time, the common stock purchased based on your election will be transferred to the New Waterstone Stock Fund and any remaining funds will be transferred out of the Stock Purchase account for investment in other funds under the Plan, based on your election currently on file for future contributions. During the stock offering period, you will continue to have the ability to transfer amounts that are not directed to purchase stock in the New Waterstone Stock Fund among all other investment funds.

· The amount you elect to transfer to the New Waterstone Stock Fund will be held separately until the offering closes. Therefore, this money is not available for distributions, loans, or withdrawals until the transaction is completed, which is expected to be several weeks after the closing of the subscription offering period.

Follow these steps to make your election to use all or part of your account balance in the Plan to purchase shares of common stock in the stock offering.

· Go to www.principal.com and log into your Plan account. In Account Login, click on drop down and choose "Personal", then "GO." Enter your Username and Password. If you haven't established your Username and Password, click on the link "Establish your Username and Password" and follow the prompts.

· On your Personal Summary Page, choose the line for the WaterstoneStone Bank SSB 401(k) Plan.

· When you reach "Your Account Overview," click on "Investments" on the left hand side of the screen, and then click on "Manage."

· When you reach the "Manage Your Investments" screen, click on the orange box titled "Reallocate Existing Savings."

· If you want to transfer a percentage of some of your current investments, enter the percentage you would like to transfer "From" each investment. If you would like to transfer a dollar amount, click on "Advanced Transfer Features" and choose "dollars," then enter the amount you would like to transfer "From" each investment. When you have completed transferring "From" each investment, choose "Continue."

· Enter the percentage or dollars that you will be transferring into the Stock Purchase account. The Stock Purchase account is a money market investment that will hold the funds until the stock offering is concluded. All of the funds that you transferred "From" other investments must be transferred to another investment. The total percentage must be 100% or, if transferring dollars, all of the dollars must be transferred "To" another investment.

· When you have completed the "To" portion of the transaction, click continue. You will be taken to a confirmation page. Please review your transaction for accuracy, if you need to make changes, click on "Cancel" or "Start Over" or "Previous" to make changes. If the information is correct, click on the box, "I confirm the information above and authorize Principal Life Insurance Company to process this request." You will receive a

	communication in your Message Center confirming your transaction.
Order Deadline	If you wish to make an election, then you must make your election online at www.principal.com and return your Stock Information Form in the pre-paid envelope to Jodi Stephens, at WaterStone Bank SSB, to be received no later than 5:00 p.m., Central Time, on December 10, 2013. Your election will not be processed until you have also returned the Stock Information Form.
Irrevocability of Transfer Direction	Once you make an election to transfer amounts to the Stock Purchase account to be used by the trustee to purchase New Waterstone stock in connection with the stock offering, you may not change your election. Your election is irrevocable. You will, however, continue to have the ability to transfer amounts not directed towards the purchase of stock among all of the other investment funds on a daily basis.
Future Direction to Purchase Common Stock	You will be able to purchase New Waterstone stock after the offering through your investment in the New Waterstone Stock Fund. You may direct that your future contributions or your account balance in the Plan be transferred to the New Waterstone Stock Fund. After the offering, to the extent that shares are available, the trustee of the Plan will acquire common stock of New Waterstone at your election in open market transactions at the prevailing price. You may change your investment allocation on a daily basis. Special restrictions may apply to transfers directed to and from the New Waterstone Stock Fund by the participants who are subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, relating to the purchase and sale of securities by officers, directors and principal stockholders of New Waterstone.
Voting Rights of Common Stock	The Plan provides that you may direct the trustee as to how to vote any shares of New Waterstone common stock held by the New Waterstone Stock Fund, and the interest in such shares that is credited to your account. If the trustee does not receive your voting instructions, the plan administrator will exercise these rights as it determines in its discretion and will direct the trustee accordingly. All voting instructions will be kept confidential.

DESCRIPTION OF THE PLAN

Introduction

WaterStone Bank SSB adopted the WaterStone Bank SSB 401(k) Plan on January 1, 1996. The Plan is a tax-qualified plan with a cash or deferred compensation feature

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established in accordance with the requirements under Section 401(a) and Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan has been amended and restated over the years to maintain compliance with the tax laws. Most recently, the Plan was transferred from a volume submitter plan document at Fidelity Investments to a volume submitter plan at Principal Financial Group in order to allow the WaterStone Bank SSB employees to purchase shares in New Waterstone's initial public offering with their 401(k) account balances.

WaterStone Bank SSB intends that the Plan, in operation, will comply with the requirements under Section 401(a) and Section 401(k) of the Code. WaterStone Bank SSB will adopt any amendments to the Plan that may be necessary to ensure the continuing qualified status of the Plan under the Code and applicable Treasury Regulations.

Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is an "individual account plan" other than a "money purchase pension plan" within the meaning of ERISA. As such, the Plan is subject to all of the provisions of Title I (Protection of Employee Benefit Rights) and Title II (Amendments to the Code Relating to Retirement Plans) of ERISA, except to the funding requirements contained in Part 3 of Title I of ERISA, which by their terms do not apply to an individual account plan (other than a money purchase plan). The Plan is not subject to Title IV (Plan Termination Insurance) of ERISA. The funding requirements contained in Title IV of ERISA are not applicable to participants or beneficiaries under the Plan.

Reference to Full Text of Plan. The following portions of this prospectus supplement summarize certain provisions of the Plan. They are not complete and are qualified in their entirety by the full text of the Plan. Copies of the Plan are available to all employees by filing a request with the Plan Administrator c/o WaterStone Bank SSB, Attn: Ian Konrath, PHR, Human Resources Director; telephone number: (414) 459-4127; e-mail: IanKonrath@wsbonline.com. You are urged to read carefully the full text of the Plan.

Eligibility and Participation

As an employee of WaterStone Bank SSB, you are eligible to become a participant in the Plan on the first day of the month after you have reached age 18. Union employees, leased employees and nonresident aliens who receive no earned income from the U.S. are not eligible to participate in the Plan. The Plan year is January 1 to December 31 (the "Plan Year").

As of June 30, 2013, there were approximately 177 employees, former employees and beneficiaries eligible to participate in the Plan.

Contributions Under the Plan

The Plan provides for employee before-tax contributions and employee Roth after-tax contributions ("Roth contributions"), employer matching contributions made on behalf of employees who make employee before-tax contributions and Roth contributions, and discretionary employer contributions. Each type is summarized below. In determining contribution amounts under the Plan, an employee's annual compensation in excess of $250,000 is disregarded, as are certain other amounts of employee compensation.

Employee Before-tax Contributions. If you are an eligible employee, WaterStone Bank SSB will automatically reduce your salary on a before-tax basis by 1%, unless you elect not to have your salary reduced at all, or you elect to have your salary reduced by another percentage. You may elect to contribute up to 90% of your salary or and 100% of your cash bonuses (as defined in the Plan) for the purpose of making employee before-tax contributions (as discussed below), however, the most you can contribute on a before-tax basis is $17,500 for the 2013 Plan year. You may change the amount of your employee before-tax contributions, including discontinuing or resuming them, by telephone through Principal Financial Group at (800) 547-7754 or through the Internet (which can be reached via www.principal.com).

Employee After-tax Roth Contributions. You can elect to have your salary reduction contributions treated as after-tax Roth contributions. The same contribution limits set forth above that apply to Employee before-tax contributions also apply to your Roth after-tax contributions. You may also the amount of your employee after-tax Roth contributions, including discontinuing or resuming them, by telephone through Principal Financial Group at (800) 547-7754 or through the Internet (which can be reached via www.principal.com).

Catch-Up Contributions. If you are over age 50 or will attain age 50 before the close of the plan year and have made the maximum elective deferral set forth above (or are prevented from making the maximum contribution due to one or more Plan limitations that prohibit you from otherwise contributing an additional before-tax contribution or Roth contribution), you may also make “catch-up” contributions, in accordance with the tax laws and subject to the tax law limits (for 2013, the limit on catch-up contributions is $5,500). Your catch-up contributions may be either employee before-tax contributions or after-tax Roth contributions.

Discretionary Employer Contributions. Discretionary employer contributions may be made for each plan year in an amount determined by WaterStone Bank SSB. Discretionary employer contributions will be allocated to your account based on the ratio of your salary during the plan year for which the contribution is made to the total salaries of all employees eligible for a discretionary employer contribution for that year.

Rollover Contributions. You are permitted to make rollover contributions to the Plan.

Limitations on Contributions

Limitations on Employee Before-Tax Contributions and Roth Contributions. For the plan year beginning January 1, 2013, the amount of your employee before-tax contributions may not exceed $17,500 per calendar year. This amount may be adjusted periodically by law, based on changes in the cost of living. Contributions in excess of this limit are known as excess deferrals. If you defer amounts in excess of this limitation, your gross income for federal income tax purposes will include the excess in the year of the deferral. In addition, unless the excess deferral is distributed before April 15 of the following year, it will be taxed again in the year distributed. Income on the excess deferral distributed by April 15 of the immediately succeeding year will be treated, for federal income tax purposes, as earned and received by you in the tax year in which the contribution is made.

Limitation on Plan Contributions for Highly Compensated Employees. Special provisions of the Internal Revenue Code limit the amount of employee before-tax contributions, Roth contributions and employer matching contributions that may be made to the Plan in any year on behalf of highly compensated employees, in relation to the amount of employee deferrals and employer matching contributions made by or on behalf of all other employees eligible to participate in the Plan. A highly compensated employee includes any employee who (1) was a 5% owner of Waterstone-Federal or New Waterstone at any time during the current or preceding year, or (2) had compensation for the preceding year of more than $115,000. The dollar amounts in the foregoing sentence may be adjusted annually to reflect increases in the cost of living. If these limitations are exceeded, the level of deferrals by highly compensated employees may have to be adjusted.

Benefits Under the Plan

Vesting. At all times, you have a fully vested and nonforfeitable interest in your elective deferral contributions and any rollover contributions. Employer discretionary contributions credited to your account are subject to a six-year graded vesting schedule pursuant to which such amounts vest in 20% increments, beginning after the second completed year of service, beginning upon the completion of the second year of service, until a participant becomes 100% vested upon completion of five years of service. In addition, you will also become 100% vested in the employer contributions credited to your account upon your death, disability or normal retirement upon attainment of age 65.

To earn a year of service, you must be credited with at least 1,000 hours of service during any Plan Year.

In-Service Distributions from the Plan

Loans. You may apply for a loan under the Plan, subject to the rules and limitations imposed by the Internal Revenue Code and the Plan document. The amount of any loan is limited to the lesser of $50,000, or 50%, of your vested account balance under the Plan. The minimum amount of loan and the term of the loan is determined in accordance with the guidelines of the loan policy established by WaterStone Bank SSB with respect to the Plan.

Rollover Withdrawals from the Plan. A substantial federal tax penalty may be imposed on withdrawals made prior to your attainment of age 59½, regardless of whether such a withdrawal occurs during your employment with WaterStone Bank SSB or after termination of employment. If you have not yet reached age 59½, you may request a withdrawal from rollover funds within your Plan accounts for any reason. Non-Hardship Withdrawals are not allowed within the Plan, except in the case of Rollover Withdrawals.

Age 59½ Withdrawals. Upon attainment of age 59½, you may withdraw from your vested Elective Deferral Contributions, Catch-up Contributions, and Employer Discretionary Contributions accounts for any reason.

Hardship Withdrawals. You may be eligible for a hardship withdrawal if you have an immediate and substantial financial need to meet certain expenses and you have no other reasonably available resources to meet your need. Among other requirements, you must first withdraw all amounts available to you under the non-hardship provisions of the Plan before you may apply for a hardship withdrawal. Your hardship withdrawal may include amounts necessary to pay any federal, state or local income taxes or penalties expected to result from the withdrawal. The financial needs for which you can receive a hardship withdrawal are:

- Payment of post-secondary school education for the next 12 months for you, your spouse or dependents;
- Unreimbursed medical expenses which were previously incurred, or expenses which are necessary to obtain medical care for you, your spouse or dependents;
- Purchase of your principal residence (not including mortgage payments);
- Prevention of eviction from your principal residence or foreclosure on the mortgage of your principal residence;
- Payment of funeral expenses for your parent, spouse, child, or dependent; and
- Expenses for the repair of damage to your principal residence that would qualify for a casualty loss deduction under the Code.

You must show that the amount does not exceed the amount you need to meet your financial need, you must have obtained all other distributions and non-taxable loans available to you under any employer plan, and you may not have any employee before-tax contributions, Roth contributions or matching contributions made on your behalf for at least six months.

Distribution Upon Retirement, Disability, or Upon Termination of Employment

You may choose to have retirement benefits begin on or after your normal retirement date (age 65). If you continue working after your normal retirement date, your distribution will generally be deferred at least until your actual retirement date (your postponed retirement date). You are also eligible for a benefit distribution if you become disabled while you are an active employee of WaterStone Bank SSB. In addition, if you terminate your employment before you are eligible to retire, for any reason other than disability or death, you will be entitled to the vested value of your Plan accounts.

Forms of Distributions

Plan distributions at retirement, upon disability or upon termination of employment for reasons other than death will be made in the following standard forms of payment, unless you choose an optional form of payment. If you terminate employment at your normal or postponed retirement date, or upon becoming permanently disabled, and the value of your Plan accounts is $1,000 or less, your benefits will be paid to you in a single cash payment as soon as administratively possible following your termination of employment.

You may elect to defer receipt of your vested Plan accounts until after your normal retirement date or after your actual retirement date (if you retire after your normal retirement date), provided you receive at least a portion of your account balance no later than the first day of April following the calendar year in which you retire (or terminate employment due to disability) or, if later, you attain age 70½.

Regardless of the reason for which you terminate employment, you may request that the value of your Plan accounts be transferred to a rollover IRA, another employer's qualified plan, a Section 403(b) annuity contract or a Section 457(b) governmental plan maintained by a state or agency of the state, if the other plan or contract permits it.

If you die and have not made a valid election as to how payments are to be made, the value of your vested Plan account will be paid to your beneficiary in a single cash payment. If your vested account is $1,000 or less, your account will be paid to your beneficiary in a single cash payment as soon as administratively possible. If your designated beneficiary is your spouse and you die before attaining age 70½, payment to your spouse will be made no later than the date you would have attained age 70½. If your designated beneficiary is your spouse and you die on or after attaining age 70½, payment to your spouse will be made as soon as administratively possible. If your designated beneficiary is not your spouse, payment to your designated beneficiary will be made within one year of the date of your death.

Investment of Contributions and Account Balances

All amounts credited to your accounts under the Plan are held in the Plan trust (the "Trust"), which is administered by the trustee appointed by WaterStone Bank SSB's Board of Directors.

Prior to the effective date of the stock offering, you were provided the opportunity to direct the investment of your account into one of the following funds:

Principal Trust(SM) Income Fund I
Principal Trust(SM) Target 2010 – 2055 Fund I
LargeCap S&P 500 Index Inst Fund
MidCap Inst Fund
MidCap S&P 400 Index Inst Fund
SmallCap S&P 600 Index Inst Fund
LargeCap Growth I Inst Fund
Columbia Acorn A Fund
Fidelity Capital Appreciation Fund
Fidelity Contrafund
Fidelity Leveraged Company Stock Fund
Oppenheimer Developing Markets Y Fund
First Eagle Gold A Fund
American Beacon International Equity Fund
Harbor International Inst Fund
Oppenheimer Global Strategic Income Y Fund
Oppenheimer International Growth Y Fund
BlackRock Equity Dividend I Fund
Goldman Sachs Small Cap Value Inst Fund
JP Morgan Core Bond R5 Fund
DWS RREEF Real Estate Sec S Fund
BlackRock Global Allocation Institutional Fund
John Hancock Disciplined Value Mid Cap I Fund
Janus Triton T Fund

BlackRock High Yield Bond Institutional Fund
Oppenheimer Equity Income Y Fund
Ivy Science & Technology I Fund

You may stop making salary deferral contributions at any time. You may change your salary deferral amount daily. Changes will be implemented as soon as possible.

You may change your investment direction of future contributions at any time by telephone through Principal Financial Group at (800) 547-7754 or through the Internet (which can be reached via www.principal.com). For further information regarding changes to your investment directions, please contact Ian Konrath, PHR, in the Human Resources Department of WaterStone Bank SSB at (414) 459-4127.

You can transfer existing investment account balances from one fund to another at any time, by telephone or through the Internet.

In connection with the stock offering, the Plan now provides that in addition to the funds specified above, you may direct the trustee, or its representative, to invest all or a portion of your account in the New Waterstone Stock Fund.

Special rules may apply to investment in the New Waterstone Stock Fund, for certain officers who are subject to restrictions on distributions under Section 16 of the Securities Exchange Act of 1934. These special rules affect withdrawals, loans, investment direction and transfers of investment account balances for the officers who are subject to these restrictions.

Pending investment in shares of New Waterstone common stock, amounts allocated towards the purchase of New Waterstone common stock in the stock offering will be held in a money market fund. In the event of an oversubscription that prevents you from purchasing all of the shares of New Waterstone that you ordered in the stock offering, the amounts that you elected to invest but were unable to invest, plus any earnings on those amounts, will be reinvested among the other funds of the Plan in accordance with your then existing investment election (in proportion to your investment direction for future contributions).

Following the stock offering, you may elect to have both past contributions and earnings, as well as future contributions to your account invested among the funds listed above and the New Waterstone Stock Fund.

Performance History and Fund Description

The following table provides performance data with respect to the investment funds available under the Plan through June 30, 2013:

	Average Annual Total Returns as of June 30, 2013					
Fund Name	Year to Date	1 Year	3 Year	5 Year	10 Year	Since Inception
Principal Trust(SM) Income Fund I	0.44%	4.01%	6.83%	--	--	8.45%
Principal Trust(SM) Target 2010 Fund I	3.32%	8.60%	10.41%	--	--	12.27%
Principal Trust(SM) Target 2015 Fund I	4.83%	10.48%	11.43%	--	--	13.37%
Principal Trust(SM) Target 2020 Fund I	5.77%	12.21%	12.50%	--	--	14.31%
Principal Trust(SM) Target 2025 Fund I	6.35%	13.56%	13.16%	--	--	14.94%
Principal Trust(SM) Target 2030 Fund I	7.27%	14.50%	13.74%	--	--	15.40%
Principal Trust(SM) Target 2035 Fund I	7.49%	15.13%	14.18%	--	--	15.79%
Principal Trust(SM) Target 2040 Fund I	7.99%	15.98%	14.60%	--	--	16.06%
Principal Trust(SM) Target 2045 Fund I	8.36%	16.65%	15.03%	--	--	16.53%
Principal Trust(SM) Target 2050 Fund I	8.63%	17.03%	15.29%	--	--	16.31%
Principal Trust(SM) Target 2055 Fund I	8.62%	16.94%	15.23%	--	--	16.51%
LargeCap S&P 500 Index Inst Fund	13.74%	20.40%	18.27%	6.82%	7.10%	3.16%
MidCap Inst Fund	14.27%	25.75%	21.40%	10.21%	11.77%	9.57%
MidCap S&P 400 Index Inst Fund	14.42%	24.88%	19.15%	8.63%	10.50%	8.05%
SmallCap S&P 600 Index Inst Fund	16.05%	24.85%	19.98%	9.69%	10.54%	9.06%
LargeCap Growth I Inst Fund	12.06%	18.55%	18.55%	9.22%	7.93%	2.59%
Columbia Acorn A Fund	10.37%	18.98%	17.04%	7.82%	10.66%	9.40%
Fidelity Capital Appreciation Fund	12.76%	19.87%	17.91%	7.37%	8.59%	10.56%
Fidelity Contrafund	11.42%	16.79%	16.69%	5.98%	9.88%	12.28%
Fidelity Leveraged Company Stock Fund	15.95%	32.67%	20.54%	2.39%	12.30%	13.52%
	-3.78%	7.87%	8.13%	5.48%	18.09%	11.35%

Oppenheimer Developing Markets Y Fund						
First Eagle Gold A Fund	-42.49%	-38.60%	-15.99%	-6.24%	6.92%	6.13%
American Beacon International Equity Fund	3.43%	20.10%	11.13%	0.97%	8.27%	7.62%
Harbor International Inst Fund	0.37%	14.21%	11.01%	0.70%	11.00%	11.73%
Oppenheimer Global Strategic Income Y Fund	-2.27%	4.75%	6.88%	5.60%	6.92%	6.39%
Oppenheimer International Growth Y Fund	6.22%	22.40%	14.49%	4.73%	11.30%	7.43%
BlackRock Equity Dividend I Fund	10.10%	15.61%	16.94%	5.53%	9.70%	9.82%
Goldman Sachs Small Cap Value Inst Fund	15.83%	26.53%	19.96%	11.46%	10.67%	9.46%
JP Morgan Core Bond R5 Fund	-1.95%	0.20%	4.16%	6.01%	5.01%	6.19%
DWS RREEF Real Estate Sec S Fund	4.54%	7.43%	18.01%	7.17%	11.07%	7.56%
BlackRock Global Allocation Institutional Fund	4.44%	11.21%	8.68%	3.95%	9.21%	10.65%
John Hancock Disciplined Value Mid Cap I Fund	16.62%	28.38%	21.43%	12.29%	12.37%	9.41%
Janus Triton T Fund	12.15%	20.94%	20.47%	12.93%	--	12.12%
BlackRock High Yield Bond Institutional Fund	1.73%	10.60%	10.91%	10.16%	8.86%	7.92%
Oppenheimer Equity Income Y Fund	15.70%	28.04%	18.15%	10.17%	9.66%	9.46%
Ivy Science & Technology I Fund	20.25%	30.98%	21.47%	12.01%	13.35%	11.65%

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Principal Fixed Income Guaranteed Option – See discussion under Description of the Investment Funds.

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Description of the Investment Funds

The following is a description of each of the funds:

Principal Trust(SM) Income Fund I. The investment option seeks current income and, as a secondary objective, capital appreciation. To pursue its goal, this Target Date Fund generally invests in affiliated and may invest in nonaffiliated open-ended mutual funds, insurance company separate accounts, and collective trust funds that Principal Trust considers appropriate based on investors who have reached their investment time horizon.

Principal Trust(SM) Target 2010-2055 Fund I. These investment options seek a total return consisting of long-term growth of capital and current income. To pursue this goal, these Target Date Funds generally invest in affiliated and may invest in nonaffiliated open-ended mutual funds, insurance company separate accounts, and collective trust funds that Principal Trust considers appropriate based on the remaining time horizon of a particular Target Date Fund. Over time, Principal Trust intends to gradually shift the asset allocation targets of each Fund (other than the Principal Trust Income Fund) to accommodate investors progressing from asset accumulation years to income generation years. It is expected that within 15 years after its target year, a Fund's underlying fund allocation will match that of the Principal Trust Income Fund.

LargeCap S&P 500 Index Inst Fund. The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the S&P 500 Index at the time of purchase. The index is designed to represent U.S. equities with risk/return characteristics of the large cap universe. It invests in index futures and options and exchange-traded funds ("ETFs") on a daily basis to gain exposure to the index in an effort to minimize tracking error relative to the benchmark.

MidCap Inst Fund. The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of purchase. It invests in foreign securities. The fund invests in equity securities with value and/or growth characteristics and constructs an investment portfolio that has a "blend" of equity securities with these characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued.

MidCap S&P 400 Index Inst Fund. The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the Standard & Poor's ("S&P") MidCap 400 Index at the time of purchase. The investment is designed to represent U.S. equities with risk/return characteristics of the mid cap universe. It invests in index futures and options and ETFs on a daily basis to gain exposure to the index in an effort to minimize tracking error relative to the benchmark.

SmallCap S&P 600 Index Inst Fund. The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the S&P SmallCap 600

Index at the time of purchase. The index is designed to represent U.S. equities with risk/return characteristics of the small cap universe. The fund invests in index futures and options and ETFs on a daily basis to gain exposure to the index in an effort to minimize tracking error relative to the benchmark.

LargeCap Growth I Inst Fund. The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations (those with market capitalization ranges similar to the companies in the Russell 1000® Growth Index) at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earning is expected to be above average. The fund also invests in securities of foreign companies.

Columbia Acorn A Fund. The investment seeks long-term capital appreciation. Under normal circumstances, the fund invests a majority of its net assets in the common stock of small- and mid-sized companies with market capitalizations under $5 billion at the time of investment. It invests the majority of its assets in U.S. companies, but also may invest up to 33% of its total assets in foreign companies in developed markets (for example, Japan, Canada and the United Kingdom) and in emerging markets (for example, China, India and Brazil).

Fidelity Capital Appreciation Fund. The investment seeks capital appreciation. The fund invests primarily in common stocks. It invests in domestic and foreign issuers. The fund invests in either "growth" stocks or "value" stocks or both. It uses fundamental analysis of factors such as each issuer's financial condition and industry position, as well as market and economic conditions, to select investments.

Fidelity Contrafund. The investment seeks capital appreciation. The fund normally invests primarily in common stocks. It invests in securities of companies whose value the advisor believes is not fully recognized by the public. The fund invests in domestic and foreign issuers. It invests in either "growth" stocks or "value" stocks or both. The fund uses fundamental analysis of factors such as each issuer's financial condition and industry position, as well as market and economic conditions to select investments.

Fidelity Leveraged Company Stock Fund. The investment seeks capital appreciation. The fund normally invests as least 80% of assets in stocks. It invests primarily in common stocks of leveraged companies (companies that issue lower-quality debt and other companies with leveraged capital structures). The fund potentially invests in lower-quality debt securities and invests in domestic and foreign issuers. It invests in either "growth" stocks or "value" stocks or both. The fund uses fundamental analysis of each issuer's financial condition and industry position and market and economic conditions to select investments.

Oppenheimer Developing Markets Y Fund. The investment seeks capital appreciation aggressively. The fund mainly invests in common stocks of issuers in developing and emerging markets throughout the world and at times it may invest up to 100% of its total assets in foreign securities. Under normal market conditions, it will invest at least 80% of its net assets, plus borrowings for investment purposes, in equity securities of issuers whose principal activities are in a developing market, i.e. are in a developing market or are economically tied to a developing market country. The fund will invest in at least three developing markets.

First Eagle Gold A Fund. The investment seeks to provide investors the opportunity to participate in the investment characteristics of gold (and to a limited extent other precious metals) for a portion of their overall investment portfolio. The fund invests at least 80% of its total assets in gold and/or securities (which may include both equity and, to a limited extent, debt instruments) directly related to gold or of issuers principally engaged in the gold industry, including securities of gold mining finance companies as well as operating companies with long-life, medium-life or short-life mines. It is non-diversified.

American Beacon International Equity Fund. The investment seeks long-term capital appreciation. The fund normally invests at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in common stocks and securities convertible into common stocks (collectively, “stocks”) of issuers based in at least three different countries located outside the United States. It primarily invests in countries comprising the Morgan Stanley Capital International® Europe Autralasia Far East Index (“MSCI EAFE Index”). The MSCI EAFE Index is comprised of equity securities of companies from various industrial sectors whose primary trading markets are located outside the United States.

Harbor International Inst Fund. The investment seeks long-term total return, principally from growth of capital. The fund invests normally in a minimum of ten countries throughout the world, focusing on companies located in Europe, the Pacific Basin and emerging industrialized countries whose economies and political regimes appear stable. It invests primarily (no less than 65% of its total assets) in common and preferred stocks of foreign companies, including those located in emerging market countries. Companies in the fund’s portfolio generally have market capitalizations in excess of $1 billion at the time of purchase.

Oppenheimer Global Strategic Income Y Fund. The investment seeks total return. The fund invests mainly in debt securities in three market sectors: Foreign governments and issuers, U.S. government securities, and lower-grade, high-yield securities of U.S. and foreign issuers (commonly referred to as “junk bonds”). It can invest up to 100% of its assets in any one sector at any time. Under normal market conditions, the fund will invest a substantial portion of its assets in a number of different countries, including the U.S. It has no limitations regarding the range of maturities of the debt securities it can buy or the market capitalization of the issuers of those securities.

Oppenheimer International Growth Y Fund. The investment seeks long-term capital appreciation. The fund mainly invests in the common stock of growth companies that are domiciled or have their primary operations outside of the United States. It may invest 100% of its assets in securities of foreign companies. The fund may invest in emerging markets as well as in developed markets throughout the world. It normally will invest at least 65% of its total assets in common and preferred stocks of issuers in at least three different countries outside of the United States, and emphasize investments in common stocks of issuers that the portfolio managers consider to be “growth” companies.

BlackRock Equity Dividend I Fund. The investment seeks long-term total return and current income. The fund seeks to achieve its objective by investing primarily in a diversified portfolio of equity securities. Under normal circumstances, it will invest at least 80% of its assets in equity securities and at least 80% of its assets in dividend paying securities. The fund may invest in securities of companies with any market capitalization, but will generally focus on large cap securities. It may also invest in convertible securities and non-convertible preferred stock. The fund may invest up to 25% of its total assets in securities of foreign issuers.

Goldman Sachs Small Cap Value Inst Fund. The investment seeks long-term capital appreciation. The fund normally invests at least 80% of its net assets plus any borrowings for investment purposes (measured at time of purchase) ("net assets") in a diversified portfolio of equity investments in small-cap issuers with public stock market capitalizations within the range of the market capitalization of companies constituting the Russell 2000® Value Index at the time of investment. Although it invests primarily in publicly traded U.S. securities, the fund may also invest in foreign securities, including securities of issuers in emerging countries and securities quoted in foreign currencies.

JP Morgan Core Bond R5 Fund. The investment seeks to maximize total return by investing primarily in a diversified portfolio of intermediate- and long-term debt securities. The fund is designed to maximize total return by investing in a portfolio of investment grade intermediate- and long-term debt securities. As part of its main investment strategy, it may principally invest in corporate bonds, U.S. treasury obligations and other U.S. government and agency securities, and asset-backed, mortgage-related and mortgage-backed securities. The fund's average weighted maturity will ordinarily range between four and 12 years.

DWS RREEF Real Estate Sec S Fund. The investment seeks long-term capital appreciation and current income. The fund will invest at least 80% of its net assets, plus the amount of any borrowing for investment purposes (calculated at the time of any investment), in equity securities of real estate investment trust ("REITs") and real estate companies. It may also invest a portion of its assets in other types of securities. These securities may include short-term securities, bonds, notes, securities of companies not principally engaged in the real estate industry, non-leveraged stock index futures contracts and other similar securities. The fund is non-diversified.

BlackRock Global Allocation Institutional Fund. The investment seeks to provide high total investment return. The fund invests in a portfolio of equity, debt and money market securities. It may invest up to 35% of its total assets in "junk bonds," corporate loans and distressed securities. The fund may also invest in Real Estate Investment Trusts ("REITs"). It has no geographic limits on where it may invest and may invest in the securities of companies of any market capitalization.

John Hancock Disciplined Value Mid Cap I Fund. The investment seeks long-term growth of capital with current income as a secondary objective. The fund invests at least 80% of its net assets in a diversified portfolio consisting primarily of equity securities, such as common stocks, of issuers with medium market capitalizations and identified by the subadviser as having value characteristics. It may also invest up to 20% of its total assets in foreign currency-denominated securities. The fund may invest up to 15% of its net assets in illiquid securities, including securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale.

Janus Triton T Fund. The investment seeks long-term growth of capital. The fund pursues its investment objective by investing primarily in common stocks selected for their growth potential. In pursuing that objective, it invests in equity securities of small- and medium-sized companies. Generally, small- and medium-sized companies have a market capitalization of less than $10 billion. Market capitalization is a commonly used measure of the size and value of a company. The fund may also invest in foreign equity and debt securities, which may include investments in emerging markets.

BlackRock High Yield Bond Institutional Fund. The investment seeks to maximize total return, consistent with income generation and prudent investment management. The fund invests primarily in non-investment grade bonds with maturities of ten years or less. It normally invests at least 80% of its assets in high yield bonds. The fund may invest up to 30% of its assets in non-dollar denominated bonds of issuers located outside of the United States. Its investment in non-dollar denominated bonds may be on a currency hedged or unhedged basis. The fund may also invest in convertible and preferred securities.

Oppenheimer Equity Income Y Fund. The investment seeks total return. The fund mainly invests in common stocks of U.S. companies that the portfolio manager believes are undervalued. It will invest at least 80% of its net assets, plus borrowings for investment purposes, in equity securities. The fund may invest in equity securities issued by companies of different capitalization ranges, but will typically focus on larger capitalization stocks. It does not intend to invest more than 25% of its net assets in securities of issuers in any single foreign country or more than 5% of its net assets in companies or government issuers in emerging market countries.

Ivy Science & Technology I Fund. The investment seeks to provide growth of capital. The fund invests primarily in the equity securities of science and technology companies around the globe. Under normal circumstances, it invests at least 80% of its net assets in securities of science or technology companies. Science and technology companies are companies whose products, processes or services, are being or are expected to be significantly benefited by the use or commercial application of scientific or technological developments or discoveries.

An investment in any of the funds listed above is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. As with any mutual fund investment, there is always a risk that you may lose money on your investment in any of the funds listed above.

Principal Fixed Income Guaranteed Option. The Principal Fixed Income Guaranteed Option is a guaranteed general-account backed group annuity contract that has been issued by Principal Life Insurance Company (Principal Life) to Principal Trust Company as custodian. Following is a history of the various rates at which interest has been credited under the Principal Fixed Income Guaranteed Option since March 2007.

Crediting Rate History

06/13 -- 11/13	12/12 -- 05/13	06/12 -- 11/12	12/11 -- 05/12	06/11 -- 11/11	12/10 -- 05/11	06/10 -- 11/10	12/09 -- 05/10	06/09 -- 11/09	12/08 -- 05/09	06/08 -- 11/08	12/07 -- 05/08	03/07 -- 11/07
1.35%	1.45%	1.75%	2.00%	2.20%	2.20%	2.55%	2.60%	2.60%	3.95%	3.95%	4.00%	4.00%

Investment in Common Stock of New Waterstone

The New Waterstone Stock Fund will consist primarily of investments in common stock of New Waterstone. The trustee will use all amounts allocated to the Stock Purchase account through participant online elections made at www.principal.com to acquire shares in the conversion and common stock offering. After the offering, the trustee will, to the extent practicable, use amounts held by it in the New Waterstone Stock Fund, including cash dividends paid on common stock held in the New Waterstone Stock Fund, to purchase shares of common stock of New Waterstone. It is expected that all purchases will be made at prevailing market prices. Under certain circumstances, the trustee may be required to limit the daily volume of shares purchased. Pending investment in common stock, amounts allocated towards the purchase of shares in the offering will be held in the New Waterstone Stock Fund in an interest-bearing account. In the event of an oversubscription, any earnings that result therefrom will be reinvested among the other funds of the 401(k) plan in accordance with your then existing investment election (in proportion to your investment direction allocation percentages).

Following the offering, New Waterstone, a Maryland corporation, will be 100% owned by its public stockholders, including WaterStone Bank SSB's tax-qualified plans. Currently, WaterStone Bank SSB is a wholly-owned subsidiary of Waterstone-Federal, a federal mid-tier holding company, that is a majority-owned subsidiary of Lamplighter Financial, MHC, a mutual holding company. Performance of the New Waterstone Stock Fund will be dependent upon a number of factors, including the financial condition and profitability of New Waterstone and WaterStone Bank SSB and market conditions for the common stock generally. An investment in the fund is not insured or guaranteed by the FDIC or any other government agency. It is possible to lose money by investing in the fund.

As of the date of this prospectus supplement, none of the shares of New Waterstone common stock have been issued or are outstanding and there is no established market for New Waterstone common stock. Accordingly, there is no record of the historical performance of the New Waterstone Stock Fund. Performance of the New Waterstone Stock Fund depends on a number of factors, including the financial condition and profitability of New Waterstone and WaterStone Bank SSB and market conditions for New Waterstone common stock generally.

Investments in the New Waterstone Stock Fund involve special risks common to investments in the common stock of New Waterstone.

For a discussion of material risks you should consider, see the "Risk Factors" section of the accompanying Prospectus and the section of the Prospectus Supplement entitled "Notice of Your Rights Concerning Employer Securities" (see below).

An investment in any of the funds listed above is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. As with any mutual fund or stock investment, there is always a risk that you may lose money on your investment in any of the funds listed above.

Administration of the Plan

The Trustee and Custodian. The trustee of the Plan is Delaware Charter Guarantee & Trust Company d/b/a Principal Trust Company.

Plan Administrator. Pursuant to the terms of the Plan, the Plan is administered by the Plan Administrator, WaterStone Bank SSB. The address of the Plan Administrator is 11200 West Plank Court, Wauwatosa, Wisconsin 53226, telephone number (414) 459-4127. The Plan Administrator is responsible for the administration of the Plan, interpretation of the provisions of the Plan, prescribing procedures for filing applications for benefits, preparation and distribution of information explaining the Plan, maintenance of Plan records, books of account and all other data necessary for the proper administration of the Plan, preparation and filing of all returns and reports relating to the Plan which are required to be filed with the U.S. Department of Labor and the Internal Revenue Service, and for all disclosures required to be made to participants, beneficiaries and others under Sections 104 and 105 of ERISA.

Reports to Plan Participants. The Plan Administrator will furnish you a statement at least quarterly showing the balance in your account as of the end of that period, the amount of contributions allocated to your account for that period, and any adjustments to your account to reflect earnings or losses (if any).

Amendment and Termination

It is the intention of WaterStone Bank SSB to continue the Plan indefinitely. Nevertheless, WaterStone Bank SSB may terminate the Plan at any time. If the Plan is terminated in whole or in part, then regardless of other provisions in the Plan, you will have a fully vested interest in your accounts. WaterStone Bank SSB reserves the right to make any amendment or amendments to the Plan which do not cause any part of the trust to be used for, or diverted to, any purpose other than the exclusive benefit of participants or their beneficiaries; provided, however, that WaterStone Bank SSB may make any amendment it determines necessary or desirable, with or without retroactive effect, to comply with ERISA.

Merger, Consolidation or Transfer

In the event of the merger or consolidation of the Plan with another plan, or the transfer of the trust assets to another plan, the Plan requires that you would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit you would have been entitled to receive immediately before the merger, consolidation or transfer.

Federal Income Tax Consequences

The following is a brief summary of the material federal income tax aspects of the Plan. You should not rely on this summary as a complete or definitive description of the material federal income tax consequences relating to the Plan. Statutory provisions change, as do their interpretations, and their application may vary in individual circumstances. Finally, the consequences under applicable state and local income tax laws may not be the same as under the federal income tax laws. Please consult your tax advisor with respect to any distribution from the Plan and transactions involving the Plan.

As a "tax-qualified retirement plan," the Internal Revenue Code affords the Plan special tax treatment, including:

(1) the sponsoring employer is allowed an immediate tax deduction for the amount contributed to the Plan each year;

(2) participants pay no current income tax on amounts contributed by the employer on their behalf;

(3) earnings of the Plan are tax-deferred, thereby permitting the tax-free accumulation of income and gains on investments.

WaterStone Bank SSB will administer the Plan to comply with the requirements of the Internal Revenue Code as of the applicable effective date of any change in the law.

Lump-Sum Distribution. A distribution from the Plan to a participant or the beneficiary of a participant will qualify as a lump-sum distribution if it is made within one taxable year, on account of the participant's death, disability or separation from service, or after the participant attains age 59 ½, and consists of the balance credited to the participant under the Plan and all other profit sharing plans, if any, maintained by WaterStone Bank SSB. The portion of any lump-sum distribution required to be included in your taxable income for federal income tax purposes consists of the entire amount of the lump-sum distribution, less the amount of after-tax contributions, if any, you have made to this Plan and any other profit sharing plans maintained by WaterStone Bank SSB, which is included in the distribution.

New Waterstone Common Stock Included in Lump-Sum Distribution. If a lump-sum distribution includes New Waterstone common stock, the distribution generally will be taxed in the manner described above, except that the total taxable amount may be reduced by the amount of any net unrealized appreciation with respect to New Waterstone common stock; that is, the excess of the value of New Waterstone common stock at the time of the distribution over its cost or other basis of the securities to the trust. The tax basis of New Waterstone common stock, for purposes of computing gain or loss on its subsequent sale, equals the value of New Waterstone common stock at the time of distribution, less the amount of net unrealized appreciation. Any gain on a subsequent sale or other taxable disposition of New Waterstone common stock, to the extent of the amount of net unrealized appreciation at the time of distribution, will constitute long-term capital gain, regardless of the holding period of New Waterstone common stock. Any gain on a subsequent sale or other taxable disposition of New Waterstone common stock, in excess of the amount of net unrealized appreciation at the time of distribution, will be considered long-term capital gain. The recipient of a distribution may elect to include the amount of any net unrealized appreciation in the total taxable amount of the distribution, to the extent allowed by regulations to be issued by the Internal Revenue Service.

Distributions: Rollovers and Direct Transfers to Another Qualified Plan or to an IRA. You may roll over virtually all distributions from the Plan to another qualified plan or to an individual retirement account in accordance with the terms of the other plan or account.

Notice of Your Rights Concerning Employer Securities

Federal law provides specific rights concerning investments in employer securities. Because you may in the future have investments in the New Waterstone Stock Fund under the Plan, you should take the time to read the following information carefully.

Your Rights Concerning Employer Securities. The Plan must allow you to elect to move any portion of your account that is invested in the New Waterstone Stock Fund from that investment into other investment alternatives under the Plan. You may contact the Plan Administrator shown above for specific information regarding this right, including how to make this election. In deciding whether to exercise this right, you will want to give careful consideration to the information below that describes the importance of diversification. All of the investment options under the Plan are available to you if you decide to diversify out of either the New Waterstone Stock Fund.

The Importance of Diversifying Your Retirement Savings. To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often cause another asset category, or another particular security, to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the Plan. No single approach is right for everyone because, among other factors, individuals have different financial goals, different time horizons for meeting their goals, and different tolerance for risk. Therefore, you should carefully consider the rights described here and how these rights affect the amount of money that you invest in employer common stock through the Plan.

It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the Plan to help ensure that your retirement savings will meet your retirement goals.

Additional Employee Retirement Income Security Act (“ERISA”) Considerations

As noted above, the Plan is subject to certain provisions of ERISA, including special provisions relating to control over the Plan’s assets by participants and beneficiaries. The Plan’s feature that allows you to direct the investment of your account balances is intended to satisfy the requirements of section 404(c) of ERISA relating to control over plan assets by a participant or beneficiary. The effect of this is two-fold. First, you will not be deemed a “fiduciary” because of your exercise of investment discretion. Second, no person who otherwise is a fiduciary, such as WaterStone Bank SSB, the Plan administrator, or the Plan’s trustee is liable under the fiduciary responsibility provision of ERISA for any loss which results from your exercise of control over the assets in your Plan account.

Because you will be entitled to invest all or a portion of your account balance in the Plan in New Waterstone common stock, the regulations under section 404(c) of the ERISA require that the Plan establish procedures that ensure the confidentiality of your decision to purchase, hold, or sell employer securities, except to the extent that disclosure of such information is necessary to comply with federal or state laws not preempted by ERISA. These regulations also require that your exercise of voting and similar rights with respect to the common stock be conducted in a way that ensures the confidentiality of your exercise of these rights.

Securities and Exchange Commission Reporting and Short-Swing Profit Liability

Section 16 of the Securities Exchange Act of 1934 imposes reporting and liability requirements on officers, directors, and persons beneficially owning more than 10% of public companies such as New Waterstone. Section 16(a) of the Securities Exchange Act of 1934 requires the filing of reports of beneficial ownership. Within 10 days of becoming an officer, director or person beneficially owning more than 10% of the shares of New Waterstone, a Form 3 reporting initial beneficial ownership must be filed with the Securities and Exchange Commission. Changes in beneficial ownership, such as purchases, sales and gifts generally must be reported periodically, either on a Form 4 within 2 business days after the change occurs, or annually on a Form 5 within 45 days after the close of New Waterstone's fiscal year. Discretionary transactions in and beneficial ownership of the common stock through the New Waterstone Stock Fund of the Plan by officers, directors and persons beneficially owning more than 10% of the common stock of New Waterstone generally must be reported to the Securities and Exchange Commission by such individuals.

In addition to the reporting requirements described above, Section 16(b) of the Securities Exchange Act of 1934 provides for the recovery by New Waterstone of profits realized by an officer, director or any person beneficially owning more than 10% of New Waterstone's common stock resulting from non-exempt purchases and sales of New Waterstone common stock within any six-month period.

The Securities and Exchange Commission has adopted rules that provide exemptions from the profit recovery provisions of Section 16(b) for all transactions in employer securities within an employee benefit plan, provided certain requirements are met. These requirements generally involve restrictions upon the timing of elections to acquire or dispose of employer securities for the accounts of Section 16(b) persons.

Except for distributions of common stock due to death, disability, retirement, termination of employment or under a qualified domestic relations order, persons affected by Section 16(b) are required to hold shares of common stock distributed from the Plan for six months following such distribution and are prohibited from directing additional purchases of common stock within the New Waterstone Stock Fund for six months after receiving such a distribution.

Financial Information Regarding Plan Assets

Financial information representing the net assets available for Plan benefits and the change in net assets available for Plan benefits at December 31, 2012, is available upon written request to the Plan Administrator at the address shown above.

LEGAL OPINION

The validity of the issuance of the common stock has been passed upon by Luse Gorman Pomerenk & Schick, P.C., Washington, D.C., which firm is acting as special counsel to WaterStone Bank SSB in connection with New Waterstone's stock offering.

SUBSCRIPTION AND COMMUNITY

OFFERING PROSPECTUS

WATERSTONE FINANCIAL, INC.
(Proposed Holding Company for WaterStone Bank SSB)
Up to 25,300,000 Shares of Common Stock

Waterstone Financial, Inc., a Maryland corporation, is offering up to 25,300,000 shares of common stock for sale at $10.00 per share on a best efforts basis in connection with the conversion of Lamplighter Financial, MHC from the mutual holding company to the stock holding company form of organization. The shares we are offering represent the ownership interest in Waterstone Financial, Inc., a federal corporation, currently owned by Lamplighter Financial, MHC. In this prospectus, we will refer to Waterstone Financial, Inc., the Maryland corporation, as "New Waterstone," and we will refer to Waterstone Financial, Inc., the federal corporation, as "Waterstone-Federal." Waterstone-Federal's common stock is currently traded on the Nasdaq Global Select Market under the trading symbol "WSBF," and we expect the shares of New Waterstone common stock will also trade on the Nasdaq Global Select Market under the symbol "WSBF."

The shares of common stock are first being offered in a subscription offering to eligible depositors and tax-qualified employee benefit plans of WaterStone Bank SSB, as described in this prospectus. Shares not purchased in the subscription offering will be offered for sale simultaneously to the general public in a community offering, with a preference given to residents of the communities served by WaterStone Bank SSB and existing stockholders of Waterstone-Federal. Any shares of common stock not purchased in the subscription or community offerings may be offered to the public through a syndicate of broker-dealers, referred to in this prospectus as the syndicated offering, or in a separate firm commitment underwritten public offering. The syndicated offering or the firm commitment underwritten offering may commence before the subscription and community offerings (including any extensions) have expired. The subscription, community, syndicated and firm commitment underwritten offerings are collectively referred to in this prospectus as the offering. We must sell a minimum of 18,700,000 shares in order to complete the offering and the conversion.

In addition to the shares we are selling in the offering, the shares of Waterstone-Federal currently held by the public will be exchanged for shares of common stock of New Waterstone based on an exchange ratio that will result in existing public stockholders of Waterstone-Federal owning approximately the same percentage of New Waterstone common stock as they owned in Waterstone-Federal common stock immediately prior to the completion of the conversion. The number of shares we expect to issue in the exchange ranges from 6,731,209 shares to 9,106,929 shares.

The minimum order is 25 shares. The subscription and community offerings are expected to expire at 5:00 p.m., Central Time, on December 17, 2013. We may extend this expiration date without notice to you until January 31, 2014. Once submitted, orders are irrevocable unless the subscription and community offerings are terminated or extended, with regulatory approval, beyond January 31, 2014, or the number of shares of common stock to be sold is increased to more than 25,300,000 shares or decreased to less than 18,700,000 shares. If the subscription and community offerings are extended past January 31, 2014, all subscribers will be notified and given an opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will promptly return your funds with interest at 0.01% per annum or cancel your deposit account withdrawal authorization. If the number of shares to be sold in the offering is increased to more than 25,300,000 shares or decreased to less than 18,700,000 shares, we will resolicit subscribers, and all funds delivered to us to purchase shares of common stock in the subscription and community offerings will be returned promptly with interest. Funds received in the subscription and the community offerings will be held in a segregated account at WaterStone Bank SSB and will earn interest at 0.01% per annum until completion or termination of the offering. No shares purchased in the subscription offering or the community offering will be issued until the completion of any syndicated or firm commitment underwritten offering.

Sandler O'Neill & Partners, L.P. will assist us in selling the shares on a best efforts basis in the subscription and community offerings, and will serve as sole book-running manager for any syndicated or firm commitment underwritten offering. Sandler O'Neill & Partners, L.P. is not required to purchase any shares of common stock that are sold in the subscription and community offerings.

OFFERING SUMMARY
Price: $10.00 per Share

	Minimum	Midpoint	Maximum
Number of shares	18,700,000	22,000,000	25,300,000
Gross offering proceeds	$ 187,000,000	$ 220,000,000	$ 253,000,000
Estimated offering expenses, excluding selling agent and underwriters' commissions	$ 1,543,550	$ 1,543,550	$ 1,543,550
Selling agent and underwriters' commissions (1)	$ 5,276,650	$ 6,187,450	$ 7,098,250
Estimated net proceeds	$ 180,179,800	$ 212,269,000	$ 244,358,200
Estimated net proceeds per share	$ 9.64	$ 9.65	$ 9.66

(1) The amounts shown assume that 50% of the shares are sold in the subscription and community offerings and the remaining 50% are sold in a syndicated or firm commitment underwritten offering. The amounts shown further assume that Sandler O'Neill & Partners, L.P. will receive fees and expenses in the amount of: (i) 1.0% of the aggregate amount of common stock sold in the subscription and community offerings (net of insider purchases and shares purchased by our employee stock ownership plan); (ii) records management fees and expenses of $60,000; and (iii) other expenses of the offering of $115,000. The amounts shown also include fees of 5% of the aggregate amount of common stock sold in the syndicated or firm commitment underwritten offering, which will be paid to Sandler O'Neill & Partners, L.P., Robert W. Baird & Co. Incorporated and any other broker-dealers included in the syndicated or firm commitment underwritten offering. See "The Conversion and Offering—Plan of Distribution; Selling Agent and Underwriter Compensation" for information regarding compensation to be received by Sandler O'Neill & Partners, L.P. in the subscription and community offerings and the compensation to be received by Sandler O'Neill & Partners, L.P. and the other broker-dealers that may participate in the syndicated or firm commitment underwritten offering. If all shares of common stock were sold in the syndicated or firm commitment underwritten offering, the selling agent and broker-dealers' commissions would be approximately $9.4 million, $11.0 million and $12.7 million at the minimum, midpoint and maximum levels of the offering, respectively.

This investment involves a degree of risk, including the possible loss of principal.
Please read "Risk Factors" beginning on page 17.

These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Wisconsin Department of Financial Institutions, the Federal Deposit Insurance Corporation, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

For assistance, please contact the Stock Information Center at (414) 459-4700.
The date of this prospectus is November 6, 2013.

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SUMMARY

The following summary explains the significant aspects of the conversion, the offering and the exchange of existing shares of Waterstone-Federal common stock for shares of New Waterstone common stock. It may not contain all of the information that is important to you. Before making an investment decision, you should read this entire document carefully, including the consolidated financial statements and the notes thereto, and the section entitled "Risk Factors."

Our Organizational Structure and the Proposed Conversion

Since 2005 we have operated in a two-tiered mutual holding company structure. Waterstone-Federal is our federally chartered, publicly-traded stock holding company and the parent company of WaterStone Bank SSB, which we refer to as "WaterStone Bank" in this prospectus. At June 30, 2013, Waterstone-Federal had consolidated assets of $1.63 billion, deposits of $893.0 million and stockholders' equity of $209.3 million. Waterstone-Federal's parent company is Lamplighter Financial, MHC, a federally chartered mutual holding company. At June 30, 2013, Waterstone-Federal had 31,349,317 shares of common stock outstanding, of which 8,299,134 shares, or 26.5%, were owned by the public and the remaining 23,050,183 shares were held by Lamplighter Financial, MHC.

Pursuant to the terms of the plan of conversion and reorganization, we are now converting from the mutual holding company corporate structure to the stock holding company corporate structure. Upon completion of the conversion, Lamplighter Financial, MHC and Waterstone-Federal will cease to exist, and New Waterstone will become the successor corporation to Waterstone-Federal. The shares of New Waterstone being offered in this offering represent the majority ownership interest in Waterstone-Federal currently held by Lamplighter Financial, MHC. Public stockholders of Waterstone-Federal will receive shares of common stock of New Waterstone in exchange for their shares of Waterstone-Federal at an exchange ratio intended to preserve the same aggregate ownership interest in New Waterstone as they had in Waterstone-Federal. Lamplighter Financial, MHC's shares of Waterstone-Federal will be cancelled.

The following diagram shows our current organizational structure, reflecting ownership percentages as of June 30, 2013:

After the conversion and offering are completed, we will be organized as a fully public holding company, as follows:

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Our Business

Our business operations are conducted through our wholly-owned subsidiary, WaterStone Bank. WaterStone Bank is a community bank that has served the banking needs of its customers in the metropolitan Milwaukee area and surrounding markets since 1921. WaterStone Bank also has an active mortgage banking subsidiary, Waterstone Mortgage Corporation, which had 71 offices in 14 states as of June 30, 2013.

WaterStone Bank conducts its community banking business from eight banking offices and nine automated teller machines located in Milwaukee, Washington and Waukesha Counties, Wisconsin. In October 2013, WaterStone Bank opened a loan production office in Maple Grove, Minnesota, a part of the greater Minneapolis-St. Paul metropolitan area. WaterStone Bank has also received regulatory approval to open a new full-service banking office in Brookfield, Wisconsin, and expects to open that office in January 2014. WaterStone Bank's principal lending activity is originating one- to four-family and over four-family, or "multi-family," residential real estate loans, for retention in its portfolio. At June 30, 2013, such loans comprised 38.5% and 46.9%, respectively, of WaterStone Bank's loan portfolio. WaterStone Bank also offers, to a lesser extent, home equity loans and lines of credit, construction and land loans, commercial real estate and commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. WaterStone Bank's deposits consist primarily of certificates of deposit, which accounted for 76.4% of total deposits at June 30, 2013. Our investment securities portfolio is comprised principally of mortgage-backed securities, government-sponsored enterprise bonds and municipal obligations. WaterStone Bank is subject to comprehensive regulation and examination by the Wisconsin Department of Financial Institutions (the "WDFI") and the Federal Deposit Insurance Corporation.

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates residential real estate loans for sale in the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes lines of credit with other financial institutions as needed. During the six months ended June 30, 2013 and the years ended December 31, 2012 and 2011, Waterstone Mortgage Corporation originated $978.3 million, $1.75 billion and $1.03 billion, respectively, in mortgage loans held for sale.

New Waterstone's executive offices are located at 11200 West Plank Court, Wauwatosa, Wisconsin 53226, and its telephone number is (414) 761-1000. Our website address is www.wsbonline.com. Information on this website is not and should not be considered a part of this prospectus.

Business Strategy

Our goal is to build stockholder value by operating a well-capitalized and profitable financial institution that delivers a superior banking experience to our customers. Beginning in 2007, due to the adverse economic environment, we experienced significant increases in non-performing assets, which resulted in net losses and increased regulatory oversight. In response, we concentrated our efforts on resolving problem assets, curtailing growth, and preserving a strong capital position. We have made significant progress in our efforts while simultaneously building our mortgage banking business, which resulted in a return to profitability in 2012. Net income for the year ended December 31, 2012 was $34.9 million (which reflected a reversal of a valuation allowance on our deferred tax assets of $17.0 million), and for the six months ended June 30, 2013 net income was $9.6 million.

Our current principal business strategies are summarized below:

Continued reduction of problem assets. Our non-performing assets have decreased to $83.2 million, or 5.10% of total assets at June 30, 2013, from $141.9 million, or 7.85% of total assets at December 31, 2010. Our non-performing assets at June 30, 2013 included $53.3 million of non-performing loans and $30.0 million of real estate owned. Of the $53.3 million of non-accrual loans, $20.9 million, or 39.2%, were troubled debt restructurings that were on non-accrual status either due to being past due 90 days or more or because they had not yet performed under the

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modified terms for a required period of time. At June 30, 2013, total troubled debt restructurings totaled $47.1 million, of which $39.9 million, or 84.7%, were performing in accordance with their restructured terms. Reducing our level of non-performing assets will continue to be a key element of our business strategy.

Controlled loan growth with a focus on multi-family and commercial real estate lending. Our principal business activity historically has been the origination of residential mortgage loans, including multi-family residential real estate loans, for retention in our portfolio. As part of our strategy of increasing our commercial business and commercial real estate loan portfolios, we established a commercial loan department in 2007. We currently have four commercial business loan officers and six commercial real estate loan officers. Multi-family residential and commercial real estate loans comprised 73.5% and 66.9% of total loans originated for investment during the six months ended June 30, 2013 and the year ended December 31, 2012, respectively, while one- to four-family residential mortgage loans comprised 14.4% and 17.2% of total originations during the same periods. We intend to continue our emphasis on multi-family residential and commercial real estate lending. However, we would purchase adjustable-rate one-to four-family mortgage loans from Waterstone Mortgage Corporation in the future in the event changes in interest rates or consumer preferences enable Waterstone Mortgage Corporation to originate such loans.

Continued emphasis on mortgage banking operations. Waterstone Mortgage Corporation has become a significant originator of fixed-rate, one-to-four family mortgage loans, with total originations of $978.3 million, $1.75 billion and $1.03 billion during the six months ended June 30, 2013 and the years ended December 31, 2012 and 2011, respectively. Subject to market conditions and particularly changes in the interest rate environment, we intend to continue to grow our mortgage banking business, which has been a significant source of our net income in recent periods. Such growth may occur through geographic expansion, online direct consumer origination, or both.

Enhance core earnings by increasing lower cost transaction and savings accounts. Demand, checking and money market accounts are a lower cost source of funds than time deposits, and we have made a concerted effort to increase lower-cost transaction deposit accounts and reduce time deposits. Our ratio of time deposits to total deposits has decreased from 87.1% at December 31, 2008 to 76.4% at June 30, 2013. We intend to continue to aggressively market our core transaction accounts and savings accounts, emphasizing our high quality service and competitive pricing of these products. In the past two years we have also introduced remote deposit capture, internet banking and mobile banking.

Stockholder-focused management of capital. We recognize that a strong capital position is essential to achieving our long-term objective of building stockholder value. Following the offering, at the minimum of the offering range, our pro forma tier 1 leverage ratio is expected to be 16.80% and our pro forma total risk-based capital ratio is expected to be 26.50%. This capital position will support our future growth and expansion, and will give us flexibility to pursue other capital management strategies to enhance stockholder value. In particular, New Waterstone intends to commence paying regular quarterly dividends following completion of the conversion. See "Our Dividend Policy" for a discussion of our expected dividend policy following the completion of the conversion.

Disciplined expansion through organic growth coupled with opportunistic acquisitions. Since our initial public offering, we have opened three additional branches in the Milwaukee area. In October 2013, we opened a loan production office in Maple Grove, Minnesota, a part of the greater Minneapolis-St. Paul metropolitan area. We have also received regulatory approval to open a new full-service banking office in Brookfield, Wisconsin, which we expect to open in January 2014. Subject to regulatory approval, we plan to open two offices in each of 2014 through 2016 (including our new Brookfield office), all in our local market area, and we may also seek to open additional loan production offices or full service branches in other markets. Waterstone Mortgage Corporation now has locations in 14 states and does business nationally. While organic growth has been our primary focus, we will also consider acquisition opportunities that we believe will enhance our franchise and yield financial benefits for our stockholders.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Strategy" for a more complete discussion of our business strategy.

Reasons for the Conversion and Offering

Our primary reasons for converting to the fully public stock form of ownership and undertaking the stock offering are to:

Eliminate the uncertainties associated with the mutual holding company structure under financial reform legislation. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, the Federal Reserve Board became the federal regulator of all savings and loan holding companies and mutual holding companies, which has resulted in changes in regulations applicable to Lamplighter Financial, MHC and Waterstone-Federal. Among other things, these changes have adversely affected our ability to pay cash dividends to our stockholders, including the ability of Lamplighter Financial, MHC to waive any dividends declared by Waterstone-Federal. The conversion will eliminate our mutual holding company structure and will enable us to pay dividends to our stockholders, subject to the customary legal, regulatory and financial considerations applicable to all financial institutions. See "Our Dividend Policy." It also will eliminate the risk that the Federal Reserve Board will amend existing regulations applicable to the conversion process in a manner disadvantageous to our public stockholders or depositors.

Transition us to a more familiar and flexible organizational structure. The stock holding company structure is a more familiar form of organization, which we believe will make our common stock more appealing to investors, and will give us greater flexibility to access the capital markets through possible future equity and debt offerings, although we have no current plans, agreements or understandings regarding any additional securities offerings.

Enhance our regulatory capital position. A strong capital position is essential to achieving our long-term objective of building stockholder value. While WaterStone Bank significantly exceeds all regulatory capital requirements, the proceeds from the offering will greatly strengthen our capital position and enable us to support our planned growth and expansion. Minimum regulatory capital requirements will also increase in the future under recently adopted regulations, and compliance with these new requirements will be essential to the continued implementation of our business strategy.

Improve the liquidity of our shares of common stock. The larger number of shares that will be outstanding after completion of the conversion and offering is expected to result in a more liquid and active market for Waterstone-Federal common stock. A more liquid and active market will make it easier for our stockholders to buy and sell our common stock and will give us greater flexibility in implementing capital management strategies.

Facilitate future mergers and acquisitions. Although we do not currently have any understandings or agreements regarding any specific acquisition transaction, the stock holding company structure will give us greater flexibility to structure, and make us a more attractive and competitive bidder for, mergers and acquisitions of other financial institutions as opportunities arise. The additional capital raised in the offering also will enable us to consider larger merger transactions. In addition, although we intend to remain an independent financial institution, the stock holding company structure may make us a more attractive acquisition candidate for other institutions. Applicable regulations prohibit the acquisition of New Waterstone for three years following completion of the conversion.

Terms of the Offering

We are offering between 18,700,000 and 25,300,000 shares of common stock to eligible depositors of WaterStone Bank, to our tax-qualified employee benefit plans and, to the extent shares remain available, in a community offering to the general public, with a preference given first to residents of Milwaukee, Washington and Waukesha Counties, Wisconsin, and then to our existing public stockholders. If necessary, we will also offer shares to the general public in a syndicated or firm commitment underwritten offering. Unless the number of shares of common stock to be offered is increased to more than 25,300,000 shares or decreased to fewer than 18,700,000 shares, or the subscription and community offerings are extended beyond January 31, 2014, subscribers will not have the opportunity to change or cancel their stock orders once submitted. If the subscription and community offerings are extended past January 31, 2014, all subscribers will be notified and given an opportunity to confirm, change or cancel their orders. If you do not respond to this notice, your order will be cancelled and we will promptly return your funds with interest at 0.01% per annum or cancel your deposit account withdrawal authorization. If the number of shares to be sold is increased to more than 25,300,000 shares or decreased to less than 18,700,000 shares, all subscribers' stock orders will be canceled, their withdrawal authorizations will be canceled and funds delivered to us to purchase shares of common stock in the subscription and community offerings will be returned promptly with interest at 0.01% per annum. We will then resolicit subscribers, giving them an opportunity to place new orders for a period of time. No shares purchased in the subscription offering and community offering will be issued until the completion of any syndicated or firm commitment underwritten offering.

The purchase price of each share of common stock offered for sale in the offering is $10.00. All investors will pay the same purchase price per share, regardless of whether the shares are purchased in the subscription offering, the community offering or a syndicated or firm commitment underwritten offering. Investors will not be charged a commission to purchase shares of common stock in the offering. Sandler O'Neill & Partners, L.P., our marketing agent in the subscription and community offerings, will use its best efforts to assist us in selling shares of our common stock in the subscription and community offerings but is not obligated to purchase any shares of common stock in the subscription and community offerings.

How We Determined the Offering Range, the Exchange Ratio and the $10.00 Per Share Stock Price

The amount of common stock we are offering for sale and the exchange ratio for the exchange of shares of New Waterstone for shares of Waterstone-Federal are based on an independent appraisal of the estimated market value of New Waterstone, assuming the offering has been completed. RP Financial, LC., our independent appraiser, has estimated that, as of July 19, 2013, this market value was $299.2 million. Based on federal regulations, this market value forms the midpoint of a valuation range with a minimum of $254.3 million and a maximum of $344.1 million. Based on this valuation range, the 73.5% ownership interest of Lamplighter Financial, MHC in Waterstone-Federal as of June 30, 2013 being sold in the offering and the $10.00 per share price, the number of shares of common stock being offered for sale by New Waterstone ranges from 18,700,000 shares to 25,300,000 shares. The $10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions, and it more closely reflects the market price of Waterstone-Federal's common stock than a lower price previously considered by the board of directors. The exchange ratio ranges from 0.8111 shares at the minimum of the offering range to 1.0973 shares at the maximum of the offering range, and will preserve the existing percentage ownership of public stockholders of Waterstone-Federal (excluding any new shares purchased by them in the stock offering and their receipt of cash in lieu of fractional shares).

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The appraisal is based in part on Waterstone-Federal's financial condition and results of operations, the pro forma effect of the additional capital raised by the sale of shares of common stock in the offering, and an analysis of a peer group of ten publicly traded thrift holding companies that RP Financial, LC. considers comparable to Waterstone-Federal. The appraisal peer group consists of the following companies, all of which are traded on the Nasdaq Stock Market.

Company Name	Ticker Symbol	Headquarters	Total Assets (1) (In millions)
Bank Mutual Corporation	BKMU	Milwaukee, WI	$ 2,394
First Defiance Financial Corp.	FDEF	Defiance, OH	$ 2,039
Meta Financial Group, Inc.	CASH	Sioux Falls, SD	$ 1,740
Pulaski Financial Corporation	PULB	St. Louis, MO	$ 1,351
HF Financial Corp.	HFFC	Sioux Falls, SD	$ 1,197
NASB Financial, Inc.	NASB	Grandview, MO	$ 1,179
Fox Chase Bancorp, Inc.	FXCB	Hatboro, PA	$ 1,085
Franklin Financial Corporation	FRNK	Glen Allen, VA	$ 1,052
First Financial Northwest, Inc.	FFNW	Renton, WA	$ 887
Simplicity Bancorp, Inc.	SMPL	Covina, CA	$ 882

(1) Asset size for all companies is as of March 31, 2013.

The following table presents a summary of selected pricing ratios for New Waterstone (on a pro forma basis) based on earnings and other information as of and for the twelve months ended June 30, 2013 and for the peer group companies based on earnings and other information as of and for the twelve months ended March 31, 2013, and stock prices as of July 19, 2013, as reflected in the appraisal report. Compared to the average pricing of the peer group, our pro forma pricing ratios at the midpoint of the offering range indicated a discount of 28.7% on a price-to-book value basis, a discount of 31.7% on a price-to-tangible book value basis, and a discount of 34.8% on a price-to-earnings basis.

	Price-to-earnings multiple (1)	Price-to-book value ratio	Price-to-tangible book value ratio
New Waterstone (on a pro forma basis, assuming completion of the conversion)			
Maximum	20.19 x	81.23 %	81.38 %
Midpoint	17.40 x	75.70 %	75.81 %
Minimum	14.66 x	69.25 %	69.38 %
Valuation of peer group companies, all of which are fully converted (on an historical basis)			
Averages	26.67 x	106.18 %	111.04 %
Medians	28.78 x	106.77 %	110.01 %

(1) Price-to-earnings multiples calculated by RP Financial, LC. in the independent appraisal are based on an estimate

of "core" or recurring earnings on a trailing twelve-month basis through June 30, 2013 for NewWaterstone and March 31, 2013 for the peer group. These ratios are different than those presented in "Pro Forma Data."

The independent appraisal does not indicate trading market value. Do not assume or expect that our valuation as indicated in the appraisal means that after the conversion and offering the shares of our common stock will trade at or above the $10.00 per share purchase price. Furthermore, the pricing ratios presented in the appraisal were used by RP Financial, LC. to estimate our pro forma appraised value for regulatory purposes and not to compare the relative value of shares of our common stock with the value of the capital stock of the peer group. The value of the capital stock of a particular company may be affected by a number of factors such as financial performance, asset size and market location.

For a more complete discussion of the amount of common stock we are offering for sale and the independent appraisal, see "The Conversion and Offering—Stock Pricing and Number of Shares to be Issued."

The Exchange of Existing Shares of Waterstone-Federal Common Stock

If you are currently a stockholder of Waterstone-Federal, at the completion of the conversion your shares will be exchanged for shares of common stock of New Waterstone. The number of shares of common stock you will receive will be based on the exchange ratio, which will depend upon our final appraised value and the percentage of outstanding shares of Waterstone-Federal common stock owned by public stockholders immediately prior to the completion of the conversion. The following table shows how the exchange ratio will adjust, based on the appraised value of New Waterstone as of July 19, 2013, assuming public stockholders of Waterstone-Federal own 26.5% of Waterstone-Federal common stock immediately prior to the completion of the conversion. The table also shows the number of shares of New Waterstone common stock a hypothetical owner of Waterstone-Federal common stock would receive in exchange for 100 shares of Waterstone-Federal common stock owned at the completion of the conversion, depending on the number of shares of common stock issued in the offering.

	Shares to be Sold in This Offering		Shares of New Waterstone to be Issued for Shares of Waterstone-Federal		Total Shares of Common Stock to be Issued in Exchange and Offering	Exchange Ratio	Equivalent Value of Shares Based Upon Offering Price (1)	Equivalent Pro Forma Tangible Book Value Per Exchanged Share (2)	Shares to be Received for 100 Existing Shares (3)
	Amount	Percent	Amount	Percent					
Minimum	18,700,000	73.5%	6,731,209	26.5%	25,431,209	0.8111	$ 8.11	$ 11.69	81
Midpoint	22,000,000	73.5	7,919,069	26.5	29,919,069	0.9542	9.54	12.59	95
Maximum	25,300,000	73.5	9,106,929	26.5	34,406,929	1.0973	10.97	13.47	109

(1) Represents the value of shares of New Waterstone common stock to be received in the conversion by a holder of one share of Waterstone-Federal, pursuant to the exchange ratio, based upon the $10.00 per share purchase price.
(2) Represents the pro forma tangible book value per share at each level of the offering range multiplied by the respective exchange ratio.
(3) Cash will be paid in lieu of fractional shares.

No fractional shares of New Waterstone common stock will be issued to any public stockholder of Waterstone-Federal. For each fractional share that otherwise would be issued, New Waterstone will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder otherwise would be entitled by the $10.00 per share offering price.

Outstanding options to purchase shares of Waterstone-Federal common stock also will convert into and become options to purchase shares of New Waterstone common stock based upon the exchange ratio. The aggregate exercise price, duration and vesting schedule of these options will not be affected by the conversion. At June 30, 2013, there were 1,011,500 outstanding options to purchase shares of Waterstone-Federal common stock, 781,500 of which have vested. Such outstanding options will be converted into options to purchase 820,428 shares of common stock at the minimum of the offering range and 1,109,919 shares of common stock at the maximum of the offering range. Because federal regulations prohibit us from repurchasing our common stock during the first year following the conversion unless compelling business reasons exist for such repurchases, we may use authorized but unissued shares to fund option exercises that occur during the first year following the conversion. If all existing options were exercised and funded with authorized but unissued shares of common stock following the conversion, stockholders would experience ownership dilution of approximately 5.0% at the minimum of the offering range.

How We Intend to Use the Proceeds From the Offering

We intend to invest at least 50% of the net proceeds from the stock offering in WaterStone Bank, loan funds to our employee stock ownership plan to fund its purchase of shares of common stock in the stock offering and retain the remainder of the net proceeds from the offering at New Waterstone. Therefore, assuming we sell 22,000,000 shares of common stock in the stock offering, and we have net proceeds of $212.3 million, we intend to invest $106.1 million in WaterStone Bank, loan $17.6 million to our employee stock ownership plan to fund its purchase of shares of common stock, and retain the remaining $88.5 million of the net proceeds at New Waterstone.

New Waterstone may use the funds it retains for investment, to pay cash dividends, to repurchase shares of common stock, to acquire other financial institutions and for other general corporate purposes. WaterStone Bank may use the proceeds it receives to expand its branch network, to support increased lending and other products and services or to acquire other financial institutions.

Please see the section of this prospectus entitled "How We Intend to Use the Proceeds from the Offering" for more information on the proposed use of the proceeds from the offering.

Persons Who May Order Shares of Common Stock in the Offering

We are offering the shares of common stock in a subscription offering in the following descending order of priority:

(i) To depositors with accounts at WaterStone Bank with aggregate balances of at least $50 at the close of business on December 31, 2011.

(ii) To our tax-qualified employee benefit plans (including WaterStone Bank's employee stock ownership plan and WaterStone Bank's 401(k) plan), which may subscribe for up to 10% of the shares of common stock sold in the offering. We expect our employee stock ownership plan to purchase 8% of the shares of common stock sold in the stock offering.

(iii) To depositors with accounts at WaterStone Bank with aggregate balances of at least $50 at the close of business on September 30, 2013.

(iv) To depositors of WaterStone Bank at the close of business on October 31, 2013.

Shares of common stock not purchased in the subscription offering will be offered for sale to the general public in a community offering, with a preference given first to natural persons (including trusts of natural persons) residing in Milwaukee, Washington and Waukesha Counties, Wisconsin, and then to Waterstone-Federal's public stockholders as of October 31, 2013. The community offering is expected to begin concurrently with the subscription offering. We also may offer for sale shares of common stock not purchased in the subscription offering or the community offering through a syndicated or firm commitment underwritten offering. Sandler O'Neill & Partners, L.P. will act as sole book-running manager and Robert W. Baird & Co. Incorporated will act as co-manager for the syndicated or firm commitment underwritten offering. We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated or firm commitment underwritten offering. Any determination to accept or reject stock orders in the community offering or syndicated or firm commitment underwritten offering will be based on the facts and circumstances available to management at the time of the determination.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. A detailed description of the subscription offering, the community offering and the syndicated or firm commitment underwritten offering, as well as a discussion regarding allocation procedures, can be found in the section of this prospectus entitled "The Conversion and Offering."

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased is 25 shares.

Generally, no individual may purchase more than 300,000 shares ($3.0 million) of common stock. If any of the following persons purchase shares of common stock, their purchases, in all categories of the offering, when combined with your purchases, cannot exceed 300,000 shares ($3.0 million) of common stock:

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- your spouse or relatives of you or your spouse living in your house;
- most companies, trusts or other entities in which you are a trustee, have a substantial beneficial interest or hold a senior position; or
- other persons who may be your associates or persons acting in concert with you.

Unless we determine otherwise, persons having the same address and persons exercising subscription rights through qualifying deposit accounts registered to the same address will be subject to the overall purchase limitation of 300,000 shares ($3.0 million).

In addition to the above purchase limitations, there is an ownership limitation for current stockholders of Waterstone-Federal other than our employee stock ownership plan. Shares of common stock that you purchase in the offering individually and together with persons described above, plus any shares you and they receive in exchange for existing shares of Waterstone-Federal common stock, may not exceed 9.9% of the total shares of common stock to be issued and outstanding after the completion of the conversion. However, if, based on your current ownership level, you will own more than 9.9% of the total shares of common stock to be issued and outstanding after the completion of the conversion following the exchange of your shares of Waterstone-Federal common stock, you will not need to divest any of your shares. You will be required to obtain the approval or non-objection of the Federal Reserve Board prior to acquiring more than 10% of New Waterstone's common stock.

Subject to regulatory approval, we may increase or decrease the purchase and ownership limitations at any time. See the detailed description of the purchase limitations in "The Conversion and Offering—Additional Limitations on Common Stock Purchases."

How You May Purchase Shares of Common Stock in the Subscription Offering and the Community Offering

In the subscription offering and community offering, you may pay for your shares only by:

(i) personal check, bank check or money order made payable directly to Waterstone Financial, Inc.; or

(ii) authorizing us to withdraw available funds from your WaterStone Bank deposit accounts.

WaterStone Bank is not permitted to lend funds to anyone to purchase shares of common stock in the offering. Additionally, you may not use a WaterStone Bank line of credit check or any type of third party check to pay for shares of common stock. Please do not submit cash. You may not designate withdrawal from WaterStone Bank's accounts with check-writing privileges; instead, please submit a check. You may not authorize direct withdrawal from a WaterStone Bank retirement account. See "—Using Individual Retirement Account Funds to Purchase Shares of Common Stock."

You may subscribe for shares of common stock in the subscription and community offerings by delivering a signed and completed original stock order form, together with full payment payable to Waterstone Financial, Inc. or authorization to withdraw funds from one or more of your WaterStone Bank deposit accounts, provided that the stock order form is received before 5:00 p.m., Central Time, on December 17, 2013, which is the end of the subscription offering period. You may submit your stock order form and payment by mail using the stock order reply envelope provided or by overnight delivery to our Stock Information Center, which will be located at 6560 South 27th Street, Oak Creek, Wisconsin 53154. You may also hand-deliver stock order forms to the Stock Information

Center. Hand-delivered stock order forms will only be accepted at this location. We will not accept stock order forms at our banking offices. Please do not mail stock order forms to WaterStone Bank's or Waterstone Mortgage Corporation's offices.

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Please see "The Conversion and Offering— Procedure for Purchasing Shares in Subscription and Community Offerings—Payment for Shares" for a complete description of how to purchase shares in the subscription and community offerings.

Using Individual Retirement Account Funds to Purchase Shares of Common Stock

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. If you wish to use some or all of the funds in your WaterStone Bank individual retirement account, the applicable funds must be transferred to a self-directed account maintained by an independent trustee, such as a brokerage firm, and the purchase must be made through that account. If you do not have such an account, you will need to establish one before placing your stock order. An annual administrative fee may be payable to the independent trustee. Because individual circumstances differ and the processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the December 17, 2013 offering deadline, for assistance with purchases using your individual retirement account or other retirement account you may have at WaterStone Bank or elsewhere. Whether you may use such funds to purchase shares in the stock offering may depend on timing constraints and, possibly, limitations imposed by the institution where the funds are held.

See "The Conversion and Offering—Procedure for Purchasing Shares in Subscription and Community Offerings—Payment for Shares" and "—Using Individual Retirement Account Funds" for a complete description of how to use IRA funds to purchase shares in the stock offering.

Market for Common Stock

Existing publicly held shares of Waterstone-Federal's common stock are listed on the Nasdaq Global Select Market under the symbol "WSBF." Upon completion of the conversion, the shares of common stock of New Waterstone will replace the existing shares, and we expect the shares of New Waterstone common stock will also trade on the Nasdaq Global Select Market under the symbol "WSBF." In order to list our stock on the Nasdaq Global Select Market, we are required to have at least three broker-dealers who will make a market in our common stock. As of October 31, 2013, Waterstone-Federal had approximately 27 registered market makers in its common stock. Sandler O'Neill & Partners, L.P. and Robert W. Baird & Co. Incorporated have advised us that they intend to make a market in our common stock following the offering, but are under no obligation to do so.

Our Dividend Policy

After the completion of the conversion, we intend to pay cash dividends on a quarterly basis. Initially, we expect the quarterly dividends to be $0.05 per share, which equals $0.20 per share on an annualized basis and an annual yield of 2.0% based on a price of $10.00 per share.

The dividend rate and the initial and continued payment of dividends will depend on a number of factors, including the receipt of any necessary regulatory approval to pay dividends, our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. We cannot assure you that we will receive regulatory approval to pay dividends in the future or when such approval may be obtained, or that any such dividends will not be reduced or eliminated in the future.

For information regarding our current and proposed dividend policy, see "Our Dividend Policy." For additional information regarding our ability to declare and pay cash dividends, see "Supervision and Regulation—Regulatory

Developments."

Purchases by Officers and Directors

We expect our directors and executive officers, together with their associates, to subscribe for 198,500 shares of common stock in the offering, representing 1.1% of shares to be sold at the minimum of the offering range. The purchase price paid by them will be the same $10.00 per share price paid by all other persons who purchase

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shares of common stock in the offering. Following the conversion, our directors and executive officers, together with their associates, are expected to beneficially own 1,333,702 shares of common stock (including stock options exercisable within 60 days of October 31, 2013), or 5.1% of our total outstanding shares of common stock at the minimum of the offering range, which includes shares they currently own that will be exchanged for shares of New Waterstone.

See "Subscriptions by Directors and Executive Officers" for more information on the proposed purchases of shares of common stock by our directors and executive officers.

Deadline for Orders of Shares of Common Stock in the Subscription and Community Offerings

The deadline for purchasing shares of common stock in the subscription and community offerings is 5:00 p.m., Central Time, on December 17, 2013, unless we extend this deadline. If you wish to purchase shares of common stock, a properly completed and signed original stock order form, together with full payment, must be received (not postmarked) by this time.

Although we will make reasonable attempts to provide this prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 5:00 p.m., Central Time, on December 17, 2013, whether or not we have been able to locate each person entitled to subscription rights.

See "The Conversion and Offering— Procedure for Purchasing Shares in Subscription and Community Offerings—Expiration Date" for a complete description of the deadline for purchasing shares in the stock offering.

You May Not Sell or Transfer Your Subscription Rights

Federal regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to certify that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights or the shares that you are purchasing. We intend to take legal action, including reporting persons to federal agencies, against anyone who we believe has sold or transferred his or her subscription rights. We will not accept your order if we have reason to believe you have sold or transferred your subscription rights. On the order form, you cannot add the names of others for joint stock registration unless they are also named on the qualifying deposit account. Doing so may jeopardize your subscription rights. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date. Failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation if there is an oversubscription.

Delivery of Shares of Common Stock

All shares of common stock sold will be issued in book entry form. Stock certificates will not be issued. A statement reflecting ownership of shares of common stock issued in the subscription and community offerings will be mailed by our transfer agent to the persons entitled thereto at the registration address noted by them on their stock order forms as soon as practicable following consummation of the conversion and offering. We expect trading in the stock to begin on the day of completion of the conversion and offering or the next business day. The conversion and offering are expected to be completed as soon as practicable following satisfaction of the conditions described below in "—Conditions to Completion of the Conversion." It is possible that until a statement reflecting ownership of shares of common stock is available and delivered to purchasers, purchasers might not be able to sell the shares of common stock that they purchased, even though the common stock will have begun trading. Your ability to sell your shares of common stock before receiving your statement will depend on arrangements you may make with a brokerage firm.

Conditions to Completion of the Conversion

We cannot complete the conversion and offering unless:

The plan of conversion and reorganization is approved by at least a majority of votes eligible to be cast by members of Lamplighter Financial, MHC (depositors of WaterStone Bank) as of October 31, 2013;

The plan of conversion and reorganization is approved by Waterstone-Federal stockholders holding at least two-thirds of the outstanding shares of common stock of Waterstone-Federal as of October 31, 2013, including shares held by Lamplighter Financial, MHC;

The plan of conversion and reorganization is approved by Waterstone-Federal stockholders holding at least a majority of the outstanding shares of common stock of Waterstone-Federal as of October 31, 2013, excluding shares held by Lamplighter Financial, MHC;

We sell at least the minimum number of shares of common stock offered in the offering;

The WDFI approves New Waterstone's acquisition of WaterStone Bank and an amendment to WaterStone Bank's Articles of Incorporation to provide for a liquidation account; and

We receive the approval of the Federal Reserve Board to complete the conversion and offering.

Lamplighter Financial, MHC intends to vote its shares in favor of the plan of conversion and reorganization. At October 31, 2013, Lamplighter Financial, MHC owned 73.5% of the outstanding shares of common stock of Waterstone-Federal. Therefore, the condition requiring that the plan of conversion and reorganization be approved by Waterstone-Federal stockholders holding at least two-thirds of the outstanding shares of common stock of Waterstone-Federal, including shares held by Lamplighter Financial, MHC, would be satisfied. The directors and executive officers of Waterstone-Federal and their affiliates owned 939,892 shares of Waterstone-Federal (excluding exercisable options), or 3.0% of the outstanding shares of common stock and 11.3% of the outstanding shares of common stock excluding shares held by Lamplighter Financial, MHC. They intend to vote those shares in favor of the plan of conversion and reorganization.

Steps We May Take if We Do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 18,700,000 shares of common stock, we may take several steps in order to sell the minimum number of shares of common stock in the offering range. Specifically, we may:

(i) increase the purchase and ownership limitations; and/or

(ii) seek regulatory approval to extend the offering beyond January 31, 2014, so long as we resolicit subscriptions that we have previously received in the offering; and/or

(iii) increase the shares purchased by the employee stock ownership plan.

If one or more purchase limitations are increased, subscribers in the subscription offering who ordered the maximum amount will be, and, in our sole discretion, some other large purchasers may be, given the opportunity to increase their subscriptions up to the then-applicable limit.

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Possible Change in the Offering Range

RP Financial, LC. will update its appraisal before we complete the offering. If our pro forma market value at that time is either below $254.3 million or above $344.1 million, then, after consulting with the Federal Reserve Board, we may:

- terminate the stock offering and promptly return all funds (with interest paid on funds received in the subscription and community offerings);
- set a new offering range; or
- take such other actions as may be permitted by the Federal Reserve Board and the Securities and Exchange Commission.

If we set a new offering range, we will promptly return funds, with interest at 0.01% per annum for funds received for purchases in the subscription and community offerings, and cancel any authorization to withdraw funds from deposit accounts for the purchase of shares of common stock. We will then resolicit subscribers, allowing them to place a new stock order for a period of time.

Possible Termination of the Offering

We may terminate the offering at any time prior to the special meeting of members of Lamplighter Financial, MHC that has been called to vote on the conversion, and at any time after member approval with the approval of the Federal Reserve Board. If we terminate the offering, we will promptly return your funds with interest at 0.01% per annum, and we will cancel deposit account withdrawal authorizations.

Benefits to Management and Potential Dilution to Stockholders Resulting from the Conversion

We expect our employee stock ownership plan, which is a tax-qualified retirement plan for the benefit of all WaterStone Bank employees, to purchase up to 8% of the shares of common stock we sell in the offering. If we receive orders in the subscription offering for more shares of common stock than the maximum of the offering range, the employee stock ownership plan's subscription order will not be filled and the employee stock ownership plan may, with prior Federal Reserve Board approval, purchase shares in the open market following completion of the conversion.

Federal regulations permit us to implement one or more new stock-based benefit plans no earlier than six months after completion of the conversion. Stockholder approval of these plans would be required. Our current intention is to implement one or more new stock-based benefit plans, but we have not determined whether we would adopt the plans within 12 months following the completion of the conversion or more than 12 months following the completion of the conversion. If we implement stock-based benefit plans within 12 months following the completion of the conversion, the stock-based benefit plans would reserve a number of shares (i) up to 4% of the shares of common stock sold in the offering (reduced by amounts purchased by our 401(k) plan using its purchase priority in the stock offering) for awards of restricted stock to key employees and directors, at no cost to the recipients, and (ii) up to 10% of the shares of common stock sold in the offering for issuance pursuant to the exercise of stock options by key employees and directors. If the stock-based benefit plan is adopted more than 12 months after the completion of the conversion, it would not be subject to the percentage limitations set forth above. We have not yet determined the number of shares that would be reserved for issuance under these plans. For a description of our current stock-based benefit plan, see

“Management—Compensation Discussion and Analysis—Equity Awards.”

The following table summarizes the number of shares of common stock and the aggregate dollar value of grants that are available under one or more stock-based benefit plans if such plans reserve a number of shares of common stock equal to 4% and 10% of the shares sold in the stock offering for restricted stock awards and stock options, respectively. The table shows the dilution to stockholders if all such shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees. The table also sets forth the number of shares of common stock to be acquired by the employee stock ownership plan for allocation to all qualifying employees.

	Number of Shares to be Granted or Purchased			Dilution Resulting From Issuance of Shares for Stock-Based Benefit Plans	Value of Grants (In Thousands) (1)	
	At Minimum of Offering Range	At Maximum of Offering Range	As a Percentage of Common Stock to be Sold in the Offering		At Minimum of Offering Range	At Maximum of Offering Range
Employee stock ownership plan	1,496,000	2,024,000	8.0 %	N/A (2)	$ 14,960	$ 20,240
Restricted stock awards	748,000	1,012,000	4.0	2.86 %	7,480	10,120
Stock options	1,870,000	2,530,000	10.0	6.85 %	4,862	6,578
Total	4,114,000	5,566,000	22.0 %	9.33 %	$ 27,302	$ 36,938

(1) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value for stock awards is assumed to be the same as the offering price of $10.00 per share. The fair value of stock options has been estimated at $2.60 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of $10.00; an expected option term of 10 years; a dividend yield of 2.0%; a risk-free rate of return of 2.52%; and expected volatility of 24.17%. The actual value of option grants will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used and the option pricing model ultimately adopted.

(2) No dilution is reflected for the employee stock ownership plan because such shares are assumed to be purchased in the stock offering.

We may fund our stock-based benefit plans through open market purchases, as opposed to new issuances of stock; however, if any options previously granted under our existing 2006 Equity Incentive Plan are exercised during the first year following completion of the offering, they will be funded with newly issued shares as federal regulations do not permit us to repurchase our shares during the first year following the completion of the offering except to fund the grants of restricted stock under our existing stock-based benefit plan or under extraordinary circumstances.

The following table presents information as of June 30, 2013 regarding our employee stock ownership plan, our 2006 Equity Incentive Plan and our proposed stock-based benefit plan. The table below assumes that 34,406,929 shares are outstanding after the offering, which includes the sale of 25,300,000 shares in the offering at the maximum of the offering range and the issuance of new shares in exchange for shares of Waterstone-Federal using an exchange ratio of 1.0973. It also assumes that the value of the stock is $10.00 per share.

Existing and New Stock Benefit Plans	Participants	Shares at Maximum of Offering Range		Estimated Value of Shares		Percentage of Shares Outstanding After the Conversion
Employee Stock Ownership Plan:	Officers and Employees					
Shares purchased in 2005 offering (1)		835,610	(2)	$ 8,356,100		2.43 %
Shares to be purchased in this offering		2,024,000		20,240,000		5.88
Total employee stock ownership plan shares		2,859,610		$ 28,596,100		8.31 %
Restricted Stock Awards:	Directors, Officers and Employees					
2006 Equity Incentive Plan (1)		468,483	(3)	$ 4,684,830	(4)	1.36 %
New shares of restricted stock		1,012,000		10,120,000	(4)	2.94
Total shares of restricted stock		1,480,483		$ 14,804,830		4.30 %
Stock Options:	Directors, Officers and Employees					
2006 Equity Incentive Plan (1)		1,171,210	(5)	$ 3,045,145		3.40 %
New stock options		2,530,000		6,578,000	(6)	7.35
Total stock options		3,701,210		$ 9,623,145		10.75 %
Total of stock benefit plans		8,041,304		$ 53,024,075		23.36 %

(1) The number of shares indicated has been adjusted for the 1.0973 exchange ratio at the maximum of the offering range.

(2) As of June 30, 2013, 668,488 of these shares, or 609,212 shares prior to adjustment for the exchange, have been allocated.

(3) As of June 30, 2013, 382,628 of these shares, or 348,700 shares prior to adjustment for the exchange, have been awarded, and 293,747 of these shares, or 267,700 shares prior to adjustment for the exchange, have vested.

(4) The value of restricted stock awards is determined based on their fair value as of the date grants are made. For purposes of this table, the fair value of awards under the new stock-based benefit plan is assumed to be the same as the offering price of $10.00 per share.

(5) As of June 30, 2013, options to purchase 1,109,919 of these shares, or 1,011,500 shares prior to adjustment for the exchange, have been awarded, and options to purchase 857,540 of these shares, or 781,500 shares prior to adjustment for the exchange, have vested.

(6) The weighted-average fair value of stock options to be granted has been estimated at $2.60 per option, using the Black-Scholes option pricing model with the following assumptions: exercise price, $10.00; trading price on date of grant, $10.00; dividend yield, 2.0%; expected term, 10 years; expected volatility, 24.17%; and risk-free rate of return, 2.52%. The actual value of option grants will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used and the option pricing model ultimately adopted.

Tax Consequences

Lamplighter Financial, MHC, Waterstone-Federal, WaterStone Bank and New Waterstone have received an opinion of counsel, Luse Gorman Pomerenk & Schick, P.C., regarding the material federal income tax consequences of the conversion, and have received an opinion of Baker Tilly Virchow Krause, LLP regarding the material Wisconsin state tax consequences of the conversion. As a general matter, the conversion will not be a taxable transaction for purposes of federal or state income taxes to Lamplighter Financial, MHC, Waterstone-Federal (except for cash paid for fractional shares), WaterStone Bank, New Waterstone, persons eligible to subscribe in the subscription offering, or existing stockholders of Waterstone-Federal. Existing stockholders of Waterstone-Federal who receive cash in lieu of fractional shares of New Waterstone will recognize a gain or loss equal to the difference between the cash received and the tax basis of the fractional share.

How You Can Obtain Additional Information—Stock Information Center

Our banking personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or offering, please call our Stock Information Center. The telephone number is (414) 459-4700. The Stock Information Center is open Monday through Friday between 10:00 a.m. and 4:00 p.m., Central Time. The Stock Information Center will be closed on weekends and bank holidays.

RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock.

Risks Related to Our Business

We operate in a highly regulated environment and we are subject to supervision, examination and enforcement action by various bank regulatory agencies.

We are subject to extensive supervision, regulation, and examination by the WDFI, the Federal Deposit Insurance Corporation and the Federal Reserve Board. As a result, we are limited in the manner in which we conduct our business, undertake new investments and activities, and obtain financing. This system of regulation is designed primarily for the protection of the Deposit Insurance Fund and our depositors, and not for the benefit of our stockholders. Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees.

Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. These ratings are inherently subjective and the receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as WaterStone Bank or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

Federal regulations governing the conversion require that we prepare a business plan that addresses, among other items, our projected operations and activities for three years following the conversion. The business plan is a confidential document that is submitted to the banking regulatory agencies and may not reflect currently unanticipated potential business opportunities or activities, such as increased dividends or acquisitions of other financial institutions. Federal regulations require that we operate within the parameters of the business plan, and that the Federal Reserve Board approve any material deviation from the business plan. This could affect our ability to conduct activities that deviate from the regulatory business plan that would otherwise benefit our stockholders.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

Waterstone-Federal has adopted board resolutions requested by the Federal Reserve Board. The board resolutions restrict our operations, and the failure to comply with the resolutions could result in additional enforcement actions by the Federal Reserve Board. Continued compliance with the board resolutions may also adversely affect our financial condition and operations.

Effective July 9, 2013, the Federal Reserve Board terminated an Order to Cease and Desist that was originally issued to Waterstone-Federal by the Office of Thrift Supervision on November 25, 2009. At the same time, the Federal Reserve Board requested that the board of directors adopt resolutions relating to certain operations of

Waterstone-Federal. The board resolutions require written approval from the Federal Reserve Board prior to the declaration or payment of dividends, any increase in debt or the redemption of holding company stock. Waterstone-Federal's board has adopted the resolutions requested by the Federal Reserve Board and we cannot determine when New Waterstone would no longer be subject to the conditions of the board resolutions.

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Failure to comply with the board resolutions could result in additional enforcement actions by the Federal Reserve Board. We have incurred significant expense in complying with the Order to Cease and Desist, and continued compliance with the board resolutions may restrict our operations or result in continued expense, either of which may adversely affect our financial condition and results of operations.

Changing interest rates may have a negative effect on our results of operations.

Our earnings and cash flows are dependent on our net interest income and income from our mortgage banking operations. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in market interest rates could have an adverse effect on our financial condition and results of operations. Our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets. If rates increase rapidly, we may have to increase the rates we pay on our deposits, particularly our higher cost time deposits and borrowed funds, more quickly than any changes in interest rates earned on our loans and investments, resulting in a negative effect on interest spreads and net interest income. Furthermore, our mortgage banking income varies directly with movements in interest rates, and increases in interest rates could negatively affect our ability to originate loans in the same volumes as we have in recent years. Increases in interest rates may also make it more difficult for borrowers to repay adjustable rate loans.

Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected if competitive pressures keep us from further reducing rates on our deposits, while the yields on our assets decrease more rapidly through loan prepayments and interest rate adjustments. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowings costs. Under these circumstances, we are subject to reinvestment risk to the extent we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk.”

Higher interest rates may reduce our mortgage banking revenues, which would negatively impact our net income.

Our mortgage banking operations provide a significant portion of our non-interest income and are significantly affected by market interest rates. Any increase in market interest rates may reduce our mortgage banking income. For example, following the increase in interest rates in the spring of 2013, our mortgage banking revenues decreased to \$20.3 million for the three months ended September 30, 2013 from \$26.0 million for the three months ended June 30, 2013. We generate revenues primarily from gains on the sale of mortgage loans to investors. We also earn interest on loans held for sale while they are awaiting delivery to our investors. In a rising or higher interest rate environment, our mortgage loan originations may decrease, resulting in fewer loans that are available for sale. This would result in a decrease in interest income, a decrease in revenues from loan sales and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expenses associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment, data processing and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity.

A discontinuation of the Federal Reserve Board’s bond purchasing program may adversely affect our mortgage banking revenues.

The Federal Reserve Board has undertaken an unprecedented bond purchase program, known as "quantitative easing." This program is designed to keep market interest rates low and encourage growth. A

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discontinuation of the Federal Reserve Board's bond repurchase program would likely cause an increase in market interest rates, which may reduce our loan originations by our mortgage banking subsidiary.

We continue to experience high levels of delinquencies, non-accrual loans and charge-offs, which negatively affects our financial condition and results of operations.

We continue to experience high levels of non-accrual loans and loan delinquencies. Our non-accrual loans totaled \$53.3 million, or 4.81% of total loans, at June 30, 2013, \$74.7 million, or 6.59% of total loans, at December 31, 2012 and \$78.2 million, or 6.43% of total loans, at December 31, 2011. Our loans past due totaled \$60.6 million, or 5.5% of total loans receivable, at June 30, 2013, \$74.4 million, or 6.6% of total loans receivable, at December 31, 2012 and \$93.4 million, or 7.7% of total loans, at December 31, 2011. The continued high level of non-performing and delinquent loans has resulted in high levels of loan charge-offs. During the six months ended June 30, 2013 and the year ended December 31, 2012, net charge-offs totaled \$6.2 million and \$9.7 million, respectively. Our high level of problem assets has also increased our costs associated with monitoring delinquent loans and managing and disposing of foreclosed property. We expect these costs to remain elevated until our delinquencies improve and we dispose of our foreclosed property. To the extent that our loan portfolio deteriorates, our financial condition and results of operations will be materially and adversely affected. Continued deterioration may also lead to additional actions by regulators that may have a direct material effect on our financial condition and results of operations.

The recent federal government shutdown is expected to result in reduced loan originations and related gains on sale during the fourth quarter of 2013, and any future federal government shutdown could negatively affect our financial condition and results of operations.

Our mortgage banking operations provide a significant portion of our non-interest income. During the recent federal government shutdown, we were not able to close certain loans and recognize non-interest income on the sale of those loans due to our inability to verify information related to borrowers, such as payments of federal income taxes. Also, some of the loans we originate are sold directly to government agencies, and some of these sales were unable to be consummated during the shutdown. Although we expect that we will be able to close a majority of these loans, which would result in a timing difference in our recognition of non-interest income, we will incur higher borrowing costs related to the longer period we maintain an outstanding commitment to fund a loan. In addition, we believe that some of these borrowers have determined or will determine not to proceed with their home purchase and not close on their loans, which would result in a permanent loss of the related non-interest income. The recent federal government shutdown could also result in reduced income for government employees or employees of companies that engage in business with the federal government, which could result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services. Any future federal government shutdown could have the same negative effect.

We rely heavily on certificates of deposit, which has increased our cost of funds and could continue to do so in the future.

At June 30, 2013, certificates of deposit comprised 76.4% of our total deposits. Our reliance on certificates of deposit to fund our operations has resulted in a higher cost of funds than would otherwise be the case if we had a higher percentage of demand deposits, savings deposits and money market accounts. In addition, if our certificates of deposit do not remain with us, we may be required to access other sources of funds, including loan sales, other types of deposits, including replacement certificates of deposit, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of Chicago and other borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on our certificates of deposit.

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We intend to increase our commercial business lending, and we intend to continue our commercial real estate and multi-family residential real estate lending, which may expose us to increased lending risks and have a negative effect on our results of operations.

In an effort to increase our commercial loan portfolio, we established a commercial loan department in 2007 and we currently have four commercial business loan officers. We also continue to focus on originating commercial real estate and multi-family residential real estate loans. These types of loans generally have a higher risk of loss compared to our one- to four-family residential real estate loans. Commercial business loans may expose us 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 business and commercial real estate 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 loans as repayment is generally dependent upon the successful operation of the borrower's business. Also, the collateral underlying commercial business loans may fluctuate in value. Some of our commercial business loans are collateralized by equipment, inventory, accounts receivable or other business assets, and the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use. Multi-family residential real estate and commercial real estate loans involve increased risk because repayment is dependent on income being generated in amounts sufficient to cover property maintenance and debt service. In addition, if loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for loan losses and adversely affect our financial condition and results of operations.

Secondary mortgage market conditions could have a material impact on our financial condition and results of operations.

Our mortgage banking operations provide a significant portion of our non-interest income. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. In light of current conditions, there is greater risk in retaining mortgage loans pending their sale to investors. We believe our ability to retain fixed-rate residential mortgage loans is limited. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse effect on our financial condition and results of operations.

If we are required to repurchase mortgage loans that we have previously sold, it would negatively affect our earnings.

One of our primary business operations is our mortgage banking, which involves originating residential mortgage loans for sale in the secondary market under agreements that contain representations and warranties related to, among other things, the origination and characteristics of the mortgage loans. We may be required to repurchase mortgage loans that we have sold in cases of borrower default or breaches of these representations and warranties. We have experienced more frequent disputes and repurchase demands from these buyers. If we are required to repurchase mortgage loans or provide indemnification or other recourse, this could significantly increase our costs and thereby affect our future earnings.

Proposed and final regulations could restrict our ability to originate and sell loans.

The Consumer Financial Protection Bureau has issued a rule designed to clarify for lenders how they can avoid legal liability under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower's ability to repay a mortgage. Loans that meet this "qualified mortgage" definition will be presumed to have complied with the new ability-to-repay standard. Under the Consumer Financial Protection Bureau's rule, a "qualified mortgage" loan must not contain certain specified features, including:

- excessive upfront points and fees (those exceeding 3% of the total loan amount, less "bona fide discount points" for prime loans);
- interest-only payments;
- negative-amortization; and
- terms longer than 30 years.

Also, to qualify as a "qualified mortgage," a borrower's total monthly debt-to-income ratio may not exceed 43%. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments. The Consumer Financial Protection Bureau's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive/and or time consuming to make these loans, which could limit our growth or profitability.

In addition, the Dodd-Frank Act requires the regulatory agencies to issue regulations that require securitizers of loans to retain not less than 5% of the credit risk for any asset that is not a "qualified residential mortgage." The regulatory agencies have issued a proposed rule to implement this requirement. The Dodd-Frank Act provides that the definition of "qualified residential mortgage" can be no broader than the definition of "qualified mortgage" issued by the Consumer Financial Protection Bureau for purposes of its regulations (as described above). Although the final rule with respect to the retention of credit risk has not yet been issued, the final rule could have a significant effect on the secondary market for loans and the types of loans we originate, and restrict our ability to make loans.

A continuation or worsening of economic conditions could adversely affect our financial condition and results of operations.

Although the U.S. economy has emerged from the severe recession that occurred in 2008 and 2009, economic growth has been slow and unemployment levels remain high despite the Federal Reserve Board's unprecedented efforts to maintain low market interest rates and encourage economic growth. Recovery by many businesses has been impaired by lower consumer spending. A discontinuation of the Federal Reserve Board's bond purchasing program could result in higher interest rates and reduced economic activity. Moreover, a return to prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued elevated unemployment levels may result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and results of operations.

If our allowance for loan losses is not sufficient to cover actual loan losses, our results of operations would be negatively affected.

In determining the amount of the allowance for loan losses, we analyze our loss and delinquency experience by loan categories and we consider the effect of existing economic conditions. In addition, we make

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various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. If the results of our analyses are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance and would decrease our net income. Our emphasis on loan growth and on increasing our portfolio of commercial real estate loans, as well as any future credit deterioration, could require us to increase our allowance further in the future.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations and financial condition.

Because most of our borrowers are located in the Milwaukee, Wisconsin metropolitan area, a prolonged downturn in the local economy, or a decline in local real estate values, could cause an increase in nonperforming loans or a decrease in loan demand, which would reduce our profits.

Substantially all of our loans are secured by real estate located in our primary market area. Continued weakness in our local economy and our local real estate markets could adversely affect the ability of our borrowers to repay their loans and the value of the collateral securing our loans, which could adversely affect our results of operations. Real estate values are affected by various factors, including supply and demand, changes in general or regional economic conditions, interest rates, governmental rules or policies and natural disasters. Continued weakness in economic conditions also could result in reduced loan demand and a decline in loan originations. In particular, a significant decline in real estate values would likely lead to a decrease in new loan originations and increased delinquencies and defaults by our borrowers.

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, money market funds, insurance companies, and brokerage firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence and offer certain services that we do not or cannot provide, all of which benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do.

For additional information, see “Business of WaterStone Bank—Competition.”

Our inability to achieve profitability on new branches may negatively affect our earnings.

Subject to our ability to receive regulatory approval, we currently intend to open six new full-service branch offices by the end of 2016, with two branch offices opening in each of 2014, 2015 and 2016. The profitability of these branches will depend on whether the income that we generate from the additional branches will offset the increased expenses resulting from operating new branches. We expect that it may take time before new branches become profitable. During this period, operating new branches may negatively affect our operating results.

For information on restrictions on our ability to establish new branch offices, see “Supervision and Regulation—General.”

Financial reform legislation is expected to increase our costs of operations.

The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act authorized the Federal Reserve Board to supervise and regulate all savings and loan holding companies, such as New Waterstone, in addition to bank holding companies. The Dodd-Frank Act also instructed the Federal Reserve Board to set minimum capital levels for holding companies that are as stringent as those required for their insured

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depository subsidiaries, and requires the components of Tier 1 capital to be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Savings and loan holding companies are subject to a five-year transition period before the holding company capital requirement will apply.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, such as WaterStone Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, such as WaterStone Bank, will be examined by their applicable bank regulators.

It is difficult to predict at this time the effect that the legislation and implementing regulations will have on community banks with regard to lending and credit practices. Many of the provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of all of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those relating to the new Consumer Financial Protection Bureau, will increase our operating and compliance costs.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations.

Our accounting policies are essential to understanding our financial condition and results of operations. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain, and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the Financial Accounting Standards Board and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be hard to predict and could materially affect how we report our financial condition and results of operations. We could also be required to apply a new or revised standard retroactively, which may result in our restating our prior period financial statements.

The need to account for certain assets at estimated fair value may adversely affect our results of operations.

We report certain assets, such as loans held for sale, at estimated fair value. Generally, for assets that are reported at fair value, we use quoted market prices or valuation models that utilize observable market inputs to estimate fair value. Because we carry these assets on our books at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to

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potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits and loans. We have established policies and procedures to prevent or limit the effect of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from security breaches.

In addition, we outsource a majority of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

Acquisitions may disrupt our business and dilute stockholder value.

We regularly evaluate merger and acquisition opportunities with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. We would seek acquisition partners that offer us either significant market presence or the potential to expand our market footprint and improve profitability through economies of scale or expanded services.

Acquiring other banks, businesses, or branches may have an adverse effect on our financial results and may involve various other risks commonly associated with acquisitions, including, among other things:

difficulty in estimating the value of the target company;

payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term;

potential exposure to unknown or contingent liabilities of the target company;

- exposure to potential asset quality problems of the target company;
- potential volatility in reported income associated with goodwill impairment losses;
- difficulty and expense of integrating the operations and personnel of the target company;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

Risks Related to the Offering

The future price of the shares of common stock may be less than the $10.00 purchase price per share in the offering.

If you purchase shares of common stock in the offering, you may not be able to sell them later at or above the $10.00 purchase price in the offering. In many cases, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the initial offering price. The aggregate purchase price of the shares of common stock sold in the offering will be based on an independent appraisal. The independent appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The independent appraisal is based on certain estimates, assumptions and projections, all of which are subject to change from time to time. After the shares begin trading, the trading price of our common stock will be determined by the marketplace, and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, investor perceptions of New Waterstone and the outlook for the financial services industry in general. Price fluctuations in our common stock may be unrelated to our operating performance.

Our failure to effectively deploy the net proceeds may have an adverse effect on our financial performance.

We intend to invest between $90.1 million and $122.2 million of the net proceeds of the offering in WaterStone Bank. We may use the remaining net proceeds to invest in short-term investments, repurchase shares of common stock, pay dividends or for other general corporate purposes. We also expect to use a portion of the net proceeds we retain to fund a loan to our employee stock ownership plan to purchase shares of common stock in the offering. WaterStone Bank may use the net proceeds it receives to fund new loans, expand its retail banking franchise by establishing or acquiring new branches or by acquiring other financial institutions or other financial services companies, or for other general corporate purposes. However, with the exception of the loan to the employee stock ownership plan, we have not allocated specific amounts of the net proceeds for any of these purposes, and we will have significant flexibility in determining the amount of the net proceeds we apply to different uses and when we apply or reinvest such proceeds. Also, certain of these uses, such as opening new branches or acquiring other financial institutions, may require the approval of the WDFI, the Federal Deposit Insurance Corporation or the Federal Reserve Board. We have not established a timetable for reinvesting the net proceeds, and we cannot predict how long we will require to reinvest the net proceeds. Our failure to utilize these funds effectively would reduce our profitability and may adversely affect the value of our common stock.

Our return on equity may be low following the stock offering. This could negatively affect the trading price of our shares of common stock.

Net income divided by average equity, known as “return on equity,” is a ratio many investors use to compare the performance of financial institutions. Our return on equity may be low until we are able to leverage the additional capital we receive from the stock offering. Our return on equity will be negatively affected by added expenses associated with our employee stock ownership plan and the stock-based benefit plan we intend to adopt. Until we can increase our net interest income and non-interest income and leverage the capital raised in the stock offering, we expect our return on equity to be low, which may reduce the market price of our shares of common stock.

Our stock-based benefit plans will increase our expenses and reduce our income.

We intend to adopt one or more new stock-based benefit plans after the conversion, subject to stockholder approval, which will increase our annual compensation and benefit expenses related to the stock options and stock awards granted to participants under the stock-based benefit plan. The actual amount of these new stock-related compensation and benefit expenses will depend on the number of options and stock awards actually granted under the plans, the fair market value of our stock or options on the date of grant, the vesting period, and other factors which we cannot predict at this time. In the event we adopt stock-based benefit plans within 12 months following the conversion, the total shares of common stock reserved for issuance pursuant to awards of restricted stock and grants of options under such plans would be limited to 4% and 10%, respectively, of the total shares of our common stock sold in the stock offering. If we award restricted shares of common stock or grant options in excess of these amounts under stock-based benefit plans adopted more than 12 months after the completion of the conversion, our costs would increase further.

In addition, we will recognize expense for our employee stock ownership plan when shares are committed to be released to participants’ accounts, and we will recognize expense for restricted stock awards and stock options over the vesting period of awards made to recipients. The expense in the first year following the offering for shares purchased in the offering and for our new stock-based benefit plans has been estimated to be approximately $4.4 million ($3.0 million after tax) at the maximum of the offering range as set forth in the pro forma financial information under “Pro Forma Data,” assuming the $10.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock. For further discussion of our proposed stock-based plans, see “Management—Benefits to be Considered Following Completion of the Conversion.”

The implementation of stock-based benefit plans may dilute your ownership interest. Historically, stockholders have approved these stock-based benefit plans.

We intend to adopt one or more new stock-based benefit plans following the stock offering. These plans may be funded either through open market purchases or from the issuance of authorized but unissued shares of common stock. Our ability to repurchase shares of common stock to fund these plans will be subject to many factors, including applicable regulatory restrictions on stock repurchases, the availability of stock in the market, the trading price of the stock, our capital levels, alternative uses for our capital and our financial performance. While our intention would be to fund stock-based benefit plans through open market purchases, stockholders would experience a 9.3% dilution in ownership interest at the maximum of the offering range in the event newly issued shares of our common stock are used to fund stock options and shares of restricted common stock in amounts equal to 10% and 4%, respectively, of the shares sold in the offering. In the event we adopt the plan more than 12 months following the conversion, the plan would not be subject to these limitations and stockholders could experience greater dilution.

Although the implementation of stock-based benefit plans would be subject to stockholder approval, historically, the overwhelming majority of stock-based benefit plans adopted by savings institutions and their holding companies following mutual-to-stock conversions have been approved by stockholders.

We have not determined when we will adopt one or more new stock-based benefit plans. Stock-based benefit plans adopted more than 12 months following the completion of the conversion may exceed regulatory restrictions on the size of stock-based benefit plans adopted within 12 months, which would further increase our costs.

If we adopt stock-based benefit plans more than 12 months following the completion of the conversion, then grants of shares of common stock or stock options under our existing and proposed stock-based benefit plans may exceed 4% and 10%, respectively, of shares of common stock sold in the stock offering. Stock-based benefit plans that provide for awards in excess of these amounts would increase our costs beyond the amounts estimated in "—Our stock-based benefit plans will increase our expenses and reduce our income." Stock-based benefit plans that provide for awards in excess of these amounts could also result in dilution to stockholders in excess of that described in "—The implementation of stock-based benefit plans may dilute your ownership interest. Historically, stockholders have approved these stock-based benefit plans." Although the implementation of stock-based benefit plans would be subject to stockholder approval, the determination as to when such plans would be implemented will be at the discretion of our board of directors.

Various factors may make takeover attempts more difficult to achieve.

Our board of directors has no current intention to sell control of New Waterstone. Our articles of incorporation and bylaws, federal regulations, Maryland law, shares of restricted stock and stock options that we have granted or may grant to employees and directors and stock ownership by our management and directors, and various other factors may make it more difficult for companies or persons to acquire control of New Waterstone without the consent of our board of directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then prevailing price of our common stock. For additional information, see "Restrictions on Acquisition of New Waterstone," and "—Benefits to be Considered Following Completion of the Conversion."

We may not receive regulatory approval to pay dividends following the completion of the conversion, or we may not pay dividends on our shares of common stock even if we receive regulatory approval.

Waterstone-Federal has never paid dividends on its common stock. Although New Waterstone intends to pay a quarterly cash dividend to its stockholders, stockholders are not entitled to receive dividends. Furthermore, the payment of dividends to all New Waterstone stockholders currently is subject to regulatory approval. We may not receive such regulatory approval, either promptly following the completion of the conversion or at all, or we may only receive approval to pay a smaller special dividend than we currently intend to pay. See "Our Dividend Policy" and "Supervision and Regulation—Regulatory Developments" for additional information.

You may not revoke your decision to purchase New Waterstone common stock in the subscription or community offerings after you send us your order.

Funds submitted or automatic withdrawals authorized in connection with the purchase of shares of common stock in the subscription and community offerings will be held by us until the completion or termination of the conversion and offering, including any extension of the expiration date and consummation of a syndicated or firm commitment underwritten offering. Because completion of the conversion and offering will be subject to regulatory approvals and an update of the independent appraisal prepared by RP Financial, LC., among other factors, there may be one or more delays in completing the conversion and offering. Orders submitted in the subscription and community offerings are irrevocable, and purchasers will have no access to their funds unless the offering is terminated, or extended beyond January 31, 2014, or the number of shares to be sold in the offering is increased to more than 25,300,000 shares or decreased to fewer than 18,700,000 shares.

The distribution of subscription rights could have adverse income tax consequences.

If the subscription rights granted to certain current or former depositors of WaterStone Bank are deemed to have an ascertainable value, receipt of such rights may be taxable in an amount equal to such value. Whether

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subscription rights are considered to have ascertainable value is an inherently factual determination. We have received an opinion of counsel, Luse Gorman Pomerenk & Schick, P.C., that it is more likely than not that such rights have no value; however, such opinion is not binding on the Internal Revenue Service.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables set forth selected consolidated historical financial and other data of Waterstone-Federal and its subsidiaries for the periods and at the dates indicated. The following is only a summary and you should read it in conjunction with the business and financial information regarding Waterstone-Federal contained elsewhere in this prospectus, including the consolidated financial statements beginning on page F-1 of this prospectus. The information at December 31, 2012 and 2011, and for the years ended December 31, 2012, 2011, and 2010 is derived in part from the audited consolidated financial statements that appear in this prospectus. The information at December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008 is derived in part from audited consolidated financial statements that do not appear in this prospectus. The information at June 30, 2013 and for the six months ended June 30, 2013 and 2012, is unaudited and reflects only normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results to be achieved for all of 2013 or for any other period.

	At June 30,	At December 31,				
	2013	2012	2011	2010	2009	2008
	(Unaudited)					
	(In Thousands)					
Selected Financial Condition Data:						
Total assets	$1,632,876	$1,661,076	$1,712,851	$1,808,966	$1,868,266	$1,885,432
Securities available for sale	216,253	205,017	206,519	203,166	205,415	179,887
Federal Home Loan Bank stock	20,193	20,193	21,653	21,653	21,653	21,653
Loans receivable, net	1,079,148	1,102,629	1,184,234	1,277,262	1,391,516	1,534,591
Loans held for sale	132,045	133,613	88,283	96,133	45,052	12,993
Cash and cash equivalents	54,368	71,469	80,380	75,331	71,120	23,849
Deposits	893,007	939,513	1,051,292	1,145,529	1,164,890	1,195,897
Borrowings	490,046	479,888	461,138	456,959	507,900	487,000
Total shareholders' equity	209,345	202,634	166,372	172,220	168,592	171,267
Allowance for loan losses	27,767	31,043	32,430	29,175	28,494	25,167
Real estate owned	29,983	35,974	56,670	57,752	50,929	24,653

	For the Six Months Ended June 30,		For the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)						
	(In Thousands, except per share amounts)						
Selected Operating Data:							
Interest income	$ 32,084	$ 35,931	$ 69,846	$ 79,352	$ 89,933	$ 98,488	$ 104,078
Interest expense	12,017	14,876	27,901	32,836	40,269	54,577	63,027
Net interest income	20,067	21,055	41,945	46,516	49,664	43,911	41,051

Provision for loan losses	2,960	5,100	8,300	22,077	25,832	26,687	37,629
Net income after provision for loan losses	17,107	15,955	33,645	24,439	23,832	17,224	3,422
Noninterest income	49,740	38,253	91,203	43,229	38,993	12,208	6,291
Noninterest expense	51,318	45,751	102,138	74,579	64,627	40,876	33,860
Income (loss) before income taxes	15,529	8,457	22,710	(6,911)	(1,802)	(11,444)	(24,147)
Provision for income taxes (benefit)	5,977	71	(12,204)	562	52	(1,306)	2,299
Net income (loss)	$ 9,552	$ 8,386	$ 34,914	$ (7,473)	$ (1,854)	$ (10,138)	$ (26,446)
Income (loss) per share – basic	$ 0.31	$ 0.27	$ 1.12	$ (0.24)	$ (0.06)	$ (0.33)	$ (0.87)
Income (loss) per share – diluted	$ 0.30	$ 0.27	$ 1.12	$ (0.24)	$ (0.06)	$ (0.33)	$ (0.87)

	At or for the Six Months Ended June 30, (1)		At or for the Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(Unaudited)						
Selected Financial Ratios and Other Data:							
Performance Ratios:							
Return (loss) on average assets	1.18 %	0.99 %	2.07 %	(0.43 %)	(0.10 %)	(0.53 %)	(1.44 %)
Return (loss) on average equity	9.28	9.61	18.89	(4.47)	(1.09)	(6.12)	(13.76)
Interest rate spread (2)	2.43	2.46	2.45	2.67	2.67	2.21	1.99
Net interest margin (3)	2.64	2.63	2.62	2.82	2.83	2.41	2.32
Efficiency ratio (4)	73.51	77.14	76.71	83.12	72.90	72.84	71.52
Average interest-earning assets to average interest-bearing liabilities	112.53	109.08	109.84	107.67	107.11	106.68	109.17
Capital Ratios:							
Equity to total assets	12.82 %	10.46 %	12.20 %	9.71 %	9.52 %	9.02 %	9.08 %
Average equity to average assets	12.71	10.32	10.94	9.55	9.18	8.67	10.44
Total capital to risk-weighted assets (5)	18.87	15.11	17.34	14.58	14.13	13.74	12.84
Tier 1 capital to risk-weighted assets (5)	17.61	13.84	16.07	13.31	12.87	12.48	11.58
Tier 1 capital to average assets (5)	12.17	9.82	11.13	9.16	8.83	8.71	8.93
Asset Quality Ratios:							
Allowance for loan losses as a percent of total loans	2.51 %	2.80 %	2.74 %	2.67 %	2.23 %	2.01 %	1.61 %
Allowance for loan losses as a percent of non-performing loans	52.14	38.53	41.58	41.46	34.66	37.83	23.36

Net charge-offs to average outstanding loans during the period	1.01	0.76	0.76	1.43	1.75	1.54	1.67
Non-performing loans as a percent of total loans	4.81	7.26	6.59	6.43	6.44	5.30	6.91
Non-performing assets as a percent of total assets	5.10	7.89	6.66	7.88	7.85	6.76	7.02
Other Data:							
Number of full-service banking offices	8	8	8	8	8	8	8
Number of full-time equivalent employees	782	607	726	574	595	518	320

(1) Annualized where appropriate.

(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.

(3) Represents net interest income as a percent of average interest-earning assets.

(4) Represents non-interest expense divided by the sum of net interest income and non-interest income.

(5) Ratios are for WaterStone Bank only.

RECENT DEVELOPMENTS

The following tables set forth selected consolidated historical financial and other data of Waterstone-Federal and its subsidiaries for the periods and at the dates indicated. The following is only a summary and you should read it in conjunction with the business and financial information regarding Waterstone-Federal contained elsewhere in this prospectus, including the consolidated financial statements beginning on page F-1 of this prospectus. The information at December 31, 2012 is derived in part from the audited consolidated financial statements that appear in this prospectus. The information at September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 is unaudited and reflects only normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be achieved for all of 2013 or for any other period.

	At September 30, 2013 (Unaudited)	At December 31, 2012
	(In Thousands)	
Selected Financial Condition Data:		
Total assets	$ 1,597,818	$ 1,661,076
Securities available for sale	211,629	205,017
Federal Home Loan Bank stock	20,193	20,193
Loans receivable, net	1,067,468	1,102,629
Loans held for sale	97,184	133,613
Cash and cash equivalents	77,907	71,469
Deposits	872,285	939,513
Borrowings	471,243	479,888
Total shareholders' equity	212,833	202,634
Allowance for loan losses	24,708	31,043
Real estate owned	23,147	35,974

	For the Three Months Ended September 30, 2013	2012	For the Nine Months Ended September 30, 2013	2012
	(Unaudited) (In Thousands, except per share amounts)			
Selected Operating Data:				
Interest income	$ 15,533	$ 17,274	$ 47,617	$ 53,205
Interest expense	5,955	6,639	17,972	21,515
Net interest income	9,578	10,635	29,645	31,690
Provision for loan losses	1,000	2,000	3,960	7,100
Net income after provision for loan losses	8,578	8,635	25,685	24,590
Noninterest income	21,030	27,775	70,770	66,028
Noninterest expense	24,416	27,817	75,734	73,568

Income before income taxes	5,192	8,593	20,721	17,050
Provision for income taxes	1,973	145	7,950	216
Net income	$ 3,219	$ 8,448	$ 12,771	$ 16,834
Income per share – basic	$ 0.10	$ 0.27	$ 0.41	$ 0.54
Income per share – diluted	$ 0.10	$ 0.27	$ 0.41	$ 0.54

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	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
Selected Financial Ratios and Other Data (1):				
Performance Ratios:				
Return on average assets	0.79 %	2.00 %	1.05 %	1.33 %
Return on average equity	6.04	18.26	8.20	12.25
Interest rate spread (2)	2.31	2.51	2.40	2.48
Net interest margin (3)	2.51	2.67	2.59	2.65
Efficiency ratio (4)	79.77	72.42	75.42	75.29
Average interest-earning assets to average interest-bearing liabilities	112.86	110.05	112.64	108.96
Capital Ratios:				
Equity to total assets	13.32 %	11.00 %	13.32 %	11.00 %
Average equity to average assets	13.12	10.95	12.81	10.82
Total capital to risk-weighted assets (5)	21.52	15.64	21.52	15.64
Tier 1 capital to risk-weighted assets (5)	20.26	14.37	20.26	14.37
Tier 1 capital to average assets (5)	12.68	10.50	12.68	10.50
Asset Quality Ratios:				
Allowance for loan losses as a percent of total loans	2.26 %	2.68 %	2.26 %	2.68 %
Allowance for loan losses as a percent of non-performing loans	43.03	42.06	43.03	42.06
Net charge-offs to average outstanding loans during the period	1.33	1.15	1.12	0.89
Non-performing loans as a percent of total loans	5.26	6.38	5.26	6.38
Non-performing assets as a percent of total assets	5.04	7.13	5.04	7.13
Other Data:				
Number of full-service banking offices	8	8	8	8
	860	710	860	710

Number of full-time equivalent employees

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(1) Annualized where appropriate.
(2) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
(3) Represents net interest income as a percent of average interest-earning assets.
(4) Represents non-interest expense divided by the sum of net interest income and non-interest income.
(5) Ratios are for WaterStone Bank only.

Comparison of Financial Condition at September 30, 2013 and December 31, 2012

Total Assets. Total assets decreased by $63.3 million, or 3.8%, to $1.60 billion at September 30, 2013 from $1.66 billion at December 31, 2012. The decrease in total assets reflects decreases in loans receivable of $41.5 million, loans held for sale of $36.4 million and real estate owned of $12.8 million. These funds were used to reduce deposits by $67.2 million, reduce short-term borrowings by $8.6 million and increase available for sale securities by $6.6 million during the nine months ended September 30, 2013.

Cash and Cash Equivalents. Cash and cash equivalents increased $6.4 million, or 9.0%, to $77.9 million at September 30, 2013, compared to $71.5 million at December 31, 2012. The overall level of cash and cash equivalents continues to reflect our plan to maintain higher than usual liquidity given the current economic environment and relatively low rates of return available on securities and other investments.

Securities Available for Sale. The following table sets forth the carrying values of our available for sale securities portfolio at the dates indicated.

	At September 30, 2013		At December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Securities available for sale:				
Mortgage-backed securities	$ 104,741	$ 105,679	$ 116,813	$ 119,056
Collateralized mortgage obligations:				
Government-sponsored enterprise issued	20,381	20,639	29,207	29,579
Government-sponsored enterprise bonds	15,911	15,721	8,000	8,017
Municipal obligations	61,094	59,318	35,493	37,371
Other debt securities	5,000	5,102	5,000	5,070
Certificates of deposit	5,145	5,170	5,880	5,924
Total securities available for sale	$ 212,272	$ 211,629	$ 200,393	$ 205,017

Securities available for sale increased by $6.6 million, or 3.2%, to $211.6 million at September 30, 2013 from $205.0 million at December 31, 2012. This increase reflects a $21.9 million increase in municipal securities and a $7.7 million increase in government-sponsored enterprise bonds, partially offset by a $13.4 million decrease in mortgage-backed securities and an $8.9 million decrease in government-sponsored enterprise issued collateralized mortgage obligations. During the nine months ended September 30, 2013, the proceeds from principal repayments on mortgage-related securities were reinvested in municipal securities that we considered to provide a better risk-adjusted return. As of September 30, 2013, we held two municipal securities with a total fair value of $189,000 and amortized cost of $215,000 that were determined to be other than temporarily impaired. During the year ended December 31, 2012, $100,000 was recognized as additional other than temporary impairment with respect to these municipal securities which was charged against earnings. There was no additional other than temporary impairment recorded during the nine months ended September 30, 2013.

Loans Held for Sale. Loans held for sale decreased $36.4 million, or 27.3%, to $97.2 million at September 30, 2013 from $133.6 million at December 31, 2012. During the nine months ended September 30, 2013, $1.42 billion in residential loans were originated for sale. During the same period, sales of loans held for sale totaled $1.46 billion.

Loans Receivable. The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the total portfolio at the dates indicated.

	At September 30, 2013		At December 31, 2012	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Mortgage loans:				
Residential real estate:				
One- to four-family	$ 419,084	38.37 %	$ 460,821	40.65 %
Multi-family	517,141	47.35	514,363	45.37
Home equity	35,218	3.22	36,494	3.22
Construction and land	30,903	2.83	33,818	2.98
Commercial real estate	70,234	6.43	65,495	5.78
Commercial loans	19,463	1.78	22,549	1.99
Consumer	133	0.01	132	0.01
Total loans	1,092,176	100.00 %	1,133,672	100.00 %
Allowance for loan losses	(24,708)		(31,043)	
Loans, net	$ 1,067,468		$ 1,102,629	

Loans receivable held for investment decreased $41.5 million, or 3.7%, to $1.09 billion at September 30, 2013 from $1.13 billion at December 31, 2012. The decrease in total loans receivable was primarily attributable to a $41.7 million decrease in one- to four-family loans, partially offset by a $4.7 million increase in commercial real estate loans and a $2.8 million increase in multi-family real estate loans. The decrease in one- to four-family loans reflects a decline in loan demand for adjustable-rate real estate mortgage loans as borrowers continue to prefer long-term fixed-rate loans that we do not generally retain in our portfolio. This resulted in a shift in the composition of loan originations during 2013 and 2012 from one- to four-family residential adjustable-rate loans to residential real estate loans collateralized by multi-family properties and commercial real estate, as these categories of borrowers displayed relatively stable levels of demand for our existing products. During the nine months ended September 30, 2013, $10.1 million in loans were transferred to real estate owned and $10.3 million were charged-off, net of recoveries.

Allowance for Loan Losses. The allowance for loan losses decreased $6.3 million, or 20.4%, to $24.7 million at September 30, 2013 from $31.0 million at December 31, 2012. The $6.3 million decrease in the allowance for loan losses during the nine months ended September 30, 2013 reflects improvement in both the quality of the loan portfolio as well as the overall local real estate market. We have experienced an improvement in a number of key loan quality metrics compared to December 31, 2012, including impaired loans, substandard loans, loans contractually past due and non-accrual loans. In addition, the decrease in the allowance for loan losses reflects a decrease in the balance of loans outstanding. As of September 30, 2013, the allowance for loan losses to total loans receivable was 2.26% and was equal to 43.03% of non-performing loans, compared to 2.74% and 41.58%, respectively, at December 31, 2012. The overall $6.3 million decrease in the allowance for loan losses during the nine months ended September 30, 2013 was primarily the result of a $6.1 million decrease in the allowance for loan losses related to the one- to four-family category. The decrease related to this category resulted from the charge-off of specific reserves and improvement of key loan quality metrics, as well as a decrease in the overall balance of loans outstanding. While the local real estate market has improved during the current fiscal year, the risk of loss on loans secured by residential real estate remains at an elevated level. That portion of the allowance for loan losses attributable to mortgage loans secured by residential real estate comprised 85.4% of the total allowance for loan losses at September 30, 2013 and 89.1% at December 31, 2012.

Real Estate Owned. Total real estate owned decreased $12.8 million, or 35.7%, to $23.1 million at September 30, 2013 from $36.0 million at December 31, 2012. During the nine months ended September 30, 2013,

$10.1 million was transferred from loans to real estate owned upon completion of foreclosure. Declines in property values evidenced by updated appraisals, responses to list prices on properties held for sale and/or deterioration in the condition of properties resulted in write downs totaling $1.1 million during the nine months ended September 30, 2013. During the same period, sales of real estate owned totaled $22.0 million.

Deposits. Total deposits decreased $67.2 million, or 7.2%, to $872.3 million at September 30, 2013 from $939.5 million at December 31, 2012. The reduction in deposits reflects management's decision to accept a certain level of deposit run-off during a period of diminished loan demand. Total time deposits decreased $80.4 million, or 10.9%, to $656.5 million at September 30, 2013 from $736.9 million at December 31, 2012. The decrease in time deposits was partially offset by an increase in money market and savings deposits and demand deposits. Total money market and savings deposits increased $5.8 million, or 4.9%, to $124.3 million at September 30, 2013 from $118.5 million at December 31, 2012. Total demand deposits increased $7.4 million, or 8.7%, to $91.5 million at September 30, 2013 from $84.1 million at December 31, 2012.

The following tables set forth the distribution of total deposit accounts, by account type, at the dates indicated.

	At September 30, 2013			At December 31, 2012		
	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
			(Dollars in Thousands)			
Deposit type:						
Demand deposits	$45,739	5.24 %	0.00 %	$39,767	4.23 %	0.00 %
NOW accounts	45,650	5.23	0.03 %	44,373	4.72	0.03 %
Regular savings	59,999	6.88	0.05 %	54,837	5.84	0.10 %
Money market and savings deposits	64,361	7.38	0.11 %	63,616	6.77	0.15 %
Total transaction accounts	215,749	24.73	0.05 %	202,593	21.56	0.08 %
Certificates of deposit	656,536	75.27	0.70 %	736,920	78.44	0.83 %
Total deposits	$872,285	100.00 %	0.54 %	$939,513	100.00 %	0.67 %

At September 30, 2013, the aggregate balance of certificates of deposit of $100,000 or more was $170.4 million. The following table sets forth the maturity of those certificates at September 30, 2013.

Due in:	At September 30, 2013
	(In Thousands)
Three months or less	$ 17,307
Over three months through six months	26,160
Over six months through 12 months	89,350
Over 12 months	37,603

Total	$	170,420

Borrowings. Total borrowings decreased $8.6 million, or 1.8%, to $471.2 million at September 30, 2013 from $479.9 million at December 31, 2012. The decrease in borrowings relates to a decrease in the use of short-term repurchase agreements to finance loans held for sale. The balance of these lines of credit decreased by $8.6 to $37.2 million at September 30, 2013, from $45.9 million at December 31, 2012.

Advance Payments by Borrowers for Taxes. Advance payments by borrowers for taxes increased $20.3 million to $21.9 million at September 30, 2013 from $1.7 million at December 31, 2012. The increase was the result of payments received from borrowers for their real estate taxes and is seasonally normal, as balances increase during the course of the calendar year until real estate tax obligations are paid out in the fourth quarter.

Other Liabilities. Other liabilities decreased $17.8 million, or 47.8%, to $19.5 million at September 30, 2013 from $37.4 million at December 31, 2012. The decrease resulted primarily from a seasonal decrease in outstanding escrow checks. We receive payments from borrowers for their real estate taxes during the course of the calendar year until real estate tax obligations are paid out in the fourth quarter. These amounts remain classified as other liabilities until settled. The decrease related to escrow checks was partially offset by an increase in amounts due to third parties related to the origination of loans held for sale.

Shareholders' Equity. Shareholders' equity increased by $10.2 million, or 5.0%, to $212.8 million at September 30, 2013 from $202.6 million at December 31, 2012. The increase in shareholders' equity was primarily due to a $12.8 million increase in retained earnings reflecting net income for the nine months ended September 30, 2013. In addition to the increase in retained earnings, shareholders' equity was positively impacted by a $641,000 decrease in unearned ESOP shares. Partially offsetting the increases was a $3.2 million decrease in accumulated other comprehensive income.

Average Balance Sheets, Interest and Yields/Costs

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Interest	Average Yield/Rate (7)	Average Balance	Interest	Average Yield/Rate (7)
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable and held for sale	$ 1,211,089	$ 14,425 (1)	4.73 %	$ 1,270,414	$ 15,943 (1)	4.98 %
Mortgage related securities (2)	126,447	455	1.43	151,162	826	2.17
Debt securities, federal funds sold and short-term investments (2) (3)	176,449	653	1.47	159,035	505	1.26
Total interest-earning assets	1,513,985	15,533	4.07	1,580,611	17,274	4.34
Noninterest-earning assets	96,925			96,074		
Total assets	$ 1,610,910			$ 1,676,685		
Interest-bearing liabilities:						
Demand accounts	$ 46,771	4	0.03	$ 42,888	6	0.06
Money market and savings accounts	140,807	32	0.09	135,128	58	0.17
Certificates of deposit	668,397	1,201	0.71	771,158	1,874	0.96
Total interest-bearing deposits	855,975	1,201	0.57	949,174	1,938	0.81
Borrowings	485,488	4,718	3.86	487,078	4,701	3.83
Total interest-bearing liabilities	1,341,463	5,955	1.76	1,436,252	6,639	1.83

Non-interest-bearing liabilities:						
Non-interest bearing deposits	44,795			35,446		
Other non-interest bearing liabilities	13,345			21,453		
Total non-interest bearing liabilities	58,140			56,899		
Total liabilities	1,399,603			1,493,151		
Equity	211,307			183,534		
Total liabilities and equity	$ 1,610,910			$ 1,676,685		
Net interest income		$ 9,578			$ 10,635	
Net interest rate spread (4)			2.31 %			2.51 %
Net interest-earning assets (5)	$ 172,522			$ 144,359		
Net interest margin (6)			2.51 %			2.67 %
Average interest-earning assets to average interest-bearing liabilities			112.86 %			110.05 %

(footnotes on following page)

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	Nine Months Ended September 30,					
	2013			2012		
	Average Balance	Interest	Average Yield/Rate (7)	Average Balance	Interest	Average Yield/Rate (7)
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable and held for sale	$ 1,229,853	$ 44,500 (1)	4.84 %	$ 1,279,846	$ 48,834 (1)	5.08 %
Mortgage related securities (2)	134,957	1,311	1.30	131,735	2,611	2.64
Debt securities, federal funds sold and short-term investments (2) (3)	163,492	1,806	1.48	184,072	1,760	1.27
Total interest-earning assets	1,528,302	47,617	4.17	1,595,653	53,205	4.44
Noninterest-earning assets	98,310			96,599		
Total assets	$ 1,626,612			$ 1,692,252		
Interest-bearing liabilities:						
Demand accounts	$ 45,570	10	0.03	$ 40,578	19	0.06
Money market and savings accounts	129,953	105	0.11	123,365	221	0.24
Certificates of deposit	695,960	3,940	0.76	828,235	7,564	1.22
Total interest-bearing deposits	871,483	4,055	0.62	992,178	7,804	1.05
Borrowings	485,316	13,917	3.83	472,317	13,711	3.87
Total interest-bearing liabilities	1,356,799	17,972	1.77	1,464,495	21,515	1.96
Non-interest-bearing liabilities:						
Non-interest bearing deposits	42,739			32,124		
Other non-interest bearing liabilities	18,786			12,571		
Total non-interest bearing liabilities	61,525			44,695		
Total liabilities	1,418,324			1,509,190		
Equity	208,288			183,062		
Total liabilities and equity	$ 1,626,612			$ 1,692,252		
Net interest income		$ 29,645			$ 31,690	
Net interest rate spread (4)			2.40 %			2.48 %
Net interest-earning assets (5)	$ 171,503			$ 131,158		
Net interest margin (6)			2.59 %			2.65 %
Average interest-earning assets to average interest-bearing liabilities			112.64 %			108.96 %

(1) Includes net deferred loan fee amortization income of $130,000, $183,000, $469,000 and $478,000 for the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, respectively.
(2) Average balance of available for sale securities is based on amortized historical cost.
(3) Interest income from tax exempt securities is not significant to total interest income, therefore, interest and yield on interest earnings assets are not stated on a tax equivalent basis. The average balance of tax exempt securities totaled $49.6 million, $15.4 million, $45.8 million and $18.9 million for the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, respectively.
(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(6) Net interest margin represents net interest income divided by average total interest-earning assets.
(7) Annualized.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended September 30, 2013 vs. 2012 Increase (Decrease) due to			Nine Months Ended September 30, 2013 vs. 2012 Increase (Decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
Interest income:						
Loans receivable and held for sale (1)	$ (726)	$ (792)	$ (1,518)	$ (1,939)	$ (2,395)	$ (4,334)
Mortgage related securities	(120)	(251)	(371)	62	(1,362)	(1,300)
Other interest-earning assets	59	89	148	(212)	258	46
Total interest-earning assets	(787)	(954)	(1,741)	(2,089)	(3,499)	(5,588)
Interest expense:						
Demand accounts	1	(3)	(2)	2	(11)	(9)
Money market and savings accounts	2	(29)	(27)	11	(128)	(117)
Certificates of deposit	(228)	(444)	(672)	(1,077)	(2,546)	(3,623)
Total interest-bearing deposits	(225)	(476)	(701)	(1,064)	(2,685)	(3,749)
Borrowings	(15)	32	17	336	(130)	206
Total interest-bearing liabilities	(240)	(444)	(684)	(728)	(2,815)	(3,543)
Net change in net interest income	$ (547)	$ (510)	$ (1,057)	$ (1,361)	$ (684)	$ (2,045)

(1) Includes net deferred loan fee amortization income of $130,000, $183,000, $469,000 and $478,000 for the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, respectively.

Segment Review

As described in the notes to consolidated financial statements, we have two reportable segments: community banking and mortgage banking. Community banking, which is conducted through WaterStone Bank, consists of lending and deposit taking (as well as other banking-related products and services) to consumers and businesses and the support to deliver, fund, and manage such banking services. Mortgage banking, which is conducted through Waterstone Mortgage Corporation, consists of originating residential mortgage loans for sale in the secondary market.

The following tables set forth certain information with respect to our operating segments at and for the periods indicated.

	At and For the Three Months Ended September 30, 2013			
	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	$ 9,266	$ 187	$ 125	$ 9,578
Provision for loan losses	1,000	—	—	1,000
Net income after provision for loan losses	8,266	187	125	8,578
Noninterest income	985	20,071	(26)	21,030
Noninterest expenses:				
Compensation, payroll taxes and other employee benefits	3,148	13,460	(33)	16,575
Occupancy, office furniture and equipment	775	1,458	(15)	2,218
FDIC insurance premiums	516	—	—	516
Real estate owned	(163)	—	—	(163)
Other	953	4,250	67	5,270
Total noninterest expenses	5,229	19,168	19	24,416
Income before income taxes	4,022	1,090	80	5,192
Income tax expense	1,478	451	44	1,973
Net income	$ 2,544	$ 639	$ 36	$ 3,219

	At and For the Three Months Ended September 30, 2012			
	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	$ 10,358	$ 151	$ 126	$ 10,635
Provision for loan losses	2,000	—	—	2,000
Net income after provision for loan losses	8,358	151	126	8,635
Noninterest income	947	26,828	—	27,775
Noninterest expenses:				
Compensation, payroll taxes and other employee benefits	3,400	14,580	(157)	17,823
Occupancy, office furniture and equipment	826	994	—	1,820

FDIC insurance premiums	916	—	—	916
Real estate owned	1,991	—	—	1,991
Other	1,033	4,166	68	5,267
Total noninterest expenses	8,166	19,740	(89)	27,817
Income before income taxes (benefit)	1,139	7,239	215	8,593
Income tax expense (benefit)	(2,846)	2,906	85	145
Net income	$ 3,985	$ 4,333	$ 130	$ 8,448

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	At and For the Nine Months Ended September 30, 2013			
	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	$ 28,925	$ 346	$ 374	$ 29,645
Provision for loan losses	3,900	60	—	3,960
Net income after provision for loan losses	25,025	286	374	25,685
Noninterest income	2,435	68,451	(116)	70,770
Noninterest expenses:				
Compensation, payroll taxes and other employee benefits	10,015	43,165	(179)	53,001
Occupancy, office furniture and equipment	2,372	3,704	(81)	5,995
FDIC insurance premiums	1,569	—	—	1,569
Real estate owned	(9)	—	—	(9)
Other	3,020	11,962	196	15,178
Total noninterest expenses	16,967	58,831	(64)	75,734
Income before income taxes	10,493	9,906	322	20,721
Income tax expense	3,839	3,992	119	7,950
Net income	$ 6,654	$ 5,914	$ 203	$ 12,771

	At and For the Nine Months Ended September 30, 2012			
	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	$ 30,940	$ 374	$ 376	$ 31,690
Provision for loan losses	7,100	—	—	7,100
Net income after provision for loan losses	23,840	374	376	24,590
Noninterest income	2,391	63,637	—	66,028
Noninterest expenses:				
Compensation, payroll taxes and other employee benefits	9,613	34,359	(547)	43,425
Occupancy, office furniture and equipment	2,374	2,855	—	5,229
FDIC insurance premiums	2,730	—	—	2,730
Real estate owned	6,265	—	—	6,265
Other	3,572	12,125	222	15,919
Total noninterest expenses	24,554	49,339	(325)	73,568

Income before income taxes (benefit)	1,677	14,672	701	17,050
Income tax expense (benefit)	(5,953)	5,898	250	216
Net income	$ 7,630	$ 8,783	$ 421	$ 16,834

Our community banking segment generates the significant majority of our consolidated net interest income and requires the significant majority of our provision for loan losses. Our mortgage banking segment generates the significant majority of our non-interest income and a majority of our non-interest expense. Accordingly, we have provided below a discussion of the material results of operations of Waterstone Mortgage Corporation on a separate basis for the three and nine months ended September 30, 2013 and 2012, which focuses on a discussion of non-interest income and non-interest expense. We have also provided a discussion of the consolidated operations of Waterstone-Federal, which includes the consolidated operations of WaterStone Bank and Waterstone Mortgage Corporation, for the same periods.

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Comparison of Mortgage Banking Segment Operations for the Three Months Ended September 30, 2013 and 2012

Mortgage banking revenues decreased $6.8 million, or 25.2%, to $20.1 million for the three months ended September 30, 2013 compared to $26.8 million during the three months ended September 30, 2012. The $6.8 million decrease in mortgage banking revenues was attributable to a decrease in loan origination volume. Loans originated for sale in the secondary market totaled $441.5 million during the three months ended September 30, 2013, which represents a $36.4 million, or 7.6%, decrease in originations from the three months ended September 30, 2012, which totaled $477.9 million. The decrease in loan origination volumes primarily reflected a decrease in demand for refinanced loans due in large part to an increase in interest rates on these products beginning in the spring of 2013. In addition to the decrease in loan originations, mortgage banking revenues decreased due to a significant decline in margin. Weighted average margin dropped by 146 basis points to 3.32% of origination volume during the three months ended September 30, 2013 compared to 4.78% during the three months ended September 30, 2012. The decrease in average sales margin reflects a decrease in pricing and fees on all products in all geographic markets.

Our overall margin can be affected by the mix of both loan type (conventional loans versus governmental) and loan purpose (purchase versus refinance). Conventional loans include loans that conform to Fannie Mae and Freddie Mac standards, whereas governmental loans are those loans guaranteed by the federal government, such as a Federal Housing Authority or U.S. Department of Agriculture loan. During the three months ended September 30, 2013, originations shifted towards governmental loans and loans made to purchase real estate. Loans originated for the purchase of a residential property comprised 79.5% of total originations during the three months ended September 30, 2013, compared to 54.8% during the three months ended September 30, 2012. The mix of loan type also changed slightly, with conventional loans and governmental loans comprising 61.0% and 39.0% of all loan originations, respectively, during the three months ended September 30, 2013. During the three months ended September 30, 2012, conventional loans and governmental loans comprised 69.4% and 30.6% of all loan originations, respectively.

Due primarily to a decrease in loan origination activity, total compensation, payroll taxes and other benefits at our mortgage banking subsidiary decreased $1.1 million, or 7.7%, to $13.5 million for the three months ended September 30, 2013 compared to $14.6 million during the three months ended September 30, 2012. The decrease in compensation at our mortgage banking subsidiary reflects the decrease in mortgage banking income and the commission-based compensation structure in place for our mortgage banking loan officers. However, reduced commission expense was partially offset by an increase in salary expense due to increased staffing needed to support accumulated transaction growth.

Comparison of Operating Results for the Three Months Ended September 30, 2013 and 2012

General. Net income for the three months ended September 30, 2013 totaled $3.2 million, or $0.10 for both basic and diluted income per share, compared to net income of $8.4 million, or $0.27 for both basic and diluted income per share, for the three months ended September 30, 2012. The three months ended September 30, 2013 generated an annualized return on average assets of 0.79% and an annualized return on average equity of 6.04%, compared to an annualized return on average assets of 2.00% and an annualized return on average equity of 18.26% for the comparable period in 2012. Income before income taxes decreased $3.4 million to $5.2 million during the three months ended September 30, 2013, compared to $8.6 million during the three months ended September 30, 2012. The pre-tax results of operations for the three months ended September 30, 2013 as compared to the three months ended September 30, 2012 reflect a $6.1 million decrease in pre-tax income from the mortgage banking segment and a $2.9 million increase in pre-tax income from the community banking segment. Income taxes totaled $2.0 million during the three months ended September 30, 2013, compared to $145,000 during the three months ended September 30, 2012.

Total Interest Income. Total interest income decreased $1.7 million, or 10.1%, to $15.5 million during the three months ended September 30, 2013 from $17.3 million during the three months ended September 30, 2012.

Interest income on loans decreased $1.5 million, or 9.5%, to $14.4 million during the three months ended September 30, 2013 from $15.9 million during the three months ended September 30, 2012. The decrease in interest income was primarily due to a 25 basis point decrease in the average yield on loans to 4.73% for the three months ended September 30, 2013 from 4.98% for the three months ended September 30, 2012. The decrease in interest income on loans also reflects a $59.3 million, or 4.7%, decrease in the average balance of loans outstanding to $1.21 billion during the three months ended September 30, 2013 from $1.27 billion during the three months ended September 30, 2012.

Interest income from mortgage-related securities decreased $371,000, or 44.9%, to $455,000 during the three months ended September 30, 2013 from $826,000 during the three months ended September 30, 2012. The decrease in interest income was due to a 74 basis point decrease in the average yield on mortgage-related securities to 1.43% for the three months ended September 30, 2013 from 2.17% for the three months ended September 30, 2012. The decrease in interest income on mortgage-related securities also reflects a $24.7 million, or 16.4%, decrease in the average balance of mortgage-related securities to $126.4 million for the three months ended September 30, 2013 from $151.2 million during the three months ended September 30, 2012. The decrease in average yield resulted from a general turnover of the investment security portfolio in which cash flow from higher yielding securities was reinvested in securities at lower yields due to the low interest rate environment.

Interest income from other interest earning assets (comprised of debt securities, federal funds sold and short-term investments) increased $148,000, or 29.3%, to $653,000 for the three months ended September 30, 2013 compared to $505,000 for the three months ended September 30, 2012. Interest income on other interest earning assets increased due to a 21 basis point increase in the average yield on other interest earning assets to 1.47% for the three months ended September 30, 2013 from 1.26% for the three months ended September 30, 2012. The average balance of higher yielding, tax-exempt municipal securities increased to $49.6 million for the three months ended September 30, 2013 from $15.4 million for the three months ended September 30, 2012, accounting for the increase in the average yield for the period. The increase in interest income on other interest earning assets also reflects an increase of $17.4 million, or 11.0%, in the average balance of other earning assets to $176.4 million during the three months ended September 30, 2013 from $159.0 million during the three months ended September 30, 2012.

Total Interest Expense. Total interest expense decreased by $684,000, or 10.3%, to $6.0 million during the three months ended September 30, 2013 from $6.6 million during the three months ended September 30, 2012. This decrease was the result of both a decrease in the average cost of funds as well as a decrease in the average balance of interest-bearing deposits and borrowings. The average cost of funds decreased 7 basis points to 1.76% for the three months ended September 30, 2013 from 1.83% for the three months ended September 30, 2012. Total average interest bearing deposits and borrowings outstanding decreased $94.8 million, or 6.6%, to $1.34 billion for the three months ended September 30, 2013 compared to an average balance of $1.44 billion for the three months ended September 30, 2012.

Interest expense on deposits decreased $701,000, or 36.2%, to $1.2 million during the three months ended September 30, 2013 from $1.9 million during the three months ended September 30, 2012. The decrease in interest expense on deposits was primarily due to a decrease in the average cost of deposits of 24 basis points to 0.57% for the three months ended September 30, 2013 compared to 0.81% for the three months ended September 30, 2012. The decrease in the cost of deposits reflects the current low interest rate environment due to the Federal Reserve Board’s low short-term interest rate policy. These rates are typically used by financial institutions in pricing deposit products. The decrease in the cost of deposits also reflects a shift in the composition of deposits from higher cost time deposits to lower cost demand, money market and savings accounts. The decrease in interest expense attributable to the decrease in the cost of deposits was compounded by a decrease of $93.2 million, or 9.8%, in the average balance of interest bearing deposits to $856.0 million during the three months ended September 30, 2013 from $949.2 million during the three months ended September 30, 2012. The decrease in average interest-bearing deposits was exclusively the result of a decrease in time deposits, which carry a higher cost than demand, money market or savings accounts. The decrease in time deposits was consistent with the Bank's liquidity needs and funding obligations.

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Interest expense on borrowings was unchanged at $4.7 million during the three months ended September 30, 2013 and three months ended September 30, 2012. The average cost of borrowings increased by 3 basis points to 3.86% for the three months ended September 30, 2013 compared to 3.83% for the three months ended September 30, 2012. The increase in the cost of borrowings was offset by a $1.6 million, or 0.3%, decrease in average borrowings outstanding to $485.5 million during the three months ended September 30, 2013 from $487.1 million during the three months ended September 30, 2012. The decreased use of borrowings as a funding source during the three months ended September 30, 2013 reflects a decreased use of short-term repurchase agreements by our mortgage banking segment to fund loan originations to be sold in the secondary market.

Net Interest Income. Net interest income decreased by $1.1 million, or 9.9%, to $9.6 million during the three months ended September 30, 2013 as compared to $10.6 million during the three months ended September 30, 2012. The decrease in net interest income resulted from a 20 basis point decrease in our net interest rate spread to 2.31% during the three months ended September 30, 2013 from 2.51% during the three months ended September 30, 2012. The 20 basis point decrease in the net interest rate spread resulted from a 27 basis point decrease in the average yield on interest earning assets, which was partially offset by a 7 basis point decrease in the average cost of interest bearing liabilities.

Provision for Loan Losses. Our provision for loan losses decreased $1.0 million, or 50.0%, to $1.0 million during the three months ended September 30, 2013, from $2.0 million during the three months ended September 30, 2012. The decrease in the provision for loan losses resulted from a decrease in loans exhibiting risk characteristics that require estimated loan loss provisions in excess of our historical average experience rates. While the provision for loan losses has decreased from the prior year, it remains at historically elevated levels. These levels remain elevated due to continued general economic stress resulting in reduced levels of income earned by many of our borrowers combined with loan collateral values, primarily real estate, that remain at levels below those estimated at the time the loans were originally made. These factors result in higher levels of actual loss experience which, when applied to the portfolio in general, require higher loan loss provisions. See the “Asset Quality” section for an analysis of nonperforming assets, delinquent loans and troubled debt restructurings.

Noninterest Income. Total noninterest income decreased $6.7 million, or 24.3%, to $21.0 million during the three months ended September 30, 2013 from $27.8 million during the three months ended September 30, 2012. The decrease resulted primarily from a decrease in mortgage banking income. See “Comparison of Mortgage Banking Segment Operations for the Three Months Ended September 30, 2013 and 2012” above for a discussion of the decrease in mortgage banking income.

Total other noninterest income increased $1.7 million to $2.0 million during the three months ended September 30, 2013 from $302,000 during the three months ended September 30, 2012. The increase resulted primarily from a $1.3 million gain on sale of mortgage servicing rights during the current period with no comparable transactions during 2012.

Noninterest Expense. Total noninterest expense decreased $3.4 million, or 12.2%, to $24.4 million during the three months ended September 30, 2013 from $27.8 million during the three months September 30, 2012. The decrease was primarily attributable to decreased compensation and real estate owned expense.

Compensation, payroll taxes and other employee benefit expense decreased $1.2 million, or 7.0%, to $16.6 million during the three months ended September 30, 2013 compared to $17.8 million during the three months ended September 30, 2012. Due primarily to an decrease in loan origination activity, total compensation, payroll taxes and other benefits at our mortgage banking subsidiary decreased $1.1 million, or 7.7%, to $13.5 million for the three months ended September 30, 2013 compared to $14.6 million during the three months ended September 30, 2012. The decrease in compensation at our mortgage banking subsidiary reflects the decrease in mortgage banking income and the commission-based compensation structure in place for our mortgage banking loan officers. However, reduced commission expense was partially offset by an increase in salary expense due to increased staffing needed to support accumulated transaction growth.

Real estate owned management and sales activity generated $163,000 of income during the three months ended September 30, 2013 compared to $2.0 million of expense during the three months ended September 30, 2012. Real estate owned income or expense includes the operating costs related to the properties, net of rental income. In addition, it includes net gain or loss recognized upon the sale of real estate acquired through foreclosure, as well as write-downs recognized to maintain the properties at the lower of cost or estimated fair value. The decrease in real estate owned expense results from a decrease in net property management expense and an increase in net gains recognized upon the sale of properties. During the three months ended September 30, 2013, net operating expense, which primarily relates to property taxes, maintenance and management fees, net of rental income, decreased $60,000, or 14.7%, to $348,000 from $408,000 during the three months ended September 30, 2012. The decrease in net operating expense compared to the prior period resulted from both an improvement in the operating results of income producing properties as well as a decrease in the number and average balance of properties owned. The average balance of real estate owned totaled $26.8 million for the three months ended September 30, 2013 compared to $48.8 million for the three months ended September 30, 2012. Sales and write-downs of real estate owned resulted in a net gain of $512,000 during the three months ended September 30, 2013. During the three months ended September 30, 2012, sales and write downs of real estate owned resulted in a net loss of $1.6 million.

Income Taxes. Income tax expense increased from $145,000 during the three months ended September 30, 2012 to $2.0 million for the three months ended September 30, 2013. During the third quarter of 2008, we established a valuation allowance against our net deferred tax assets. That valuation allowance effectively resulted in no income tax expense being recognized during the three months ended September 30, 2012 other than state income taxes for states in which separate company returns are filed. During the fourth quarter of 2012, we released the valuation allowance against our net deferred tax assets. Therefore, income tax expense is recognized during the three months ended September 30, 2013 at an effective rate of 38.0% of pretax book income.

As of September 30, 2013, net deferred tax assets totaled $14.3 million, which, in the judgment of management, will more-likely-than-not be fully realized. The largest components of the deferred tax assets are associated with the allowance for loan losses and basis adjustments on real estate owned. We are largely relying on earnings generated in the current year and forecasted earnings in future years in making the determination that we will more-likely-than-not realize our deferred tax assets.

Comparison of Mortgage Banking Segment Operations for the Nine Months Ended September 30, 2013 and 2012

Mortgage banking revenues increased $4.8 million, or 7.6%, to $68.5 million for the nine months ended September 30, 2013 compared to $63.6 million during the nine months ended September 30, 2012. The $4.8 million increase in mortgage banking revenues was attributable to an increase in loan origination volume. Loans originated for sale in the secondary market totaled $1.42 billion during the nine months ended September 30, 2013, which represents a $174.8 million, or 14.0%, increase in originations from the nine months ended September 30, 2012, which totaled $1.25 billion. Loans originated for sale increased during the 2013 period despite the decrease in loans originated for sale during the three months ended September 30, 2013, as described above. The increase in mortgage banking income attributable to an increase in loan origination and sales volume was partially offset by a decrease in margins. Weighted average margins decreased by 115 basis points to 3.41% of loan originations during the nine months ended September 30, 2013 compared to 4.56% during the nine months ended September 30, 2012. The decrease in average sales margin reflects a decrease in pricing and fees on all products in all geographic markets.

During the nine months ended September 30, 2013, originations shifted towards governmental loans and loans made for the purpose of purchasing a home. Loans originated for the purchase of a residential property comprised 64.6% of total originations during the nine months ended September 30, 2013, compared to 58.0% during the nine months ended September 30, 2012. The mix of loan type also changed slightly with conventional loans and governmental loans comprising 62.7% and 37.3% of all loan originations, respectively, during the nine months ended September 30, 2013. During the nine months ended September 30, 2012 conventional loans and governmental loans comprised 66.6% and 33.4% of all loan originations, respectively.

Due primarily to an increase in loan origination activity, total compensation, payroll taxes and other benefits at our mortgage banking subsidiary increased $8.8 million, or 25.6%, to $43.2 million for the nine months ended September 30, 2013 compared to $34.4 million during the nine months ended September 30, 2012. The increase in compensation at our mortgage banking subsidiary reflects the increase in mortgage banking income and the commission-based compensation structure in place for our mortgage banking loan officers, and was also due to an increase in salary expense related to increased staffing needed to support accumulated transaction growth.

Comparison of Operating Results for the Nine Months Ended September 30, 2013 and 2012

General. Net income for the nine months ended September 30, 2013 totaled $12.8 million, or $0.41 for both basic and diluted income per share, compared to net income of $16.8 million, or $0.54 for both basic and diluted income per share, for the nine months ended September 30, 2012. The nine months ended September 30, 2013 generated an annualized return on average assets of 1.05% and an annualized return on average equity of 8.20%, compared to an annualized return on average assets of 1.33% and an annualized return on average equity of 12.25% for the comparable period in 2012. Income before income taxes increased $3.7 million to $20.7 million during the nine months ended September 30, 2013, compared to $17.0 million during the nine months ended September 30, 2012. The pre-tax results of operations for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012 reflect an $8.8 million increase in pre-tax income from the community banking segment, including a $2.0 million decrease in net interest income, a $6.3 million decrease in real estate owned expense, a $3.1 million decrease in the provision for loan losses and a $1.2 million decrease in Federal Deposit Insurance Corporation insurance expense, partially offset by $4.8 million decrease in pre-tax income from our mortgage banking operations. Income taxes totaled $8.0 million during the nine months ended September 30, 2013, compared to $216,000 during the nine months ended September 30, 2012.

Total Interest Income. Total interest income decreased $5.6 million, or 10.5%, to $47.6 million during the nine months ended September 30, 2013 from $53.2 million during the nine months ended September 30, 2012.

Interest income on loans decreased $4.3 million, or 8.9%, to $44.5 million during the nine months ended September 30, 2013 from $48.8 million during the nine months ended September 30, 2012. The decrease in interest income was primarily due to a 24 basis point decrease in the average yield on loans to 4.84% for the nine months ended September 30, 2013 from 5.08% for the nine months ended September 30, 2012. The decrease in interest income on loans also reflects a $50.0 million, or 3.9%, decrease in the average balance of loans outstanding to $1.23 billion during the nine months ended September 30, 2013 from $1.28 billion during the nine months ended September 30, 2012.

Interest income from mortgage-related securities decreased $1.3 million, or 49.8%, to $1.3 million during the nine months ended September 30, 2013 from $2.6 million during the nine months ended September 30, 2012. The decrease in interest income was due to a 134 basis point decrease in the average yield on mortgage-related securities to 1.30% for the nine months ended September 30, 2013 from 2.64% for the nine months ended September 30, 2012. The decrease in average yield was partially offset by a $3.2 million, or 2.4%, increase in the average balance of mortgage-related securities to $135.0 million for the nine months ended September 30, 2013 from $131.7 million during the nine months ended September 30, 2012. The decrease in average yield resulted from a general turnover of the investment security portfolio in which cash flows from higher yielding securities were reinvested in lower yielding securities due to the low interest rate environment.

Interest income from other interest earning assets (comprised of debt securities, federal funds sold and short-term investments) increased $46,000, or 2.6%, to $1.8 million for the nine months ended September 30, 2013 compared to $1.8 million for the nine months ended September 30, 2012. Interest income increased due to a 21 basis point increase in the average yield on other earning assets to 1.48% for the nine months ended September 30, 2013 from 1.27% for the nine months ended September 30, 2012. The average balance of higher yielding, tax-exempt municipal securities increased to $45.8 million for the nine months ended September 30, 2013 from $18.9 million for the nine months ended September 30, 2012, accounting for the increase in the average yield for the period. The increase in interest income from other earning assets due to an increase in average yield was partially offset by a decrease of $20.6 million, or 11.2%, in the average balance of other earning assets to $163.5 million

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during the nine months ended September 30, 2013 from $184.1 million during the nine months ended September 30, 2012.

Total Interest Expense. Total interest expense decreased by $3.5 million, or 16.5%, to $18.0 million during the nine months ended September 30, 2013 from $21.5 million during the nine months ended September 30, 2012. This decrease was the result of both a decrease in the average cost of funds as well as a decrease in the average balance of interest-bearing deposits and borrowings. The average cost of funds decreased 19 basis points to 1.77% for the nine months ended September 30, 2013 from 1.96% for the nine months ended September 30, 2012. Total average interest bearing deposits and borrowings outstanding decreased $107.7 million, or 7.4%, to $1.36 billion for the nine months ended September 30, 2013 compared to an average balance of $1.46 billion for the nine months ended September 30, 2012.

Interest expense on deposits decreased $3.7 million, or 48.0%, to $4.1 million during the nine months ended September 30, 2013 from $7.8 million during the nine months ended September 30, 2012. The decrease in interest expense on deposits was primarily due to a decrease in the average cost of deposits of 43 basis points to 0.62% for the nine months ended September 30, 2013 compared to 1.05% for the nine months ended September 30, 2012. The decrease in the cost of deposits reflects the current low interest rate environment due to the Federal Reserve Board's low short-term interest rate policy. These rates are typically used by financial institutions in pricing deposit products. The decrease in the cost of deposits also reflects a shift in the composition of deposits from higher cost time deposits to lower cost demand, money market and savings accounts. The decrease in interest expense attributable to the decrease in the cost of deposits was compounded by a decrease of $120.7 million, or 12.2%, in the average balance of interest bearing deposits to $871.5 million during the nine months ended September 30, 2013 from $992.2 million during the nine months ended September 30, 2012. The decrease in average interest-bearing deposits was exclusively the result of a decrease in time deposits, which carry a higher cost than demand, money market or savings accounts. The decrease in time deposits was consistent with the Bank's liquidity needs and funding obligations.

Interest expense on borrowings increased $206,000, or 1.5%, to $13.9 million during the nine months ended September 30, 2013 from $13.7 million during the nine months ended September 30, 2012. The increase primarily resulted from a $13.0 million, or 2.8%, increase in average borrowings outstanding to $485.3 million during the nine months ended September 30, 2013 from $472.3 million during the nine months ended September 30, 2012. The increased use of borrowings as a funding source during the nine months ended September 30, 2013 reflects an increased use of short-term repurchase agreements by our mortgage banking segment to fund loan originations to be sold in the secondary market. The increase in average balance was partially offset by a 4 basis point decrease in the average cost of borrowings to 3.83% during the nine months ended September 30, 2013 compared to 3.87% during the nine months ended September 30, 2012.

Net Interest Income. Net interest income decreased by $2.0 million, or 6.5%, to $29.6 million during the nine months ended September 30, 2013 as compared to $31.7 million during the nine months ended September 30, 2012. The decrease in net interest income resulted primarily from an 8 basis point decrease in our net interest rate spread to 2.40% during the nine months ended September 30, 2013 from 2.48% during the nine months ended September 30, 2012. The 8 basis point decrease in the net interest rate spread resulted from a 27 basis point decrease in the average yield on interest earning assets, which was partially offset by a 19 basis point decrease in the average cost of interest bearing liabilities.

Provision for Loan Losses. Our provision for loan losses decreased $3.1 million, or 44.2%, to $4.0 million during the nine months ended September 30, 2013, from $7.1 million during the nine months ended September 30, 2012. The decrease in the provision for loan losses resulted from a decrease in loans exhibiting risk characteristics that require estimated loan loss provisions in excess of our historical average experience rates. While the provision for loan losses has decreased from the prior year, it remains at historically elevated levels. These levels remain elevated due to continued general economic stress resulting in reduced levels of income earned by many of our borrowers combined with loan collateral values, primarily real estate, that remain at levels below those estimated at the time the loans were originally made. These factors result in higher levels of actual loss experience which, when

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applied to the portfolio in general, require higher loan loss provisions. See the "Asset Quality" section for an analysis of nonperforming assets, delinquent loans and troubled debt restructurings.

Noninterest Income. Total noninterest income increased $4.7 million, or 7.2%, to $70.8 million during the nine months ended September 30, 2013 from $66.0 million during the nine months ended September 30, 2012. The increase resulted primarily from an increase in mortgage banking income and a gain on sale of mortgage servicing rights. Mortgage banking income increased $2.2 million to $65.6 million for the nine months ended September 30, 2013 compared to $63.4 million for the nine months ended September 30, 2012. See "Comparison of Mortgage Banking Segment Operations for the Nine Months Ended September 30, 2013 and 2012" above for a discussion of the increase in mortgage banking income. Total other noninterest income increased $2.5 million to $3.2 million during the nine months ended September 30, 2013 from $671,000 during the nine months ended September 30, 2012. The increase resulted primarily from a $1.3 million gain on sale of mortgage servicing rights during the current period. There were no comparable transactions in 2012.

Noninterest Expense. Total noninterest expense increased $2.2 million, or 2.9%, to $75.7 million during the nine months ended September 30, 2013 from $73.6 million during the nine months September 30, 2012. The increase was primarily attributable to increased compensation, partially offset by a decrease in real estate owned expense.

Compensation, payroll taxes and other employee benefit expense increased $9.6 million, or 22.1%, to $53.0 million during the nine months ended September 30, 2013 compared to $43.4 million during the nine months ended September 30, 2012. Due primarily to an increase in loan origination activity, total compensation, payroll taxes and other benefits at our mortgage banking subsidiary increased $8.8 million, or 25.6%, to $43.2 million for the nine months ended September 30, 2013 compared to $34.4 million during the nine months ended September 30, 2012. The increase in compensation at our mortgage banking subsidiary reflects the increase in mortgage banking income and the commission-based compensation structure in place for our mortgage banking loan officers, and was also due to an increase in salary expense related to increased staffing needed to support accumulated transaction growth.

Real estate owned management and sales activity generated $9,000 of income during the nine months ended September 30, 2013 compared to $6.3 million of expense during the nine months ended September 30, 2012. Real estate owned expense includes the operating costs related to the properties, net of rental income. In addition, it includes net gain or loss recognized upon the sale of a foreclosed property, as well as write-downs recognized to maintain the properties at the lower of cost or estimated fair value. The decrease in real estate owned expense results from a decrease in net property management expense and an increase in net gains recognized upon the sale of properties. During the nine months ended September 30, 2013, net operating expense, which primarily relates to property taxes, maintenance and management fees, net of rental income, decreased $708,000, or 35.2%, to $1.3 million, from $2.0 million during the nine months ended September 30, 2012. The decrease in net operating expense compared to the prior period resulted from both an improvement in the operating results of income producing properties as well as a decrease in the number and average balance of properties owned. The average balance of real estate owned totaled $30.6 million for the nine months ended September 30, 2013 compared to $52.8 million for the nine months ended September 30, 2012. Sales and write-downs of real estate owned resulted in a net gain of $1.3 million during the nine months ended September 30, 2013. During the nine months ended September 30, 2012, sales and write downs of real estate owned resulted in a net loss of $4.3 million.

Income Taxes. Income tax expense increased from $216,000 during the nine months ended September 30, 2012 to $8.0 million for the nine months ended September 30, 2013. This increase was partially due to the increase in our income before income taxes, which increased from $17.0 million during the nine months ended September 30, 2012 to $20.7 million during the nine months ended September 30, 2013. In addition, during the third quarter of 2008, we established a valuation allowance against our net deferred tax assets. That valuation allowance effectively resulted in no income tax expense being recognized during the nine months ended September 30, 2012 other than state income taxes for states in which separate company returns are filed. During the fourth quarter of 2012, we released the valuation allowance against our net deferred tax assets. Therefore, income tax expense is recognized during the nine months ended September 30, 2013 at an effective rate of 38.4% of pretax book income.

As of September 30, 2013, net deferred tax assets totaled $14.3 million, which, in the judgment of management, will more-likely-than-not be fully realized. The largest components of the deferred tax assets are associated with the allowance for loan losses and basis adjustments on real estate owned. We are largely relying on earnings generated in the current year and forecasted earnings in future years in making the determination that we will more-likely-than-not realize our deferred tax assets.

Management of Market Risk

Simulation analysis is an estimate of our interest rate risk exposure at a particular point in time. At least quarterly we review the potential effect changes in interest rates may have on the repayment or repricing of rate sensitive assets and funding requirements of rate sensitive liabilities. Our most recent simulations use projected repricing of assets and liabilities at September 30, 2013 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rate assumptions may have a significant impact on interest income simulation results. Because of the large percentage of loans and mortgage-backed securities we hold, rising or falling interest rates may have a significant impact on the actual prepayment speeds of our mortgage related assets that may in turn affect our interest rate sensitivity position. When interest rates rise, prepayment speeds slow and the average expected lives of our assets would tend to lengthen more than the expected average lives of our liabilities and therefore would most likely have a negative impact on net interest income and earnings.

	Percentage Increase in Estimated Net Annual Interest Income Over 12 Months As of September 30, 2013	
300 basis point gradual rise in rates	5.63	%
200 basis point gradual rise in rates	5.81	%
100 basis point gradual rise in rates	6.09	%
Unchanged rate scenario	6.18	%
100 basis point gradual decline in rates (1)	6.02	%

(1) Given the current low point in the interest rate cycle, scenarios in excess of 100 basis point declines are not meaningful.

Loan Originations, Purchases and Other Activity

The following table shows loan origination, loan purchases, principal repayment activity, transfers to real estate owned, charge-offs and sales during the periods indicated.

	As of or for the Nine Months Ended September 30,	
	2013	2012
	(In Thousands)	
Total gross loans receivable and held for sale at beginning of period	$ 1,267,285	$ 1,304,947
Real estate loans originated for investment:		
Residential:		
One- to four-family	14,195	14,705
Multi-family	56,809	36,144
Home equity	6,586	2,115
Construction and land	10,510	2,056
Commercial real estate	5,239	12,860
Total real estate loans originated for investment	93,339	67,880
Consumer loans originated for investment	12	35
Commercial loans originated for investment	5,135	3,801
Total loans originated for investment	98,486	71,716
Total real estate loans purchased for investment	—	15,486
Principal repayments	(119,570)	(121,282)
Transfers to real estate owned	(10,117)	(19,729)
Loan principal charged-off, net of recoveries	(10,295)	(8,563)
Net activity in loans held for investment	(41,496)	62,372
Loans originated for sale	1,419,834	1,245,018
Loans sold	(1,456,263)	(1,210,144)
Net activity in loans held for sale	(36,429)	34,874
Total gross loans receivable and held for sale at end of period	$ 1,189,360	$ 1,277,449

Asset Quality

Non-Performing Assets. The table below sets forth the amounts and categories of our non-accrual loans and real estate owned at the dates indicated.

	At September 30, 2013	At December 31, 2012
	(Dollars in Thousands)	
Non-accrual loans:		
Residential		
One- to four-family	$ 36,704	$ 46,467
Multi-family	13,633	23,205
Home equity	1,345	1,578
Construction and land	4,237	2,215
Commercial real estate	974	668
Commercial	510	511
Consumer	19	24
Total non-accrual loans	57,422	74,668
Real estate owned		
One- to four-family	12,478	17,353
Multi-family	4,192	9,890
Construction and land	5,607	7,029
Commercial real estate	870	1,702
Total real estate owned	23,147	35,974
Total non-performing assets	$ 80,569	$ 110,642
Total accruing troubled debt restructurings	$ 25,356	$ 16,011
Total non-accrual loans to total loans, net	5.26 %	6.59 %
Total non-accrual loans and accruing troubled debt restructurings to total loans receivable	7.58 %	8.00 %
Total non-accrual loans to total assets	3.59 %	4.50 %
Total non-performing assets to total assets	5.04 %	6.66 %

The following table sets forth activity in our non-accrual loans for the periods indicated.

At or for the Nine Months Ended September 30,

	2013	2012
	(In Thousands)	
Balance at beginning of period	$ 74,668	$ 78,218
Additions	29,494	36,044
Transfers to real estate owned	(10,117)	(19,729)
Charge-offs	(10,908)	(6,083)
Returned to accrual status	(20,702)	(8,043)
Principal paydowns and other	(5,013)	(6,779)
Balance at end of period	$ 57,422	$ 73,628

Total non-accrual loans decreased by $17.2 million, or 23.1%, to $57.4 million as of September 30, 2013 compared to $74.7 million as of December 31, 2012. The ratio of non-accrual loans to total loans receivable was 5.26% at September 30, 2013 compared to 6.59% at December 31, 2012. During the nine months ended September 30, 2013, $20.7 million of loans were returned to accrual status, $10.1 million were transferred to real estate owned (net of charge-offs), $10.9 million in loan principal was charged off and $5.0 million in principal payments were received. Offsetting this activity, $29.5 million of loans were placed on non-accrual status during the nine months ended September 30, 2013.

Of the $57.4 million in total non-accrual loans as of September 30, 2013, $50.3 million of loans have been specifically reviewed to assess whether a specific valuation allowance is necessary. A specific valuation allowance is established for an amount equal to the impairment when the carrying value of the loan exceeds the present value of expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral with an adjustment made for costs to dispose of the asset. Based upon these specific reviews, a total of $10.2 million in partial charge-offs have been recorded with respect to these loans as of September 30, 2013. Partially charged-off loans measured for impairment based upon net realizable collateral value are maintained in a "non-performing" status and are disclosed as impaired loans. In addition, specific reserves totaling $4.0 million have been recorded as of September 30, 2013. The remaining $7.2 million of non-accrual loans were reviewed on an aggregate basis and $1.9 million in general valuation allowance was deemed necessary related to those loans as of September 30, 2013. The $1.9 million in general valuation allowance is based upon a migration analysis performed with respect to similar non-accrual loans in prior periods.

Our largest non-accrual loan as of September 30, 2013 was collateralized by multi-family estate located in southeastern Wisconsin. This loan had a principal balance of $3.9 million at September 30, 2013 and a specific valuation allowance of $386,000. The loan is currently performing in accordance with modified terms under a troubled debt restructuring. Our second largest non-accrual loan as of September 30, 2013 was collateralized by a single-family residence located in Idaho. This loan had a principal balance of $1.8 million at September 30, 2013. Based upon an updated valuation, the estimated net realizable value of the collateral exceeds the principal balance of the loan, thus a specific valuation was not deemed necessary as of September 30, 2013. Our third largest non-accrual loan as of September 30, 2013 was collateralized by a single-family residence located in southeastern Wisconsin. This loan had a principal balance of $1.6 million and a specific valuation allowance of $418,000 at September 30, 2013. Our fourth largest non-accrual loan as of September 30, 2013 was collateralized by multi-family real estate located in southeastern Wisconsin with a principal balance of $1.5 million. Based upon an updated valuation, the estimated net realizable value of the collateral exceeds the principal balance of the loan, thus a specific valuation was not deemed necessary as of September 30, 2013. Our next largest non-accrual loan as of September 30, 2013 was collateralized by improved land held for development, located in southeastern Wisconsin. This loan had a principal balance of $1.4 million at September 30, 2013, which is net of life-to-date charge offs of $1.5 million. Together, these five largest non-accrual loans comprised 17.6% of total non-accrual loans at September 30, 2013.

For the nine months ended September 30, 2013, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $2.7 million. We recognized $1.8 million of interest income on such loans during the nine months ended September 30, 2013.

There were no accruing loans past due 90 days or more during the nine months ended September 30, 2013 or 2012.

Troubled Debt Restructurings. The following table summarizes troubled debt restructurings.

	At September 30, 2013	At December 31, 2012
	(In Thousands)	

Troubled debt restructurings		
Substandard	$ 29,235	$ 48,449
Watch	18,444	11,172
Total troubled debt restructurings	$ 47,679	$ 59,621

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Information with respect to the accrual status of our troubled debt restructurings is provided in the following table.

	At September 30, 2013		At December 31, 2012	
	Non-Accruing	Accruing	Non-Accruing	Accruing
	(In Thousands)			
Troubled Debt Restructurings:				
Residential				
One- to four-family	$ 14,007	$ 8,024	$ 21,847	$ 9,921
Multi-family	6,227	15,924	20,030	3,917
Home equity	992	—	986	—
Construction and land	840	1,408	79	2,173
Commercial real estate	257	—	668	—
Commercial	—	—	—	—
Total	$ 22,323	$ 25,356	$ 43,610	$ 16,011

The following table sets forth activity in our troubled debt restructurings for the periods indicated.

	At or for the Nine Months Ended September 30, 2013	
	Accrual	Non-Accrual
	(In Thousands)	
Balance at beginning of period	$ 16,011	$ 43,609
Additions	329	1,560
Change in accrual status	15,385	(15,385)
Charge-offs	(102)	(2,554)
Returned to contractual/market terms	(4,921)	(1,927)
Transferred to real estate owned	—	(2,092)
Principal paydowns and other	(1,346)	(888)
Balance at end of period	$ 25,356	$ 22,323

For the nine months ended September 30, 2013, gross interest income that would have been recorded had our troubled debt restructurings been current in accordance with their original terms was $2.2 million. We recognized $1.5 million of interest income on such loans during the nine months ended September 30, 2013.

Loan Delinquency. The following table summarizes loan delinquency in total dollars and as a percentage of the total loan portfolio:

	At September 30, 2013	At December 31, 2012
	(Dollars in Thousands)	
Loans past due less than 90 days	$ 13,538	$ 23,092
Loans past due 90 days or more	35,343	51,358
Total loans past due	$ 48,881	$ 74,450
Total loans past due to total loans receivable	4.48 %	6.57 %

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Past due loans decreased by $25.6 million, or 34.3%, to $48.9 million at September 30, 2013 from $74.5 million at December 31, 2012. Loans past due 90 days or more decreased by $16.0 million, or 31.1%, during the nine months ended September 30, 2013 while loans past due less than 90 days decreased by $9.6 million, or 41.4%. The $16.0 million decrease in loans past due 90 days or more was primarily due to an $11.0 million lending relationship that was brought current under the terms of a troubled debt restructuring during the three months ended September 30, 2013. The $9.6 million decrease in loans past due less than 90 days or more was primarily attributable to an $8.0 million decrease in loans collateralized by one- to four-family residential real estate.

Allowance for Loan Losses. The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or for the Nine Months Ended September 30,	
	2013	2012
	(Dollars in Thousands)	
Balance at beginning of period	$ 31,043	$ 32,430
Provision for loan losses	3,960	7,100
Charge-offs:		
Mortgage loans		
One- to four-family	7,986	5,522
Multi-family	1,267	1,038
Home equity	575	375
Construction and land	128	816
Commercial real estate	1,366	1,661
Consumer	—	4
Commercial	6	59
Total charge-offs	11,328	9,475
Recoveries:		
Mortgage loans		
One- to four-family	694	305
Multi-family	205	55
Home equity	73	12
Construction and land	51	250
Commercial real estate	—	—
Consumer	5	—
Commercial	5	290
Total recoveries	1,033	912
Net charge-offs	10,295	8,563
Allowance at end of period	$ 24,708	$ 30,967
Ratios:		
Allowance for loan losses to non-performing loans at end of	43.03 %	42.06 %

period		
Allowance for loan losses to loans outstanding at end of period	2.26 %	2.68 %
Net charge-offs to average loans outstanding (annualized)	1.12 %	0.89 %
Current period provision for loan losses to net charge-offs	38.46 %	82.91 %
Net charge-offs to beginning of the period allowance (annualized)	44.34 %	35.30 %

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At September 30, 2013, the allowance for loan losses was $24.7 million, compared to $31.0 million at December 31, 2012. As of September 30, 2013, the allowance for loan losses represented 2.26% of total loans receivable and was equal to 43.03% of non-performing loans, compared to 2.74% and 41.58%, respectively, at December 31, 2012. The $6.3 million decrease in the allowance for loan losses during the nine months ended September 30, 2013 reflects improvement in both the quality of the loan portfolio as well as the overall local real estate market. We have experienced improvement in a number of key loan-related loan quality metrics compared to September 30, 2012, including impaired loans, substandard loans, loans contractually past due and non-accrual loans. In addition, the decrease in the allowance for loan losses reflects a decrease in the overall balance of loans outstanding.

Net charge-offs totaled $10.3 million, or an annualized 1.12% of average loans for the nine months ended September 30, 2013, compared to $8.6 million, or an annualized 0.89% of average loans for the nine months ended September 30, 2012. Of the $10.3 million in net charge-offs during the nine months ended September 30, 2013, approximately 71% of the activity related to loans secured by one- to four-family residential loans.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking stat include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues or reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk in the current economic conditions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;

our ability to retain key employees;

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significant increases in our loan losses; and

changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see "Risk Factors" beginning on page 17.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the net proceeds will be between \$180.2 million and \$244.4 million.

We intend to distribute the net proceeds as follows:

Based Upon the Sale at \$10.00 Per Share of					
18,700,000 Shares		22,000,000 Shares		25,300,000 Shares	
Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds
(Dollars in thousands)					