



Waterstone
FINANCIAL, INC.

2022 Annual Report

WATERSTONE FINANCIAL, INC.



MESSAGE FROM **DOUG GORDON**

Dear Fellow Shareholder:

2022 has proved to be a challenging financial environment as inflationary pressures caused the Federal Reserve to increase interest rates at a record pace. This had a devastating impact on the housing market and caused our mortgage banking segment to suffer in the second half of the year.

Community Banking results were very encouraging as our loan portfolio grew by 25%. That combined with increased margins, provided the segment with strong earnings. In addition, credit quality remained pristine for all asset classes.

We are committed to increasing shareholder value through our stock repurchase program and generous dividend payout.

As your Community Bank, we continue to give back to the communities we serve with donations to local non-profits, and the generous time our employees dedicate to volunteering community service.

We continue to have a strong capital position, and outstanding employee base to execute our strategic initiatives.

On behalf of all of us at Waterstone Financial, we thank you for your continued support.

Sincerely,

A handwritten signature in black ink that reads "Doug Gordon". The signature is written in a cursive, flowing style.

Douglas S. Gordon
Chief Executive Officer



April 6, 2023

Dear Fellow Shareholder,

We invite you to attend the Waterstone Financial, Inc. Annual Meeting of Shareholders, which will be held at WaterStone Bank SSB, 11200 W. Plank Ct., Wauwatosa, Wisconsin at 9:00 a.m., Central Time, on Tuesday, May 16, 2023.

We are furnishing proxy materials to our shareholders over the internet, as permitted by rules adopted by the Securities and Exchange Commission. You may read, print and download our 2022 Annual Report to Shareholders on Form 10-K and our Proxy Statement at www.cstproxy.com/wsbonline/2023. On April 6, 2023, we mailed our shareholders a notice containing instructions on how to access these materials and how to vote their shares online. The notice provides instructions on how you can request a paper copy of these materials by mail, by telephone or by e-mail. If you requested your materials via e-mail, the e-mail contains voting instructions and links to the materials on the internet.

You may vote your shares by internet, by telephone, by regular mail or in person at the Annual Meeting. Instructions regarding the various methods of voting are contained on the notice and on the Proxy Card.

The proxy materials describe the formal business to be transacted at the Annual Meeting. Included in the materials is our Annual Report on Form 10-K, which contains detailed information concerning our activities and operating performance.

On behalf of the board, we request that you vote your shares now, even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person, but will assure that your vote is counted.

Sincerely,

A handwritten signature in cursive script that reads "Doug Gordon".

DOUGLAS S. GORDON
Chief Executive Officer

WATERSTONE FINANCIAL, INC.

**11200 W. Plank Ct.
Wauwatosa, Wisconsin 53226
(414) 761-1000**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 16, 2023**

To the Shareholders of Waterstone Financial, Inc.:

The 2023 annual meeting of shareholders of Waterstone Financial, Inc. will be held virtually on Tuesday, May 16, 2023, at 9:00 a.m., Central Time, at www.cstproxy.com/wsbonline/2023 for the following purposes:

- (1) Electing three directors to serve for a term expiring in 2026;
- (2) Ratifying the selection of FORVIS, LLP as Waterstone Financial, Inc.'s independent registered public accounting firm;
- (3) Approving an advisory, non-binding resolution to approve the executive compensation described in the Proxy Statement; and
- (4) Transacting such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The board of directors has fixed March 22, 2023 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and any adjournment thereof. Only shareholders of record at the close of business on that date will be entitled to vote at the annual meeting and any adjournments thereof.

We call your attention to the Proxy Statement accompanying this notice for a more complete statement regarding the matters to be acted upon at the annual meeting. Please read it carefully.

By Order of the Board of Directors



William F. Bruss
President and Secretary

Wauwatosa, Wisconsin
April 6, 2023

PROXY STATEMENT

WATERSTONE FINANCIAL, INC.
11200 W. Plank Ct.
Wauwatosa, Wisconsin 53226
(414) 761-1000

SOLICITATION AND VOTING

This Proxy Statement and accompanying Proxy Card are furnished to the shareholders of Waterstone Financial, Inc. (“Waterstone Financial” or the “Company”) in connection with the solicitation of proxies by the Waterstone Financial board of directors for use at the annual meeting of shareholders to be held virtually at www.cstproxy.com/wsbonline/2023 on Tuesday, May 16, 2023, and at any adjournment of the meeting. The 2022 Annual Report on Form 10-K is enclosed with the Proxy Statement and contains business and financial information concerning Waterstone Financial. Our proxy materials are being made available to shareholders on or about April 6, 2023.

Record Date and Meeting Information. The board of directors has fixed March 22, 2023 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and any adjournment thereof. Only holders of record of our common stock, the only class of Waterstone Financial stock outstanding as of the close of business on the record date, are entitled to notice of and to vote at the annual meeting. Each share of common stock is entitled to one vote. As of the record date, there were 21,929,777 shares of common stock issued and outstanding.

The board of directors of Waterstone Financial knows of no matters to be acted upon at the annual meeting other than as set forth in the notice attached to this Proxy Statement. If any other matters properly come before the annual meeting, or any adjournment thereof, it is the intention of the persons named in the proxy to vote such proxies in accordance with their best judgment on such matters.

Voting Your Shares. Any shareholder entitled to vote may vote either by mailing a properly executed proxy or online as described in the notice to shareholders and the proxy card. Shares represented by properly executed proxies received by Waterstone Financial will be voted at the annual meeting, or any adjournment thereof, in accordance with the terms of such proxies, unless revoked. **Where no instructions are indicated, validly executed proxies will be voted “FOR” the proposals set forth in this Proxy Statement for consideration at the Annual Meeting.**

A shareholder may revoke a proxy at any time prior to the time when it is voted by filing a written notice of revocation with our corporate secretary at the address set forth above, by delivering a properly executed proxy bearing a later date, using the internet or telephone voting options explained on the Proxy Card.

Shares in Employee Plans. Any person who owns shares through an allocation to that person’s account under the WaterStone Bank SSB 2015 Amended and Restated Employee Stock Ownership Plan (the “ESOP”) or who has purchased shares in the Employer Stock Fund in the Waterstone Bank SSB 401(k) Plan (the “401(k) Plan”) will receive separate Vote Authorization Forms to instruct the ESOP Trustee and 401(k) Plan Trustee how to vote those shares. The deadline for returning instructions is May 9, 2023. The Trustee of both the ESOP and 401(k) Plan, Principal Trust Company, will vote shares allocated to a plan participant’s account in accordance with the participant’s instructions. Upon the direction of the plan administrator, the Trustee will vote the unallocated ESOP shares and any allocated ESOP shares for which no voting instructions are received in the same proportion as allocated shares for which it has received voting instructions. In addition, the Trustee will vote unvoted shares allocated to participants’ accounts in the 401(k) Plan in accordance with directions received from the plan administrator.

Quorum and Required Vote. A majority of the votes entitled to be cast by the shares entitled to vote, represented in person or by proxy, will constitute a quorum of shareholders at the annual meeting. Shares for which authority is withheld to vote for director nominees and broker non-votes (i.e., proxies from brokers or nominees

indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which the brokers or nominees do not have discretionary power to vote) will be considered present for purposes of establishing a quorum. The inspector of election appointed by the board of directors will count the votes and ballots at the annual meeting.

As to Proposal 1, the election of directors, shareholders may vote “FOR” or “WITHHELD” as to each or all of the nominees. A plurality of the votes cast at the annual meeting by the holders of shares of common stock entitled to vote is required for the election of directors. In other words, the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors in a class to be chosen at the annual meeting. With respect to the election of directors, any shares not voted, whether by withheld authority, broker non-vote or otherwise, will have no effect on the election of directors except to the extent that the failure to vote for an individual results in another individual receiving a comparatively larger number of votes.

As to Proposal 2, the ratification of the independent registered public accounting firm, shareholders may vote “FOR” or “AGAINST,” or may “ABSTAIN” from voting on the matter. The affirmative vote of a majority of the votes cast at the Annual Meeting, without regard to either broker non-votes, or shares as to which the “ABSTAIN” box has been selected on the proxy card, is required to ratify FORVIS, LLP as our independent registered public accounting firm for the year ending December 31, 2023.

As to Proposal 3, the advisory, non-binding resolution to approve our executive compensation as described in this Proxy Statement, a shareholder may: (i) vote “FOR” the resolution; (ii) vote “AGAINST” the resolution; or (iii) “ABSTAIN” from voting on the resolution. The affirmative vote of a majority of the votes cast at the Annual Meeting, without regard to either broker non-votes, or shares as to which the “ABSTAIN” box has been selected on the proxy card, is required for the approval of this non-binding resolution. While this vote is required by law, it will neither be binding on Waterstone Financial, Inc. or the board of directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on the members of the board of directors.

Expenses and Solicitation. We will pay all expenses incurred in connection with the solicitation of proxies. Proxies will be solicited principally by mail, but may also be solicited by our directors, officers and other employees in person or by telephone, facsimile or other means of communication. Those directors, officers and employees will receive no compensation therefor in addition to their regular compensation, but may be reimbursed for their related out-of-pocket expenses. Brokers, dealers, banks, or their nominees, who hold common stock on behalf of another will be asked to send proxy materials and related documents to the beneficial owners of such stock, and we will reimburse those persons for their reasonable expenses. In addition, we have entered into an agreement with Laurel Hill Advisory Group, LLC to assist in soliciting proxies for the annual meeting and we have agreed to pay them \$5,000, plus out-of-pocket expenses, for these services.

Householding. Some banks, brokers, broker-dealers and other similar organizations acting as nominee record holders may be participating in the practice of “householding” proxy materials. This means that only one copy of the notice of meeting and instructions on how to access the proxy materials and the 2022 Annual Report may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of these materials for other stockholders in your household, either now or in the future, please contact your bank, broker, broker-dealer or other similar organization serving as your nominee.

Upon written notice to Mark R. Gerke, Chief Financial Officer, Waterstone Financial, Inc., 11200 W. Plank Ct., Wauwatosa, Wisconsin 53226, or via telephone at (414) 761-1000, we will promptly provide separate copies of the 2022 Annual Report and/or this Proxy Statement. Stockholders sharing an address who are receiving multiple copies of this Proxy Statement and/or the 2022 Annual Report and who wish to receive a single copy of these materials in the future will need to contact their bank, broker, broker-dealer or other similar organization serving as their nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

Limitations on Voting. The Company’s Articles of Incorporation provide that, subject to certain exceptions, record owners of the Company’s common stock that is beneficially owned by a person who beneficially owns in excess of 10% of the Company’s outstanding shares are not entitled to any vote any of the shares held in excess of the 10% limit.

STOCK OWNERSHIP

The following table shows the amount of our common stock held by groups who are beneficial owner of more than 5% of our shares as of December 31, 2022, based upon information filed with the SEC. The “Percent of All Common Stock Outstanding” reflects the percentage of our common stock outstanding as of March 22, 2023.

Name of Beneficial Owner	Total Shares Beneficially Owned	Percent of All Common Stock Outstanding
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, Texas 78746	1,887,890 (1)	8.6%
BlackRock, Inc. 55 East 52nd Street New York, New York 10055	1,761,298 (2)	8.0%
Renaissance Technologies LLC Renaissance Technologies Holdings Corporation 800 Third Avenue New York, New York 10022	1,346,636 (3)	6.1%
Delaware Charter Guarantee & Trust Company dba Principal Trust Company as Trustee for the 2010 Amended and Restated Waterstone Bank SSB Employee Stock Ownership Plan and the Waterstone Bank 401(k) Plan 1013 Centre Road Suite 300 Wilmington, Delaware 19805-1265	2,345,712 (4)	10.7%

- (1) Dimensional Fund Advisors LP reported ownership as of December 31, 2022, on behalf of itself and certain subsidiaries. It reported that it had sole dispositive power for 1,887,890 shares and shared dispositive power for no shares. It further reported that it had sole voting power for 1,856,183 shares and shared voting power for no shares.
- (2) BlackRock, Inc. reported ownership as of December 31, 2022, on behalf of itself and certain subsidiaries. It reported that it had sole dispositive power for 1,761,298 shares and shared dispositive power for no shares. It further reported that it had sole voting power for 1,716,711 shares and shared voting power for no shares.
- (3) Renaissance Technologies LLC reported ownership as of December 31, 2022, on behalf of itself and certain subsidiaries. It reported that it had sole dispositive power for 1,346,636 shares and shared dispositive power for no shares. It further reported that it had sole voting power for 1,346,636 shares and shared voting power for no shares.
- (4) Delaware Charter Guarantee & Trust Company dba Principal Trust Company as Trustee for the 2015 Amended and Restated WaterStone Bank SSB Employee Stock Ownership Plan and the WaterStone Bank SSB 401(k) Plan reported ownership as of December 31, 2022, on behalf of the 2015 Amended and Restated WaterStone Bank SSB Employee Stock Ownership Plan and the WaterStone Bank SSB 401(k) Plan. It reported that it had shared dispositive power for 2,345,712 shares and sole dispositive power for no shares. It further reported that it had shared voting power for 2,345,712 shares and sole voting power for no shares.

The following table shows the amount of our common stock beneficially owned by each of our directors, executive officers and directors and executive officers as a group, as of March 22, 2023. Unless otherwise noted, the persons listed have sole voting and dispositive power over their shares.

Name of Beneficial Owner	Shares Owned Directly	Shares Owned Indirectly (1)	Stock Options Exercisable within 60 Days of Record Date	Total Shares Beneficially Owned	Percent of All Shares Outstanding
Ellen S. Bartel	15,000	-	25,000	40,000	*
William F. Bruss	31,668	70,123	-	101,791	*
Mark R. Gerke	30,858	34,287	15,000	80,145	*
Julie A. Glynn	3,492	10,573	20,000	30,065	*
Douglas S. Gordon	548,061	71,907	-	619,968	2.8%
Ryan J. Gordon	5,525	32,890	10,000	48,415	*
Michael L. Hansen	79,872	186,541	12,500	278,913	1.3%
Patrick S. Lawton	49,131	10,000	37,500	96,631	*
Jeffrey R. McGuiness	7,132	-	-	7,132	*
Kristine A. Rappé	27,318	-	100,000	127,318	*
Stephen J. Schmidt	70,078	-	100,000	170,078	*
Derek L. Tyus	6,440	-	-	6,440	*
All Directors and Executive Officers as a Group	874,575	416,321	320,000	1,610,896	7.3%

* Less than 1%.

(1) Number of shares with sole voting and dispositive power: Mr. Bruss – 70,123; Mr. Gerke – 34,287; Mr. Ryan Gordon – 32,890; Ms. Glynn – 10,573; Mr. Douglas Gordon – 71,907. Number of shares with shared voting and dispositive power; Mr. Hansen – 186,541; Mr. Lawton – 10,000.

PROPOSAL 1 – THE ELECTION OF DIRECTORS

Waterstone Financial’s board of directors consists of seven members. Our bylaws provide that approximately one-third of the directors are to be elected annually. Directors of Waterstone Financial are generally elected to serve for a three-year period and until their respective successors have been duly elected and qualified. Directors Michael Hansen, Stephen Schmidt, and Derek Tyus, whose terms expire at the annual meeting, are being nominated for re-election as directors, each for a term expiring at the 2026 annual meeting of shareholders. Shares represented by proxies will be voted FOR the election of the nominees unless otherwise specified by the executing shareholder. If a nominee declines or is unable to act as a director, proxies may be voted with discretionary authority for a substitute nominee designated by the board. Except as indicated herein, there are no arrangements or understandings between any nominee and any other person pursuant to which such nominee was selected.

The following details include for each of our nominees and directors: their age as of December 31, 2022; the year in which they first became a director of WaterStone Bank, the operating subsidiary of the Company; the year that their term expires; and their business experience for at least the past five years. The members of the Company’s board of directors are the same as the members of the board of directors of WaterStone Bank. None of the directors listed below currently serves as a director, or served as a director during the past five years, of a publicly-held entity (other than Waterstone Financial). The following also includes the particular experience, qualifications, attributes, or skills considered by the Nominating and Corporate Governance Committee that led the board of directors to conclude that such person should serve as a director of Waterstone Financial. The mailing address for each person listed is 11200 W. Plank Ct., Wauwatosa, Wisconsin 53226. The board of directors unanimously recommends that shareholders vote FOR the election of the director nominees listed below.

<u>Name and Age</u>	<u>Principal Occupation and Business Experience</u>	<u>Director Since (1)</u>
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Nominees for terms expiring in 2026

Michael L. Hansen, 72	Mr. Hansen is a business investor who currently holds significant ownership interests in Jacsten Holdings LLC. In addition to extensive entrepreneurial experience, Mr. Hansen is a C.P.A. with 13 years of audit and tax experience at an international public accounting firm. Mr. Hansen brings this experience to the board of directors and to the Audit Committee in particular. Mr. Hansen has a B.B.A. from the University of Notre Dame.	2003
Stephen J. Schmidt, 61	Mr. Schmidt is the President of Schmidt and Bartelt Funeral and Cremation Services. Mr. Schmidt has entrepreneurial experience and extensive community relationships throughout the communities served by WaterStone Bank. Mr. Schmidt has an Associate’s Degree from the New England Institute and a B.A. from the University of Wisconsin – Stevens Point.	2002
Derek L. Tyus, 53	Mr. Tyus currently serves as Senior Vice President and Chief Investment Officer of West Bend Mutual Insurance Company. He has been with West Bend since 2016. Before joining West Bend, Mr. Tyus was a director for Northwestern Mutual Wealth Management Company. He has been in the insurance industry for 22 years, holding investment positions in private debt and equity, real estate, wealth management as well as strategy and administration. Mr. Tyus is a graduate of Marquette University and received his M.B.A. from the Ross School of Business at the University of Michigan.	2021

Continuing Directors – Terms expiring in 2024

Douglas S. Gordon, 65	Mr. Gordon is the Chief Executive Officer of Waterstone Financial and WaterStone Bank, beginning in 2007; President of Waterstone Financial and WaterStone Bank from 2007 to 2022, and Chief Operating Officer of WaterStone Bank from 2005 to 2007; real estate investor. Mr. Gordon brings extensive prior banking experience as an executive officer at M&I Bank and at Security Savings Bank. He has extensive firsthand knowledge and experience with our lending markets and our customers. Mr. Gordon has a B.A. from the University of Wisconsin – Parkside and an M.B.A. from Marquette University. Mr. Gordon is the father of Ryan J. Gordon.	2005
Patrick S. Lawton, 66	Mr. Lawton is the Managing Director of Fixed Income Capital Markets for Baird. Mr. Lawton is also a member of Baird’s board of directors. As a Baird Managing Director, Mr. Lawton brings his investment portfolio expertise to the board of directors. Mr. Lawton has a B.S.B.A. and an M.B.A. from Marquette University.	2000

Continuing Directors – Terms expiring in 2025

Ellen S. Bartel, 68	Ms. Bartel is the former President of Divine Savior Holy Angels (DSHA) High School (Milwaukee, Wisconsin) from 1998 until 2018, where she achieved significant improvements in DSHA’s curriculum, facilities, financial infrastructure, image, and reputation. Ms. Bartel balanced DSHA’s budget for 18 consecutive years, oversaw endowment growth from under \$1 million to over \$14 million, and developed recruitment strategies resulting in an incoming class wait list for 19 consecutive years. Prior to her employment at DSHA, Ms. Bartel held several positions at Alverno College (Milwaukee, Wisconsin) (1986 to 1997), with the most recent being Vice President of Institutional Advancement from 1994 to 1997. Ms. Bartel’s experience overseeing a large educational institution provides the board of directors with significant	2013
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perspective on financial management and human resources matters. Ms. Bartel has a B.A. and an M.S.A. from the University of Notre Dame.

Kristine A. Rappé, 66 Ms. Rappé is the former Senior Vice President and Chief Administrative Officer of WEC Energy Group (2004 to 2012). Her roles at WEC Energy Group also included Vice President and Corporate Secretary (2001 to 2004) and Vice President of Customer Services (1994 to 2001). In these roles, Ms. Rappé had responsibility for shared services including information technology, human resources, supply chain management, business continuity/corporate security, and the WEC Foundation. Ms. Rappé’s experience overseeing a large corporate entity provides the board of directors with significant perspective on financial management and human resources matters, and she has a long-standing history of community involvement and public service. Ms. Rappé has an M.A. from Northeastern University and a B.A. from the University of Wisconsin – Oshkosh. 2013

(1) Indicates the date when the director was first elected to the board of WaterStone Bank. Messrs. Lawton, Hansen, Schmidt and Gordon became directors of Waterstone Financial’s predecessor federal corporation in 2005. Ms. Bartel and Ms. Rappé became directors of Waterstone Financial in 2014. Mr. Tyus became a director of Waterstone Financial in 2021.

Executive Officers

Information regarding our named executive officers (“Named Executive Officers” or “NEOs”) who are not directors of Waterstone Financial is set forth in the following table. Except as noted below, each of these individuals has held that position for at least the past five years.

<u>Name and Age</u>	<u>Offices and Positions with Waterstone Financial and WaterStone Bank</u>	<u>Executive Officer Since</u>
William F. Bruss, 53	President since January 2022, Chief Operating Officer (appointed 2013), General Counsel and Secretary, Waterstone Financial and WaterStone Bank	2005
Mark R. Gerke, 48	Executive Vice President since January 2020, Chief Financial Officer since 2016, Chief Accounting Officer since 2014, Senior Vice President, Waterstone Financial and WaterStone Bank since 2014, Controller 2005 to 2016	2016
Julie A. Glynn, 59	Executive Vice President since January 2022, Chief Retail Officer of WaterStone Bank since March 2018, Senior Vice President - District Manager of Associated Bank since 2013	2018
Ryan J. Gordon, 36	Executive Vice President/Chief Credit Officer since January 2022, Vice President/Chief Credit Officer 2018 to 2022, Credit Officer 2015 to 2018, Lead Credit Analyst 2012 to 2015, Sr. Credit Analyst 2010 to 2012. Mr. Gordon is the son of Douglas S. Gordon.	2022 2020
Jeffrey R. McGuinness, 57	President and Chief Executive Officer of Waterstone Mortgage Corporation since November 2020. Prior to his role with Waterstone Mortgage Corporation, Chief Sales Officer, Embrace Home Loans – 2015 through November 2020, Chief Executive Officer, Lenders One – 2012 to 2015.	

Meetings and Committees

The board of directors of Waterstone Financial met 12 times during the year ended December 31, 2022 on behalf of Waterstone Financial and 12 times in their capacity as directors of WaterStone Bank. The board of directors consists of a majority of “independent directors” within the meaning of the NASDAQ corporate governance listing standards. The board of directors determines the independence of each director in accordance with NASDAQ Stock Market rules, which include all elements of independence as set forth in the listing requirements for NASDAQ securities. The board of directors has determined that Directors Bartel, Hansen, Lawton, Rappé, Schmidt and Tyus are “independent” directors within the meaning of such standards. In evaluating the independence of our independent directors, we found no transactions between us and our independent directors that are not required to be reported in this Proxy Statement and that had an impact on our determination as to the independence of our directors. Additionally, the independent directors regularly meet without management or non-independent directors present. No member of the board of directors or any committee thereof attended fewer than 75% of the aggregate of: (i) the total number of meetings of the board of directors (held during the period for which each director has been a director); and (ii) the total number of meetings held by all committees of the board of directors on which he or she served (during the periods that he or she served).

We conduct business through meetings of the Company’s and Bank’s boards of directors and their committees. The boards of directors of the Company and the Bank have established standing committees discussed below. The standing committees of the Company include an Audit Committee, Compensation Committee, Executive Committee and a Nominating and Corporate Governance Committee.

The following table details the composition of our board committees, each of which is composed entirely of independent directors.

Director	Audit Committee	Compensation Committee	Executive Committee	Nominating and Corporate Governance Committee
Ellen S. Bartel	X	X		Co-Chair
Michael L. Hansen	Chair		X	X
Patrick S. Lawton (Chair)		Chair	X	
Kristine A. Rappé	X		Chair	
Stephen J. Schmidt		X	X	Co-Chair
Derek L. Tyus	X	X	X	

Audit Committee. The audit committee of Waterstone Financial (the “Audit Committee”) met ten times during the year ended December 31, 2022. The board of directors has determined that each member of the Audit Committee meets not only the independence requirements applicable to the committee as prescribed by the NASDAQ corporate governance listing standards, but also by the Securities and Exchange Commission. On behalf of the Audit Committee, Mr. Hansen, its chair, also regularly consults with Waterstone Financial’s independent registered public accounting firm about Waterstone Financial’s periodic public financial disclosures. The board believes that all of the members of the Audit Committee have sufficient experience, knowledge and other personal qualifications to be “financially literate” and to be active, effective and contributing members of the Audit Committee. Mr. Hansen has been designated an “audit committee financial expert” pursuant to the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission regulations. See also “Report of the Audit Committee” for other information pertaining to the Audit Committee.

Compensation Committee. The compensation committee of Waterstone Financial (the “Compensation Committee”) held nine meetings during the year ended December 31, 2022. Each member of the Compensation Committee is considered independent as defined in the NASDAQ corporate governance listing standards. The Compensation Committee has the responsibility for and authority to either establish or recommend to the board: compensation policies and plans; salaries, bonuses and benefits for all officers; salary and benefit levels for employees; determinations with respect to stock options and restricted stock awards; and other personnel policies and procedures. The Compensation Committee has the authority to delegate the development, implementation and execution of benefit

plans to management. See also “Compensation Discussion and Analysis” and “Compensation Committee Interlocks and Insider Participation” for other information pertaining to the Compensation Committee.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee (“Nominating Committee”) of Waterstone Financial held one meeting during the year ended December 31, 2022. Each member of the Nominating Committee is considered “independent” as defined in the NASDAQ corporate governance listing standards.

The functions of the Nominating Committee include the following:

- to lead the search for individuals qualified to become members of the board of directors and to select director nominees to be presented for shareholder approval;
- to review and monitor compliance with the requirements for board independence;
- to review the committee structure and make recommendations to the board of directors regarding committee membership; and
- to develop and recommend to the board of directors for its approval a set of corporate governance guidelines.

The Nominating Committee identifies nominees by first evaluating the current members of the board of directors willing to continue in service. Current members of the board of directors with skills and experience that are relevant to our business and who are willing to continue in service are first considered for re-nomination, balancing the value of continuity of service by existing members of the board of directors with that of obtaining new perspectives. If any member of the board of directors does not wish to continue in service, or if the committee or the board decides not to re-nominate a member for re-election, the Nominating Committee may solicit suggestions for director candidates from all directors.

Board Diversity. The Board believes that the Company and its shareholders are best served by having a Board of Directors that brings a diversity of education, experience, skills and perspective to Board meetings. While these attributes are considered on an ongoing basis, the Nominating and Corporate Governance Committee and the Board of Directors will particularly consider such diversity in the recruitment and deliberation regarding prospective director nominees.

Board Qualifications. Qualifications of director candidates are described in the Appendix to the Nominating and Corporate Governance Committee Charter, which can be found on our website, at www.wsbonline.com, on the “Investor Relations” link under the “About” tab, then “Corporate Overview” and “Governance Documents.” Factors considered include strength of character, honesty and integrity, an inquiring and independent mind, judgment, skill, diversity, education, experience with businesses and other organizations, the interplay of the candidates’ experience with the experience of other board members and the extent to which the candidate would be a desirable addition to the board and its committees. Nominees must have a background which demonstrates an understanding of business and financial affairs and the complexities of a business organization. Although a career in business is not essential, the nominee should have a proven record of competence and accomplishments through leadership in industry, education, the professions or government. Areas of core competency that should be represented on the board as a whole include accounting and finance, business judgment, management, crisis response, industry knowledge, leadership and strategic vision.

Director Skills, Experience and Demographics Matrix. The following matrix provides information about the board of directors, including certain types of knowledge, skills, experience and other attributes possessed by one or more of them which the Board believes are relevant to the Company’s business and industry. The matrix does not capture all of the knowledge, skills and experiences possessed by the directors, and the Board believes that each director has the ability to contribute to the decision-making process in every area listed.

	Bartel	Gordon	Hansen	Lawton	Rappé	Schmidt	Tyus
Knowledge, Skills and Experience							
Financial Industry		•	•	•			•
Risk Management	•	•	•	•	•	•	•
Accounting	•	•	•		•		•
Corporate Governance/Ethics	•	•	•	•	•	•	•
Legal/Regulatory		•	•	•	•		•
HR/Compensation	•	•	•	•	•	•	•
Executive Experience	•	•	•	•	•	•	•
Investments		•	•	•	•	•	•
Operations	•	•	•	•	•	•	
Strategic Planning	•	•	•	•	•	•	•
Technology/Cyber		•	•		•		
Mergers and Acquisitions		•	•				•
Crisis Response	•	•	•	•	•	•	
Demographic Background							
African American							•
Alaskan Native or Native American							
Asian							
Hispanic							
Native Hawaiian or Pacific Islander							
White/Caucasian	•	•	•	•	•	•	
Two or More Races or Ethnicities							
LGBTQ+							
Gender							
Female	•				•		
Male		•	•	•		•	•
Non-Binary							
Board Tenure							
Years on Waterstone Financial Inc.	8	17	17	17	8	17	3

The Nominating Committee will also take into account whether a candidate satisfies the criteria for “independence” under the NASDAQ corporate governance listing standards and, if a nominee is sought for service on the Audit Committee, the financial and accounting expertise of a candidate, including whether an individual qualifies as an “audit committee financial expert.”

The Nominating Committee will consider proposed nominees whose names are submitted to it by shareholders, and it does not intend to evaluate proposed nominees differently depending upon who has made the proposal. Shareholders can submit the names of qualified candidates for director by writing to our Corporate Secretary at 11200 W. Plank Ct., Wauwatosa, Wisconsin 53226. The Corporate Secretary must receive a submission not earlier

than the 90th day nor later than the 80th day prior to date of the annual meeting; provided, however, that in the event that less than 90 days' notice or prior public disclosure of the date of the annual meeting is provided to shareholders, then, to be timely, notice by the stockholder must be so received not later than the tenth day following the day on which public announcement of the date of such meeting is first made. The submission must include the following information:

- a statement that the writer is a shareholder and is proposing a candidate for consideration by the Nominating Committee;
- the name and address of the shareholder as they appear on our books and number of shares of our common stock that are owned beneficially by such shareholder (if the shareholder is not a holder of record, appropriate evidence of the shareholder's ownership will be required);
- the name, address and contact information for the candidate, and the number of shares of common stock that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the shareholder's ownership should be provided);
- a statement of the candidate's business and educational experience;
- such other information regarding the candidate as would be required to be included in the Proxy Statement pursuant to Securities and Exchange Commission Regulation 14A;
- a statement detailing any relationship between us and the candidate;
- a statement detailing any relationship between the candidate and any of our customers, suppliers or competitors;
- detailed information about any relationship or understanding between the proposing shareholder and the candidate; and
- a statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

A nomination submitted by a shareholder for presentation at an annual meeting of shareholders will also need to comply with any additional procedural and informational requirements we may adopt in the future, including those set forth in our Bylaws and in the "Shareholder Proposals and Notices" section of this Proxy Statement.

Waterstone Financial has adopted charters for the Audit, Compensation and Nominating Committees. We will continue to respond to and comply with Securities and Exchange Commission and NASDAQ Stock Market requirements relating to board committees. Copies of the charters for our Audit, Compensation and Nominating Committees (including director selection criteria) and other corporate governance documents can be found on our website, at www.wsbonline.com, on the "Investor Relations" link under the "About" tab, then "Corporate Overview" and "Governance Documents." If any of those documents are changed, or related documents adopted, those changes and new documents will be posted on our corporate website at that address.

Other Board and Corporate Governance Matters

Board Leadership Structure and Risk Oversight Role. The role of chairman of the board of directors and chief executive officer of the Company are not currently held by the same person. The chairman of the board has never been an officer or employee of the Company or WaterStone Bank. The foregoing structure is not mandated by any provision of law or our Articles of Incorporation or Bylaws, but the board of directors currently believes that this structure provides for an appropriate balance of authority between management and the board. The board of directors reserves the right to establish a different structure in the future.

The board of directors of the Company, all of the members of which are also members of the board of directors of WaterStone Bank, is actively involved in the Company's and Bank's risk oversight activities, through the work of numerous committees of the Company and Bank, and the policy approval function of the board of directors of WaterStone Bank.

Communications Between Shareholders and the Board. A shareholder who wants to communicate with the board of directors or with any individual director can write to our Corporate Secretary at 11200 W. Plank Ct., Wauwatosa, Wisconsin 53226, Attention: Board Administration. The letter should indicate that the author is a

shareholder and if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, management will:

- forward the communication to the director or directors to whom it is addressed;
- attempt to handle the inquiry directly, i.e. where it is a request for information about us or it is a stock-related matter; or
- not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

At each board meeting, management shall present a summary of all communications received since the last meeting that were not forwarded and make those communications available to the directors.

Director Attendance at Annual Shareholders' Meeting. Although we do not have a formal policy regarding director attendance at the annual meeting, we encourage all of our directors to attend. Last year the seven directors serving at that time were present at the annual meeting.

Code of Business Conduct and Ethics. Waterstone Financial has adopted a code of business conduct and ethics that reflects current circumstances and Securities and Exchange Commission and NASDAQ definitions for such codes. The code of business conduct and ethics covers us, WaterStone Bank and other subsidiaries. Among other things, the code of business conduct and ethics includes provisions regarding honest and ethical conduct, conflicts of interest, full and fair disclosure, compliance with law, and reporting of and sanctions for violations. The code applies to all directors, officers and employees of Waterstone Financial and subsidiaries. We have posted a copy of the code of business conduct and ethics on our website, at www.wsbonline.com, on the "Investor Relations" link under the "About" tab, then "Corporate Overview" and "Governance Documents." As further matters are documented, or if those documents (including the code of business conduct and ethics) are changed, waivers from the code of business conduct and ethics are granted, or new procedures are adopted, those new documents, changes and/or waivers will be posted on the corporate website at that address.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Waterstone Financial board of directors was created in accordance with Section 3(a)(58)(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee's functions include meeting with our independent registered public accounting firm and making recommendations to the board regarding the independent registered public accounting firm; assessing the adequacy of internal controls, accounting methods and procedures; review of public disclosures required for compliance with securities laws; and consideration and review of various other matters relating to our financial accounting and reporting. No member of the Audit Committee is employed by or has any other material relationship with us other than as a customer or shareholder. The members are "independent" as defined in Rule 5605(a)(2) of the NASDAQ listing standards. The board of directors has adopted a written charter for the Audit Committee which can be found on our website.

In connection with its function to oversee and monitor our financial reporting process, the Audit Committee has done the following:

- reviewed the audited financial statements for the year ended December 31, 2022 with management;
- discussed with CliftonLarsonAllen LLP, our independent registered public accounting firm, those matters which are required to be discussed under the applicable standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"); and
- received the written disclosures and the letter from CliftonLarsonAllen LLP required by the PCAOB and has discussed with CliftonLarsonAllen LLP its independence.

The Audit Committee:
Michael L. Hansen, Chairman
Ellen S. Bartel
Kristine A. Rappé
Derek L. Tyus

The information contained in the above report will not be deemed to be “soliciting material” or “filed” with the SEC, nor will this information be incorporated into any future filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent the Company specifically incorporates such report by reference.

Based on the foregoing, the Audit Committee recommended to the board that those audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2022. In addition, the Audit Committee also considered the fees paid to CliftonLarsonAllen LLP for services provided by CliftonLarsonAllen LLP during the year ended December 31, 2022.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of CliftonLarsonAllen LLP (“CLA”) has audited the financial statements of Waterstone Financial as of and for the year ended December 31, 2022 and had served as Waterstone Financial’s principal independent accountant since 2021.

The Audit Committee of the Board of Directors has selected FORVIS LLP as our independent registered public accountants for the fiscal year ending December 31, 2023. We are submitting the selection of independent registered public accountants for shareholder ratification at the annual meeting. Although not required by the Company’s Articles of Incorporation or Bylaws, the Company has determined to ask shareholders to ratify this selection as a matter of good corporate practice. If the appointment of FORVIS LLP is not ratified, the Audit Committee will consider the shareholders’ vote when determining whether to continue the firm’s engagement, but may ultimately determine to continue the engagement of the firm or another audit firm without re-submitting the matter to shareholders. Even if the appointment of FORVIS LLP is ratified, the Audit Committee may in its sole discretion terminate the engagement of the firm and direct the appointment of another independent registered public accounting firm at any time during the year if it determines that such an appointment would be in the best interests of our Company and our shareholders.

As previously disclosed in Waterstone Financial’s Report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2023, CLA, Waterstone Financial, Inc.’s independent registered public accountant, informed the Company that CLA would decline to stand for re-appointment after completion of the audit for the year ended December 31, 2022, as a result of CLA’s determination to cease providing certain audit services to SEC registrants upon completion of the 2022 audit cycle. On February 28, 2023, CLA completed its audit of the Company’s consolidated financial statements as of and for the year ended December 31, 2022. Accordingly, as of February 28, 2023, CLA is no longer the Company’s independent registered public accountant.

CLA’s audit reports on the Company’s consolidated financial statements as of and for the years ended December 31, 2022 and 2021 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2022 and 2021 and the subsequent interim period through February 28, 2023, there were no: (1) disagreements with CLA on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events under Item 304(a)(1)(v) of Regulation S-K.

A letter from CLA addressed to the Securities and Exchange Commission stating whether it agrees with the above statements was filed as an exhibit to Waterstone Financial’s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on March 3, 2023.

As previously disclosed on January 17, 2023, the Audit Committee of the Board of Directors of Waterstone Financial, Inc. approved the appointment of FORVIS LLP to serve as the Company’s independent registered public accounting firm for the year ending December 31, 2023 after a competitive request for proposal process. The appointment of FORVIS LLP was effective upon completion of the audit of the Company’s consolidated financial

statements for the fiscal year ending December 31, 2022 by CLA, which occurred on February 28, 2023. Prior to retaining FORVIS LLP, neither the Company nor anyone acting on its behalf consulted with FORVIS LLP with respect to any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

As reflected in the tables below, Waterstone Financial incurred fees in fiscal years 2022 and 2021 for professional services provided by CliftonLarsonAllen LLP and RSM US LLP related to those periods.

CliftonLarsonAllen LLP	Year Ended	
	December 31, 2022	December 31, 2021
Audit fees ⁽¹⁾	\$ 309,254	\$ 299,500
Audit-related fees ⁽²⁾	\$ -	\$ 24,098

(1) Audit fees consist of professional services rendered for the audit of our consolidated financial statements and review of SEC Filings. Audit fees also include professional fees rendered for the audit of the stand-alone financial statements of Waterstone Mortgage Corporation.

(2) Audit-related fees consisted of audit of the Company's 401K and ESOP Plan audits.

RSM US LLP	Year Ended	
	December 31, 2022	December 31, 2021
Audit fees ⁽¹⁾	\$ 42,000	\$ 59,640
Audit-related fees ⁽²⁾ ...	\$ -	\$ 10,500

(1) Audit fees consist of professional services rendered for the review of SEC Filings and consent on Form S-8 in 2022 and 2021.

(2) Audit-related fees consist of fees for the audit transition to a new firm.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of the Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated pre-approval authority to its Chairman when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. All audit services for the past two fiscal years were pre-approved by the Audit Committee.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Program

Executive Summary. The Compensation Committee provides our Named Executive Officers with a total compensation package that is market competitive, promotes the achievement of our strategic objectives and is aligned with operating and other performance metrics to support long-term shareholder value. In addition, we have structured our executive compensation program to include elements that are intended to create appropriate balance between risk and reward.

Compensation Philosophy. The primary objectives of our executive compensation programs are to attract and retain highly-qualified executives and to encourage extraordinary management efforts through well-designed incentive opportunities, with the goal of improving the performance of Waterstone Financial, Inc. and its subsidiaries consistent with the interests of our shareholders. We base our compensation decisions on three basic principles:

- Meeting the Demands of the Market – We compensate our employees at competitive levels that position us as the employer of choice among our peers who provide similar financial services in the markets we serve.
- Aligning with Shareholders – We use equity compensation as a key component of our compensation mix to promote a culture of ownership among our key personnel and to align their individual financial interests with the long-term interests of our shareholders.
- Driving Performance – We base compensation in part on the attainment of company-wide, business unit and individual targets that result in the achievement of both short-term and long-term financial objectives, while ensuring sound risk management.

Elements of our Executive Compensation and Benefits Program. To achieve our objectives, we have structured an executive compensation program that provides our Named Executive Officers with the following:

- Competitive Base Salary;
- Short-Term Cash-Based Incentives;
- Equity Incentive Awards;
- Broad-Based Welfare and Retirement Benefit Plans;
- Perquisites; and
- Executive Agreements.

The programs are intended to reward the accomplishment of strategic plan goals and objectives as evaluated by members of the Compensation Committee. They are further intended to reward enhanced shareholder value as measured by the trading price of our common stock. The elements of a Named Executive Officer's total compensation package will vary depending upon the executive's job position and responsibilities.

Compensation Policies and Highlights

Our compensation programs include, among others, the following best practices:

What We Do

- ✓ The Compensation Committee has engaged an independent compensation consultant.
- ✓ The Compensation Committee is composed solely of independent directors.
- ✓ We maintain stock ownership guidelines for our executive officers.
- ✓ We maintain stock ownership guidelines for our non-employee directors.
- ✓ We maintain a clawback policy for incentive compensation.
- ✓ We place restrictions on our directors and officers with respect to (i) holding Company securities in a margin account or otherwise pledging Company securities as collateral for a loan or (ii) engaging in hedging transactions in the Company's securities.
- ✓ We provide a say-on-pay advisory vote on an annual basis until the next required vote on the frequency of shareholder votes on executive compensation.

What We Do Not Do

- × We do not encourage excessive risk-taking behavior through our compensation plans.
- × We do not reprice underwater stock options.
- × We do not grant options with an exercise price less than fair market value on date of grant.
- × We do not provide excessive prerequisites to our NEOs.

- × We do not provide excise tax gross ups in our compensation plans or employment agreements.
- × We do not guarantee salary increases.
- × We do not provide for uncapped bonuses.
- × We do not provide for “single-trigger” benefits upon a change in control.

Shareholder Say-on-Pay Advisory Votes

We provide our shareholders with the opportunity to cast an annual advisory vote on executive compensation (a “say-on-pay proposal”). At our 2022 annual meeting of shareholders, over 94% of the votes cast (excluding abstentions and broker non-votes) on the say-on-pay proposal at that meeting were voted in favor of the proposal.

We have held annual say-on-pay votes since 2010 and we will hold annual say-on-pay votes until the next shareholders vote regarding the frequency of say-on-pay votes, which we expect to occur at the 2026 annual meeting of shareholders.

The Compensation Committee will continue to consider the outcome of our say-on-pay vote, regulatory changes and emerging best practices when making future compensation decisions for the Named Executive Officers.

Named Executive Officer Compensation Process, Programs and Policies

Role of the Compensation Committee. The Compensation Committee is responsible for reviewing all compensation components for the Named Executive Officers annually, including base salary, annual incentive, long-term incentives/equity, benefits and other perquisites. The Compensation Committee examines the total compensation mix, pay-for-performance relationship, and how all these elements in the aggregate comprise each executive’s total compensation package to ensure that our compensation is competitive in the market place and that the mix of benefits accurately reflects our compensation philosophy. The Compensation Committee operates under a written charter that establishes its responsibilities. The Compensation Committee and the board of directors review the charter annually to ensure that the scope of the charter is consistent with the role of the Compensation Committee. A copy of the charter can be found on our website on the “Investor Relations” link under the “About” tab, then “Corporate Overview” and “Governance Documents.”

Role of Management. The executive officers who serve as a resource to the Compensation Committee are the President and Chief Executive Officer, with respect to compensation for the other Named Executive Officers, and the Chief Operating Officer and General Counsel and the Assistant Vice President and Director of Human Resources, with respect to compensation of other officers and employees of WaterStone Bank. The executives provide the Compensation Committee with data, analyses, input and recommendation. The Compensation Committee considers our Chief Executive Officer’s evaluation of each Named Executive Officer’s performance and recommendation of appropriate compensation. However, our Chief Executive Officer does not participate in any decisions relating to his own compensation.

Role of Compensation Consultant. The Compensation Committee has the authority to engage compensation consultants from time to time to assist it in the compensation governance process for determining the compensation of our Named Executive Officers. In 2022, the Compensation Committee continued its engagement of Meridian Compensation Partners, LLC, or Meridian, as its independent compensation consultant. Meridian is engaged directly by the Compensation Committee. Pursuant to its engagement, Meridian provides research, data analyses, survey information and design expertise in developing compensation programs for executives and incentive programs for eligible employees. In addition, Meridian keeps the Compensation Committee apprised of regulatory developments and market trends related to executive compensation practices. Meridian does not determine the exact amount or form of executive compensation for and of the Named Executive Officers.

Benchmarking Compensation. The Committee assesses the components of executive compensation with advice from its independent compensation consultant. In prior years, Meridian has provided an analysis of base salary, annual incentive and long-term incentive practices of comparable companies in the financial industry. Meridian considered individual compensation elements as well as the total compensation package. This analysis was considered by the Committee, and served as a basis, when it established 2022 compensation opportunities for executives. In

conducting this analysis, the Committee reviewed market data using publicly disclosed compensation information from a peer group of comparable financial institutions ranging in asset size from \$1.7 billion to \$7.4 billion. In addition to asset size, peer group selection was also focused on banks with significant mortgage banking operations, a significant focus on real estate lending and/or banks that were recent mutual-to-stock conversions.

For 2022, the Compensation Committee approved the following peer group for purposes of evaluating the appropriateness of the compensation package for the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer, and Chief Retail Officer:

- Bank Financial Corporation, Burr Ridge, IL
- Cambridge Bancorp, Cambridge, MA
- Civista Bancshares, Inc., Sandusky, OH
- ESSA Bancorp, Inc., Stroudsburg, PA
- Farmers & Merchants Bancorp, Inc., Archbold, OH
- FS Bancorp, Inc., Mountlake Terrace, WA
- Greene County Bancorp, Inc., Catskill, NY
- HarborOne Bancorp, Inc., Brocton, MA
- Hingham Institution for Savings, Hingham, MA
- HomeStreet, Inc., Seattle, WA
- Independent Bank Corporation, Grand Rapids, MI
- Macatawa Bank Corporation, Holland, MI
- Metropolitan Bank Holding Corporation, New York, NY
- MVB Financial Corp., Fairmont, WV
- Northfield Bancorp, Inc., Woodbridge, NJ
- RBB Bancorp, Los Angeles, CA
- Sterling Bancorp, Inc., Southfield, MI
- Territorial Bancorp Inc., Honolulu, HI

Stock Ownership Guidelines. To align the interests of the Named Executive Officers and non-employee directors with the interests of the Company's shareholders, the Company maintains stock ownership guidelines, where Named Executive Officers are required to own shares of common stock equal to a specified multiple of their annual base salary and non-employee directors are required to own shares of common stock equal to a multiple of such director's annual board cash retainer. The applicable levels are as follows:

- Chief Executive Officer 3x base salary
- Chief Financial Officer 2x base salary
- Other NEOs 1x base salary
- Directors 3x annual board cash retainer

Named Executive Officers and non-employee directors have five years from the date that the individual first become subject to the guidelines to meet these ownership requirements. In calculating equity ownership for purposes of this requirement, we include all shares beneficially owned by an individual in the Company's benefit plans (e.g. 401(k) and Employee Stock Ownership Plan), shares of restricted stock and shares with respect to which an individual has voting or investment power. For purposes of our stock ownership requirements, we do not include unexercised stock options, whether vested or non-vested. As of December 31, 2022, all directors were in compliance with the Company's stock ownership guidelines. As of December 31, 2022, all Named Executive Officers that have been employed with the Company for at least five years were in compliance with the Company's stock ownership guidelines.

Clawback Policy. Our compensation program includes a Clawback Policy, which provides that in the event that the Company is required to prepare an accounting restatement due to its material noncompliance with financial reporting requirements under U.S. securities laws, the Company shall, to the extent permitted by governing law, pursue reimbursement of any performance-based compensation paid to a Named Executive Officer, to the extent such payments and grants were made to the Named Executive Officer during the three-year period preceding the date on which the Company is required to prepare an accounting restatement based on the erroneous data, provided that the Compensation Committee or determine that the amount of any such performance-based compensation actually paid

or awarded to the Named Executive Officer would have been a lower amount had it been calculated based on such restated financial statements.

Components of Executive Compensation

Overview. Our compensation program consists of five main components: base salary, annual incentives, long-term incentive/equity, broad-based welfare and retirement benefit plans and perquisites. The following section summarizes the role of each component, how decisions are made and the resulting 2022 decision process as it relates to the Named Executive Officers.

Base Salary. We provide a base salary for Named Executive Officers commensurate with the services provided to the Company. We believe that a portion of total direct compensation should be provided in a form that is fixed and liquid. In determining the base salary of executive officers for 2022, the Compensation Committee reviewed, among other things, third-party surveys of peer institutions, the historical compensation of those officers under review, any increased level of responsibility and performance measures of Waterstone Financial, Inc. and its subsidiaries. Base salaries for Named Executive Officers other than the Chief Executive Officer are determined based upon recommendations made by the Chief Executive Officer.

Name and Principal Position	2022 (\$)	2021 (\$)	Change (\$)	Change (%)
Douglas S. Gordon Chief Executive Officer of Waterstone Financial and WaterStone Bank	875,000	850,000	25,000	2.9
William F. Bruss President, Chief Operating Officer and General Counsel of Waterstone Financial and WaterStone Bank	376,000	365,000	11,000	3.0
Mark R. Gerke Chief Financial Officer of Waterstone Financial and WaterStone Bank	257,500	250,000	7,500	3.0
Julie A. Glynn Chief Retail Officer of WaterStone Bank	236,900	230,000	6,900	3.0
Ryan J. Gordon Chief Credit Officer of WaterStone Bank	226,600	-	-	-
Jeffrey R. McGuiness Chief Executive Officer and President of Waterstone Mortgage Corporation	425,000	400,000	25,000	6.25

Annual Incentive Plan. We maintain an Annual Incentive Plan which provides Named Executive Officers of WaterStone Bank with annual cash incentive opportunities for annual performance. The ability to earn any award is primarily contingent on the Company achieving consolidated financial-based metrics. These metrics are measured against actual results or actual results compared to our annual budget. The objective of our Annual Incentive Plan is to motivate and reward executives for achieving or exceeding annual financial, strategic and operational goals that we believe will help us maintain long-term profitable growth, maintain asset quality and support value creation for shareholders. The Chief Executive Officer of Waterstone Mortgage Corporation did not participate in the Annual Incentive Plan during the year ended December 31, 2022. Mr. McGuiness participated in a cash-based annual incentive plan as set forth in his employment agreement.

Incentive awards are calculated based upon the Company's performance in one of three weighted financial-based measures along with a potential discretionary portion contingent upon achievement of strategic or operational non-financial objectives. With respect to the financial-based measures, performance was measured against the Board-approved 2022 budget. To receive any award under the Annual Incentive Plan, the Named Executive Officer must be actively employed on the day the award is made.

Performance Measures

In designing the Annual Incentive Program, the Compensation Committee emphasized the Company's goals of maintaining profitability and enhancing our franchise value through growth of our commercial loan portfolio and core deposits. The Compensation Committee determined that to encourage these goals, the Annual Incentive Plan would include the following performance measures:

Performance Measure	Evaluated Against	Rationale
Earnings Per Share	Budget	Focuses management on achieving budgeted net income.
Commercial Loan Growth	Budget	Focuses management on enhancing franchise value through growth of the Commercial Real Estate and Commercial and Industrial segments of the loan portfolio.
Core Deposit Growth	Budget	Focuses management on less costly deposits and growth of business and retail checking and savings accounts, which will help to improve net interest margin.
Individual Performance		Contingent on individual achievement of strategic or operational non-financial objectives.

Target Annual Incentive Opportunities

Target incentive awards are defined at the beginning of the year in consideration of market data, each NEO's total compensation package and the Company's budgetary considerations. The following table sets forth information concerning Annual Incentive Plan opportunities for 2022:

Name	Threshold (\$)	Target		
		Amount (\$)	% of Annual Base Salary	Maximum (\$)
Douglas S. Gordon	218,750	437,500	50.0%	656,250
William F. Bruss	94,000	150,400	40.0%	206,800
Mark R. Gerke	64,375	96,563	37.5%	128,750
Julie A. Glynn	59,255	88,838	37.5%	118,450
Ryan J. Gordon	56,650	84,975	37.5%	113,300

Performance Measures

Each NEO had pre-defined performance objectives based upon measurable performance of our Company. In addition, each NEO had the opportunity to earn incentive award based upon individual performance.

The weights of the performance objectives for each NEO for 2022 are summarized in the following table:

Name	Earnings Per Share	Commercial Loan Growth	Core Deposit Growth	Individual Performance
Douglas S. Gordon	50%	20%	10%	20%
William F. Bruss	50%	20%	10%	20%
Mark R. Gerke	50%	20%	10%	20%
Julie A. Glynn	50%	10%	20%	20%
Ryan J. Gordon	50%	20%	10%	20%

Performance Results and Payouts

The Committee determines the final amount of each participant's award based upon the attainment of the applicable performance goals. Each element of the annual cash incentive award is independent of the other. Accordingly, the Named Executive Officer may achieve certain performance goals, while at the same time fail to achieve others. In that case, the Named Executive Officer would be entitled to receive the award for the performance goal achieved, but not an award for a performance goal for which the threshold performance was not achieved. 2022 performance goals and actual performance were as follows:

2022 Performance Measure	Threshold	Target	Maximum	Actual	Achievement as a % of Target
Earnings Per Share	\$1.10	\$1.34	\$1.76	\$0.89	66.4%
Commercial Loan Growth (in thousands)	\$10,000	\$30,000	\$50,000	\$139,212	464.0%
Core Deposit Growth (in thousands)	\$5,000	\$15,000	\$25,000	\$(41,607)	(277.4)%

Based upon the above financial performance measures and the Committee's discretion with respect to individual performance, the 2022 annual cash incentive payments were awarded as follows relative to the 2022 target value:

Name	2022 Annual Incentive Payment (\$)	% of 2022 Target Annual Incentive
Douglas S. Gordon	262,500	60.0%
William F. Bruss	82,720	55.0%
Mark R. Gerke	51,500	53.3%
Julie A. Glynn	35,535	40.0%
Ryan J. Gordon	45,320	53.3%

Annual Incentive Plan – Waterstone Mortgage Corporation. We maintain an Annual Incentive Plan which provides executive officers of Waterstone Mortgage Corporation with annual cash incentive opportunities for annual performance. The ability to earn any award is primarily contingent on the Company achieving financial-based metrics relative to the mortgage banking operation segment. These metrics are measured against actual results or actual results compared to our annual budget. The objective of our Annual Incentive Plan is to motivate and reward executives for achieving or exceeding annual financial, strategic and operational goals that we believe will help us maintain long-term profitable growth, maintain asset quality and support value creation for shareholders. Incentive awards are calculated based upon the Waterstone Mortgage Corporation's performance relative to pre-tax income. Performance was measured against the Board-approved 2022 budget. To receive any award under the Annual Incentive Plan, the Named Executive Officer must be actively employed on the day the award is made.

Performance Measure	Evaluated Against	Rationale
Pre-tax income in excess of 20% of Waterstone Mortgage Corporation's average equity during 2022	Budget	Focuses management on achieving budgeted net income.

Target Annual Incentive Opportunities

Target incentive awards are defined at the beginning of the year in consideration of market data, Mr. McGuinness' total compensation package and the Company's budgetary considerations. The following table sets forth information concerning Annual Incentive Plan opportunities for 2022:

Name	Threshold (\$)	Target		Maximum (\$)
		Amount (\$)	% of Annual Base Salary	
Jeffrey R. McGuinness	106,250	212,500	50%	318,750

Performance Results and Payouts

The Committee determines the final amount of each participant's award based upon the attainment of the applicable performance goal. The 2022 performance goals and actual performance were as follows (dollars in thousands):

2022 Performance Measure	Threshold	Target	Maximum	Actual	Achievement as a % of Target
Waterstone Mortgage pre-tax income in excess of a 20% preferred return on average equity	\$10,625	\$17,750	\$24,875	(\$10,478)	N/M

As a result of Waterstone Mortgage Corporation's performance relative to the target metric, Mr. McGuinness did not qualify for or receive the incentive payment for 2022.

Equity-Based Compensation. The overall objective for our equity-based compensation is to provide an equitable and competitive means to reward our officers for their contributions to our long-range success. Our goal is to meet the following objectives:

- Align the interests of our officers with the interests of shareholders by linking the long-term value of the compensation to shareholder returns
- Link each participant's compensation to our long-term success through the appreciation of the stock price
- Retention through longer vesting schedules and enhanced shareholder value due to the value of grants being tied to the trading price of our common stock

All equity awards granted to the Named Executive Officers of Waterstone Financial, Inc. are at the discretion of the Compensation Committee. The Compensation Committee considers the position of the Named Executive Officer, the officer's level of influence and the corresponding ability to contribute toward the success of Waterstone Financial, Inc., and individual and corporate performance as well as the level of equity awards granted to individuals with similar positions at similar companies.

In prior years, we have utilized restricted stock as our primary long-term incentive tool to retain and motivate our key employees. We believe this is an excellent way to reward them for, and to motivate them toward, superior performance.

In the event of an involuntary termination of employment following a change in control, the unvested equity incentive awards held by each recipient will vest automatically.

2022 Long-Term Performance-Based Equity Compensation Plan. The Company maintains a Long-Term Performance-Based Equity Compensation Plan, which provides Named Executive Officers with annual awards of restricted stock. In order to become vested in their restricted stock, our executive officers will need to be employed throughout the three-year performance period of 2022 to 2024, which satisfies a retention goal, and the Company must meet certain pre-determined financial performance goals. The Compensation Committee believes it is important for the restricted stock, which is intended to be a long-term incentive, to focus our executive officers on, and reward them

for, the achievement of multi-year performance objectives. The performance goals will be set at a target performance level. If the Company meets the target performance level, the executive officers would be vested in the number of shares designated as the “target award.” Performance levels would also be set at a maximum level to provide an incentive for superior performance, and at a threshold level, below which no shares would be earned. Depending on the Company’s performance relative to the performance goals, the executive officers could earn between 0% and 150% of the target award.

Performance Measures

In designing the Long-Term Performance-Based Equity Plan, the Compensation Committee emphasized the Company’s goal of maintaining a high level of profitability as we strategically deploy our excess capital. The Compensation Committee determined that to encourage these goals, the Annual Incentive Plan would include the following performance measure:

Performance Measure	Evaluated Against	Rationale
Return on Average Assets (For the years 2022, 2023 and 2024)	Budget	Focuses management on achieving a level of return that continues to exceed that of our peer group.

Target Long-Term Performance-Based Equity Award Opportunity

Target equity awards are defined at the beginning of the year in consideration of, market data, each NEO’s total compensation package and the Company’s budgetary considerations. The following table sets forth information concerning Target Long-Term Performance-Based Equity Award opportunities for 2022:

Name	Target			
	Threshold (\$)	(\$)	% of Annual Base Salary	Maximum (\$)
Douglas S. Gordon	43,750	87,500	10%	131,250
William F. Bruss	18,800	37,600	10%	56,405
Mark R. Gerke	12,875	25,750	10%	38,627
Julie A. Glynn	11,845	23,690	10%	35,537
Ryan J. Gordon	11,330	22,660	10%	33,983

During 2022, our Compensation Committee awarded grants of 6,755 shares of performance-based restricted stock to Mr. D. Gordon, 2,903 shares to Mr. Bruss, 1,988 shares to Mr. Gerke, 1,829 shares to Ms. Glynn and 1,749 shares to Mr. R. Gordon. The number of shares granted is based upon the assumption of achievement at a “maximum” performance level. The actual number of shares that may ultimately vest for each NEO will be based upon achievement level relative to the Company’s return on average assets for the three-year performance period of 2022 to 2024. In addition, each NEO will need to be employed through the duration of that same three-year performance period. In the event of an involuntary termination of employment following a change in control, the unvested equity incentive awards held by each recipient will vest automatically.

Bonus. During 2022, the Compensation Committee awarded a cash bonus of \$40,000 to Mr. Bruss, \$30,000 to Mr. Gerke, \$29,000 to Ms. Glynn and \$28,000 to Mr. R. Gordon. By awarding a cash bonus, it was the intent of the Compensation Committee to recognize the efforts of these individuals in a year in which significant changes in market conditions such as interest rates, reduced consumer demand for mortgage products and a shift in consumer preference from core deposit products to higher cost time deposits resulted in a significant impact on the Annual Incentive Plan. With respect to each individual, the cash bonus noted above, when combined with the cash award earned under the Annual Incentive Plan, remained below the targeted annual incentive opportunity available under the Annual Incentive Plan.

Broad-Based Welfare and Retirement Benefit Plans. The purpose of welfare and retirement benefit plans are to ensure our compensation packages are competitive and to provide an opportunity for retirement savings. We maintain a number of broad-based welfare benefit plans that are available to our employees, including Named Executive Officers. We provide group medical, dental and vision insurance coverage plans to employees, with employees being responsible for a portion of the premiums.

We also offer our employees, including Named Executive Officers, participation in tax-qualified defined contribution plans.

WaterStone Bank Employee Stock Ownership Plan (ESOP). The ESOP is a tax-qualified retirement plan that benefits all eligible WaterStone Bank employees proportionately. The ESOP is not separately considered in the review and evaluation of annual executive compensation. ESOP allocations are made annually as of December 31 to all eligible WaterStone Bank employees. An employee must complete a full year of service and be employed by us on December 31 in order to receive an annual allocation each year. A trustee holds the shares purchased by the ESOP in an unallocated suspense account. Shares are released from the suspense account on a pro-rata basis as the ESOP repays the loan. The trustee allocates the shares released among participants on the basis of the participant's proportional share of compensation relative to all participants. In the event of plan termination, all allocated benefits become fully vested immediately, any outstanding loan will be repaid from shares in the unallocated suspense account and the amounts remaining in the suspense account will be allocated to participant accounts proportionally. Dividends paid with respect to shares of Waterstone Financial, Inc. stock in the unallocated suspense account may be used to repay the ESOP loan. To the extent the dividends exceeded the annual loan payment, the remaining dividend amount would cause additional shares to be allocated to participants or may be credited proportionately to participant accounts.

WaterStone Bank 401(k) Plan. WaterStone Bank maintains the WaterStone Bank 401(k) Plan, a tax-qualified defined contribution retirement plan, for all WaterStone Bank, including Named Executive Officers, who have satisfied the 401(k) Plan's eligibility requirements. All eligible employees can begin participation in the 401(k) Plan on the first day of the month that coincides with or follows the date the employee attains age 18. A participant may contribute up to 90% of his or her compensation to the 401(k) Plan on a pre-tax basis, subject to the limitations imposed by the Internal Revenue Code. A participant is 100% vested in his or her salary deferral contributions. In addition to salary deferral contributions, the 401(k) Plan provides that WaterStone Bank will make matching contributions on 20% of the first 5% of the participant's salary that is contributed to the 401(k) Plan.

Waterstone Mortgage 401(k) Plan. Waterstone Mortgage Corporation maintains the Waterstone Mortgage 401(k) Plan, a tax-qualified defined contribution retirement plan, for all Waterstone Mortgage Corporation employees, including Named Executive Officers, who have satisfied the 401(k) Plan's eligibility requirements. All eligible employees can begin participation in the 401(k) Plan on the first day of the month that coincides with or follows the date the employee attains age 21 and completes 60 days of service. A participant may contribute up to 100% of his or her eligible compensation to the 401(k) Plan on a pre-tax basis, subject to the limitations imposed by the Internal Revenue Code. A participant is 100% vested in his or her salary deferral contributions. In addition to salary deferral contributions, the 401(k) Plan provides that Waterstone Mortgage Corporation will make matching contributions on 50% of the first 6% of the participant's salary that is contributed to the 401(k) Plan.

Perquisites. Perquisites comprise a small portion of our total compensation package. The main perquisites we provide are use of a company-owned vehicle or an automobile allowance for selected officers. Although these perquisites may involve personal use, we believe that they are reasonable and consistent with the overall compensation program to assist with attracting and retaining executive officers.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the section of this Proxy Statement entitled “Compensation Discussion and Analysis” with management. Based on this review and discussion, the Compensation Committee recommended to the board of directors that the “Compensation Discussion and Analysis” be included in this Proxy Statement.

Compensation Committee:
Ellen S. Bartel
Patrick S. Lawton (Chair)
Stephen J. Schmidt
Derek L. Tyus

PROPOSAL 3 – ADVISORY VOTE ON EXECUTIVE COMPENSATION

The compensation of our principal executive officer, principal financial officer and the four other most highly compensated executive officers of the Company (“Named Executive Officers”) is described above in general and is shown in detail in the Executive Compensation and Compensation Discussion and Analysis sections. Shareholders are urged to read the Executive Compensation and Compensation Discussion and Analysis sections of this Proxy Statement, which discusses our compensation policies and procedures with respect to our Named Executive Officers.

In accordance with Section 14A of the Exchange Act, shareholders will be asked at the Annual Meeting to provide their support with respect to the compensation of our Named Executive Officers by voting on the following advisory, non-binding resolution:

RESOLVED, that the compensation paid to the “Named Executive Officers,” as disclosed in the Company’s Proxy Statement for the 2022 Annual Meeting of Shareholders pursuant to Item 402 Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, the 2022 compensation tables and narrative discussion is hereby approved.

We will hold annual say-on-pay votes until the next shareholders vote regarding the frequency of say-on-pay votes, which we expect to occur at the 2026 annual meeting of shareholders.

This advisory vote, commonly referred to as a “say-on-pay” advisory vote, is non-binding on the board of directors. Although non-binding, the board of directors and the Compensation Committee value constructive dialogue on executive compensation and other important governance topics with our shareholders and encourage all shareholders to vote their shares on this matter. The board of directors and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding our executive compensation.

Unless otherwise instructed, validly executed proxies will be voted “FOR” this resolution.

The board of directors unanimously recommends that you vote “FOR” the resolution set forth in Proposal 3.

EXECUTIVE COMPENSATION

Summary Compensation Table. The following table shows the compensation of our Named Executive Officers, including Douglas S. Gordon, our principal executive officer, Mark R. Gerke, our principal financial officer, and the four other highest paid executive officers who received total compensation of more than \$100,000 during the year ended December 31, 2022. The “Change in Pension Value and Nonqualified Deferred Compensation Earnings” and “Options Awards” columns have been omitted since a Named Executive Officer did not earn any compensation during the listed years of a type required to be disclosed in this column during the years listed.

SUMMARY COMPENSATION TABLE							
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Non-Equity Incentive Plan Compensation (\$)	All Other \$(2)	Total (\$)
Douglas S. Gordon Chief Executive Officer of Waterstone Financial and WaterStone Bank	2022	875,000	—	131,250	262,500	72,839	1,341,589
	2021	850,000	—	127,509	541,875	77,971	1,597,355
	2020	850,000	—	—	562,932	63,026	1,475,958
William F. Bruss Chief Operating Officer and General Counsel of Waterstone Financial and WaterStone Bank	2022	376,000	40,000	56,405	82,720	74,315	629,440
	2021	365,000	—	54,759	155,125	78,055	652,939
	2020	357,000	—	—	166,490	67,847	591,337
Mark R. Gerke Chief Financial Officer of Waterstone Financial and WaterStone Bank	2022	257,500	30,000	38,627	51,500	70,443	448,070
	2021	250,000	—	37,495	106,250	75,689	469,434
	2020	242,000	—	—	45,614	72,667	360,281
Julie A. Glynn Senior Vice President and Director of Retail of WaterStone Bank	2022	236,900	29,000	35,537	35,535	66,847	403,819
	2021	229,807	—	34,507	73,600	72,907	410,821
	2020	219,000	—	—	82,105	57,996	359,101
Ryan J. Gordon Senior Vice President and Chief Credit Officer of WaterStone Bank	2022	226,600	28,000	33,983	45,320	74,068	407,971
Jeffrey R. McGuiness President of Waterstone Mortgage Corporation (3)	2022	425,000	—	—	—	10,250	435,250
	2021	400,000	—	135,009	300,000	14,308	849,317
	2020	30,769	—	—	325,000	—	355,769

- (1) Reflects the aggregate grant-date fair value of the stock awards granted during the years shown as calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. The assumptions used in the valuation of these awards are included in the "Stock Based Compensation" footnote to Waterstone Financial's audited financial statements for the years ended December 31, 2022, 2021, and 2020 included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission.
- (2) A detailed breakdown of "All Other Compensation" for 2022 is provided in the table below.
- (3) Mr. McGuiness commenced employment with the Company on November 16, 2020. The 2020 salary in the above table reflects the pro-rated amount paid to Mr. McGuiness of his annual \$400,000 2020 base salary. In 2021, Mr. McGuiness received a cash-based sign-on bonus in the amount of \$325,000, and the sign-on bonus will not be earned in full until December 31, 2023.

All Other Compensation

Name and Principal Position	401(k) Match (\$)	Employee Stock Ownership Plan (\$)	Automobile Expense Allowance \$(1)	Total (\$)
Douglas S. Gordon	527	62,262	10,050	72,839
William F. Bruss	1,199	62,262	10,854	74,315
Mark R. Gerke	1,996	62,262	6,185	70,443
Julie A. Glynn	732	62,262	3,853	66,487
Ryan J. Gordon	2,262	61,449	10,357	74,068
Jeffrey R. McGuiness	10,250	—	—	10,250

- (1) In lieu of an automobile allowance, Mr. McGuiness received compensation for travel expenses to/from Milwaukee, Wisconsin.

Realized Compensation

To supplement the SEC required disclosure in the above Summary Compensation Table, the following additional table has been included to show the total compensation realized by each Named Executive Officer in each of the years shown. The Summary Compensation Table, as calculated under the SEC rules, includes items that are impacted by accounting assumptions and also may include amounts that are not ultimately realized, and therefore that table may not necessarily be reflective of realized compensation in a particular year. Accordingly, the Company believes that this table is useful to shareholders.

The table below shows compensation realized by each Named Executive Officer. For purposes of this presentation, realized compensation includes, base salary, performance-based cash bonus and all other compensation, all of which are included in the SEC required disclosure in the above Summary Compensation Table. To approximate an amount that represents realized compensation, the following table also includes an amount that represents the value realized upon the vesting of restricted stock awards and omits the grant date fair value of stock or option awards that have not vested.

REALIZED COMPENSATION							
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Non-Equity Incentive Plan Compensation (\$)	Value Realized on Stock Awards Vesting (\$)	All Other (\$)	Total (\$)
Douglas S. Gordon Chief Executive Officer of Waterstone Financial and WaterStone Bank	2022	875,000	—	262,500	—	72,839	1,208,897
	2021	850,000	—	541,875	—	77,971	1,469,846
	2020	850,000	—	562,932	—	63,026	1,475,958
William F. Bruss Chief Operating Officer and General Counsel of Waterstone Financial and WaterStone Bank	2022	376,000	40,000	82,720	—	74,315	573,035
	2021	365,000	—	155,125	—	78,055	598,180
	2020	357,000	—	166,490	—	67,847	591,337
Mark R. Gerke Chief Financial Officer of Waterstone Financial and WaterStone Bank	2022	257,500	30,000	51,500	—	70,443	409,443
	2021	250,000	—	106,250	—	75,689	431,939
	2020	242,000	—	45,614	59,720	72,667	420,001
Julie A. Glynn Senior Vice President and Director of Retail of WaterStone Bank	2022	236,900	29,000	35,535	—	66,847	368,282
	2021	229,807	—	73,600	—	72,907	376,314
	2020	219,000	—	82,105	—	57,996	359,101
Ryan J. Gordon Senior Vice President and Chief Credit Officer of WaterStone Bank	2022	226,600	28,000	45,320	—	74,068	373,988
Jeffrey R. McGuiness President of Waterstone Mortgage Corporation	2022	423,557	—	—	—	10,250	433,807
	2021	400,000	—	300,000	—	14,308	714,308
	2020	30,769	—	325,000	—	—	30,769

CEO Pay Ratio Disclosure

As required by applicable SEC rules, we are providing the following information about the relationship of the annual total compensation for our median employee to the annual total compensation of Mr. Gordon, our Chief Executive Officer. For 2022, our last completed year:

- The annual total compensation of our median employee, other than our Chief Executive Officer, was \$73,451; and
- The annual total compensation of Mr. Gordon, our Chief Executive Officer, as reported in the Summary Compensation Table included elsewhere in this proxy statement was \$1,341,589.

Based on this information, for 2022 the ratio of the annual total compensation of our Chief Executive Officer to the annual total compensation of our median employee was 18.3 to 1.

We completed the following steps to identify the median employee:

- As of December 31, 2022, our employee population consisted of approximately 721 employees, including any full-time, part-time, temporary, or seasonal employees employed on that date.
- To find the median of the annual total compensation of our employees (other than our CEO), we used wages from our payroll records as reported to the Internal Revenue Service on Form W-2 for fiscal 2022. In making this determination, we annualized compensation for full-time and part-time permanent employees who were employed on December 31, 2022, but did not work for us the entire year. No full-time equivalent adjustments were made for part-time employees.
- We identified our median employee using this compensation measure and methodology, which was consistently applied to all our employees included in the calculation.

The required CEO pay ratio information reported above is a reasonable estimate calculated in a manner consistent with SEC rules based on the methodologies and assumptions described above. SEC rules for identifying the median employee and determining the CEO pay ratio permit companies to employ a wide range of methodologies, estimates and assumptions. As a result, the CEO pay ratios reported by other companies, which may have employed other permitted methodologies or assumptions and which may have a significantly different work force structure from the Company's, is likely not comparable to the Company's SEC-required CEO pay ratio.

Pay Versus Performance Disclosure

In accordance with rules adopted by the SEC pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, we provide the following disclosure regarding executive compensation for our principal executive officer ("PEO") and Non-PEO NEOs and Company performance for the fiscal years listed below. The Compensation Committee did not consider the pay versus performance disclosure below in making its pay decisions for any of the years shown.

Year	PEO		Average Non-PEO NEOs	Average Non-PEO NEOs	Value of Initial Fixed \$100 Investment (4)		Net Income (\$ Thousands)	Return on Average Assets (5)
	Summary Compensation Table Total (1)	Compensation Actually Paid (1,2,3)	Summary Compensation Table Total (1)	Compensation Actually Paid (1,2,3)	TSR	Peer TSR (\$)		
2022	\$ 1,341,589	\$ 1,219,309	\$ 479,145	\$ 423,513	\$ 111.95	\$ 96.44	\$ 19,487	0.96%
2021	1,597,355	1,559,400	595,628	598,819	132.89	116.46	70,791	3.20%
2020	1,475,958	1,470,558	416,622	411,352	107.32	94.42	81,145	3.77%

1. Douglas S. Gordon was our PEO for each year presented. The individuals comprising the Non-PEO named executive officers for each year presented are listed below.

2020	2021	2022
William F. Bruss	William F. Bruss	William F. Bruss
Mark R. Gerke	Mark R. Gerke	Mark R. Gerke
Julie A. Glynn	Julie A. Glynn	Ryan J. Gordon
Jeffrey R. McGuinness	Jeffrey R. McGuinness	Julie A. Glynn
		Jeffrey R. McGuinness

2. The amounts shown for Compensation Actually Paid have been calculated in accordance with Item 402(v) of Regulation S-K and do not reflect compensation actually earned, realized, or received by the Company's NEOs. These amounts reflect the Summary Compensation Table Total with certain adjustments as described in footnote 3 below.
3. Compensation Actually Paid reflects the exclusions and inclusions of certain amounts for the PEO and the Non-PEO NEOs as set forth below. Equity values are calculated in accordance with FASB ASC Topic 718.

Amounts in the Exclusion of Stock Awards column are the totals from the Stock Awards column set forth in the Summary Compensation Table.

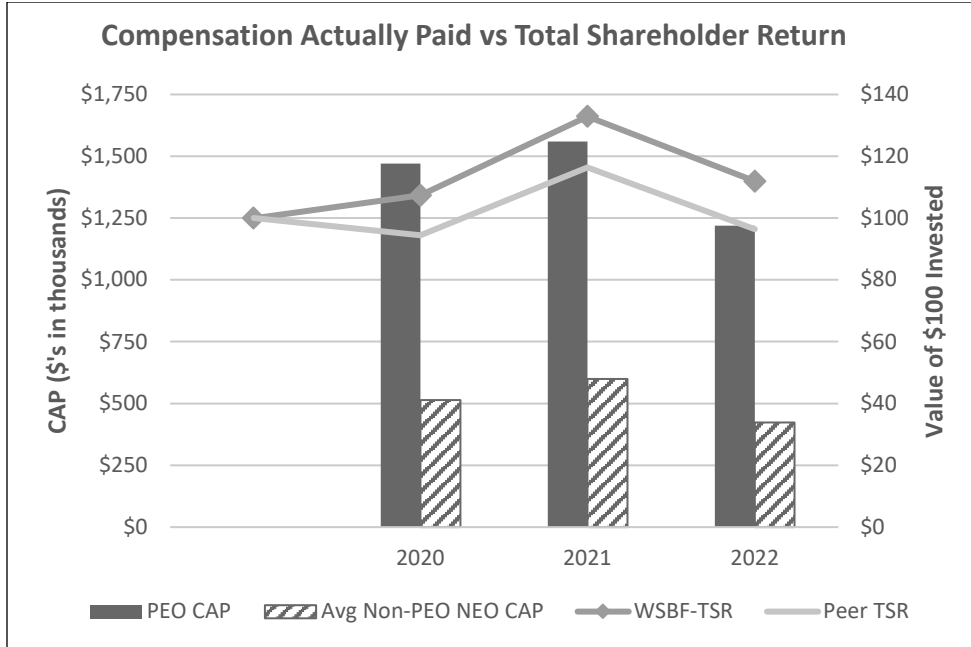
Compensation for PEO	2022	2021	2020
Total compensation as reported in the Summary Compensation Table (SCT)	\$ 1,341,589	1,597,355	1,475,958
Exclusion of change in in pension value	—	—	—
Exclusion of stock awards granted during the year	(131,250)	(127,509)	—
Pension value attributable to current year's service and any change in pension value attributable to plan amendments made in the current year	—	—	—
Fair value of equity compensation granted in current year that remained unvested as of the last day of the year—value at end of year-end	—	89,554	—
Change in fair value for end of prior fiscal year to vesting date for awards made in prior fiscal years that vested during current fiscal year	—	—	(5,400)
Change in fair value from end of prior fiscal year to end of current fiscal year for awards made in prior fiscal years that were unvested at end of current fiscal year	8,970	—	—
Dividends or other earnings paid on stock or options awards in the covered fiscal year prior to the vesting date that are not otherwise included in the total compensation for the covered fiscal year	—	—	—
Fair value of awards forfeited in current year determined at end of prior fiscal year	—	—	—
Compensation Actually Paid to CEO	\$ 1,219,309	1,559,400	1,470,558

Compensation for Non-PEO NEO's	2022	2021	2020
Total compensation as reported in the Summary Compensation Table (SCT)	\$ 464,910	\$ 595,628	\$508,930
Exclusion of change in in pension value	—	—	—
Exclusion of stock awards granted during the year	(32,910)	(65,443)	—
Pension value attributable to current year's service and any change in pension value attributable to plan amendments made in the current year	—	—	—
Fair value of equity compensation granted in current year that remained unvested as of the last day of the year—value at end of year-end	—	61,234	—
Change in fair value for end of prior fiscal year to vesting date for awards made in prior fiscal years that vested during current fiscal year	(2,072)	3,420	(20)
Change in fair value from end of prior fiscal year to end of current fiscal year for awards made in prior fiscal years that were unvested at end of current fiscal year	(6,414)	3,980	1,156
Dividends or other earnings paid on stock or options awards in the covered fiscal year prior to the vesting date that are not otherwise included in the total compensation for the covered fiscal year	—	—	3,072
Fair value of awards forfeited in current year determined at end of prior fiscal year	—	—	—
Compensation Actually Paid to Non-PEO NEO's	\$ 423,514	598,819	513,138

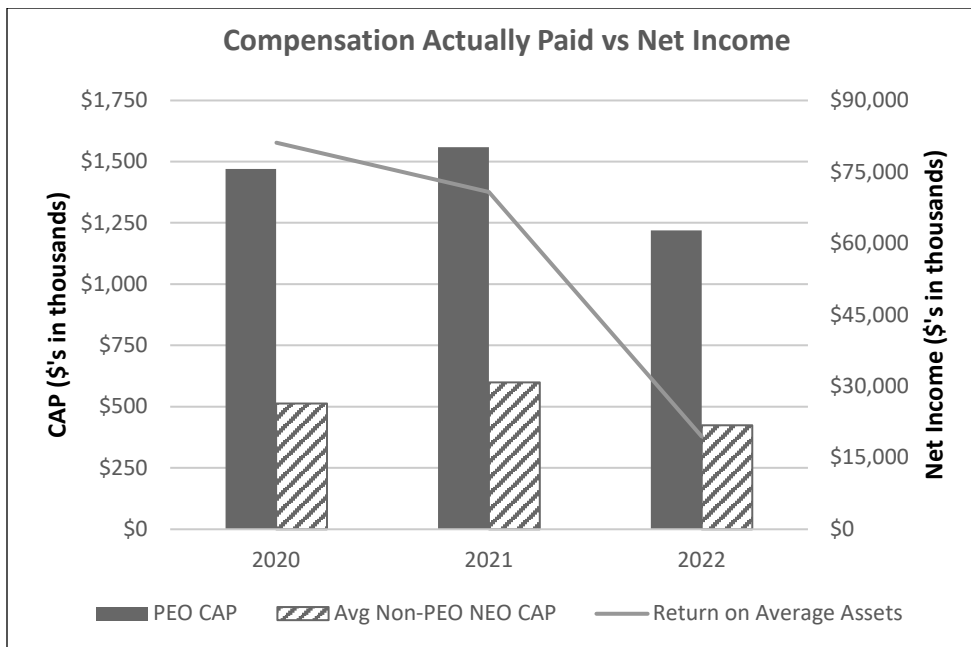
- The Peer Total Shareholder Return (“TSR”) set forth in this table represents the cumulative TSR of the S&P Composite 1500 Thrifts & Mortgage Finance Index, which we also utilize in the stock performance graph required by Item 201(e) of Regulation S-K included in our Annual Report on Form 10-K for the year ended December 31, 2022. The comparison assumes \$100 was invested for the period starting December 31, 2019, through the end of the listed year in the Company and in the S&P composite 1500 Thrifts & Mortgage Finance Index, respectively. All dollar values assume reinvestment of the pre-tax value of dividends paid by companies, where applicable, included in the peer group.
- We determined Return on Average Assets to be the most important financial performance measure used to link Company performance to Compensation Actually Paid to our PEO and Non-PEO NEOs in 2022. This performance measure may not have been the most important financial performance measure for years 2021 and 2020 and we may determine a different financial performance measure to be the most important financial performance measure in future years.

Relationship Between Compensation Actually Paid and Certain Financial Performance Measures

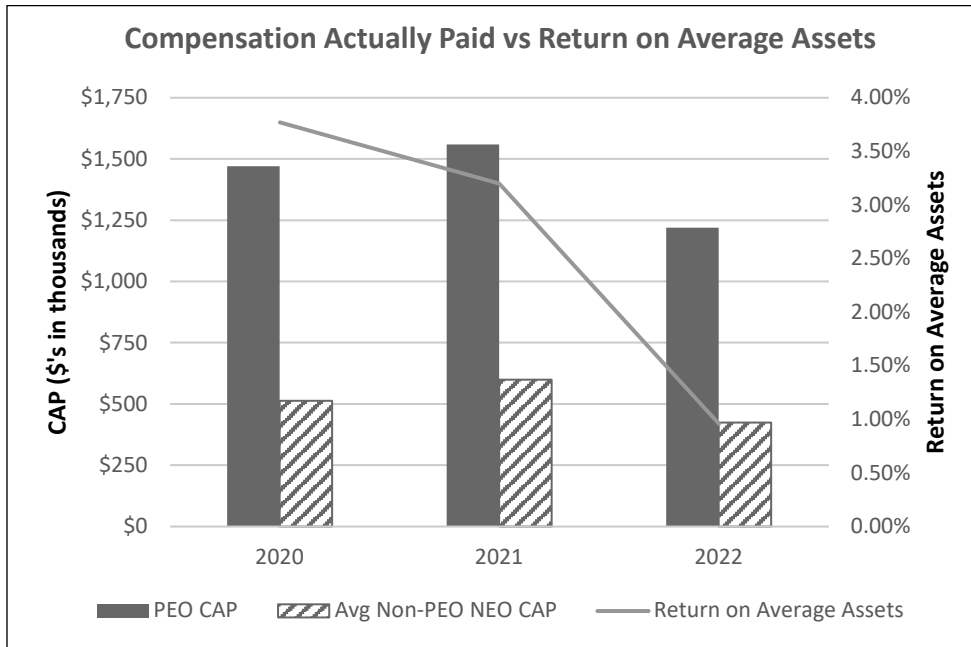
The following graph compares compensation actually paid (“CAP”) to our PEO and the average compensation actually paid to our other NEO’s to i) our cumulative total shareholder return (“TSR”), and ii) S&P Composite 1500 Thrifts & Mortgage Finance Index for the fiscal years ended December 31, 2020, 2021 and 2022.



The following graph compares compensation actually paid (“CAP”) to our PEO and the average compensation actually paid to our other NEO’s to the Company’s net income for the fiscal years ended December 31, 2020, 2021 and 2022.



The following graph compares compensation actually paid (“CAP”) to our PEO and the average compensation actually paid to our other NEO’s to the Company’s return on average assets for the fiscal years ended December 31, 2020, 2021 and 2022.



Financial Performance Measures

As described in greater detail in the Compensation Discussion & Analysis”, our approach to executive compensation is designed to directly link pay to performance, recognize both corporate and individual performance, promote long-term stock ownership, attract, retain and motivate talented executives, and balance risk and reward while taking into consideration stakeholder feedback as well as market trends and practices. The most important financial measures used by the company to link compensation actually paid (as defined by SEC rules) to the company’s named executive officers for the most recently completed fiscal year to the company’s performance are:

- Return on Average Assets;
- Earnings Per Share; and
- Total Shareholder Return.

Analysis of the Information Presented in the Pay versus Performance Table

While we utilize several performance measures to align executive compensation with performance, all of those measures are not presented in the Pay versus Performance table. Moreover, the Company generally seeks to incentivize long-term performance, and therefore does not specifically align the company’s performance measures with compensation that is actually paid (as defined by SEC rules) for a particular year. In accordance with Item 402(v) of Regulation S-K, we are providing the following graphic descriptions of the relationships between compensation actually paid and cumulative total shareholder return, net income and return on average assets.

Employment Agreements

Employment Agreement with Douglas S. Gordon. WaterStone Bank has entered into an employment agreement with Douglas S. Gordon, its Chief Executive Officer. Commencing on January 1, 2015 (the “Anniversary Date”) and continuing each January 1st thereafter, the term shall renew for an additional year such that the remaining term of this agreement is always three years, unless written notice of non-renewal is provided to Mr. Gordon at least 30 days prior to such Anniversary Date, in which case the term of this agreement shall become fixed and shall end two years following such Anniversary Date. Under the agreement, Mr. Gordon’s annual base salary for 2023 is \$475,000. In addition, Mr. Gordon is entitled to participate in the employee benefit plans, arrangements and perquisites offered by WaterStone Bank and is entitled to participate in any incentive compensation or bonus plan or arrangement of WaterStone Bank or Waterstone Financial in which he is eligible to participate. The Bank will also pay or reimburse him for business expenses incurred, pay or reimburse him for annual country club dues and furnish him an automobile or reimburse him for the expense of leasing an automobile and for reasonable expenses associated with the use of such automobile.

In the event of Mr. Gordon’s involuntary termination of employment for reasons other than cause, disability, death or retirement, or in the event Mr. Gordon resigns during the term of the agreement for “good reason” (as defined in the agreement), subject to his execution and non-revocation of a mutual release of claims, Mr. Gordon will receive a lump-sum severance payment equal to the sum of (i) his earned but unpaid salary as of the date of his termination of employment, (ii) the benefits he is entitled to as a former employee under the employee benefit plans maintained by WaterStone Bank or Waterstone Financial, (iii) the remaining base salary and bonuses Mr. Gordon would have earned if he had continued his employment for the remaining term of the Agreement and had earned a bonus and/or incentive award in each year in an amount equal to the average bonus and/or incentive award earned by him over the three calendar years preceding the year in which the termination occurs, (iv) the annual contributions or payments that would have been made on Mr. Gordon’s behalf to any employee benefit plans of WaterStone Bank or Waterstone Financial as if Mr. Gordon had continued his employment with WaterStone Bank for the remaining term of the agreement, and (v) the annual payments that would have been made related to membership in a country club and the use of an automobile for the remaining term of the Agreement. Upon the occurrence of an event of termination described above, Mr. Gordon will be entitled to continued life insurance coverage and non-taxable medical and dental insurance coverage for the remaining term of the agreement.

Upon termination of Mr. Gordon’s employment by Waterstone Financial or WaterStone Bank for reasons other than cause following a change in control of Waterstone Financial or WaterStone Bank, or Mr. Gordon’s resignation due to good reason following a change in control, Mr. Gordon will receive a lump sum payment within 30 days after the date of termination substantially similar to the payment that he would receive on such a termination without regard to a change in control, except that such payments will be for a period of 36 months from date of termination. Mr. Gordon’s payment described in clause (iii), above, will be based on the highest annual bonus and/or incentive award earned by him in any of the three calendar years preceding the year in which the termination occurs. Also, the annual contributions or payments that would have been made on Mr. Gordon’s behalf to any employee benefit plans of the Bank or the Company as if Executive had continued his employment with the Bank for a period of 36 months following the Date of Termination, based on contributions or payments made (on an annualized basis) at the Date of Termination and the annual payments that would have been made on Mr. Gordon’s behalf if he had continued his employment with the Bank for a period of 36 months following the Date of Termination. Upon the occurrence of an event of termination described above, Mr. Gordon will be entitled to continued life insurance coverage and non-taxable medical and dental insurance coverage for a period of 36 months from the date of termination.

In the event of Mr. Gordon’s disability and subsequent termination of employment, Mr. Gordon will receive the benefits provided under any disability program sponsored by Waterstone Financial or WaterStone Bank. To the extent such benefits are less than Mr. Gordon’s base salary at the date of termination, and less than 66 2/3% of Mr. Gordon’s base salary after the first year following termination, Mr. Gordon will be entitled to the difference between the disability benefits provided under any disability program sponsored by Waterstone Financial or WaterStone Bank and his base salary for a period of one year. After the first year following termination, Mr. Gordon will be entitled to the difference between the disability benefits provided under any disability program sponsored by Waterstone Financial or WaterStone Bank and 66 2/3% of Mr. Gordon’s base salary, through the earliest to occur of the date of Mr. Gordon’s death, recovery from disability or the date Mr. Gordon attains age 65.

In the event of Mr. Gordon's death during the term of the agreement, Mr. Gordon's beneficiary, legal representatives or estate will be paid Mr. Gordon's base salary for one year and WaterStone Bank will continue to provide Mr. Gordon's family the same medical, dental, and other health benefits that were provided by WaterStone Bank to Mr. Gordon's family immediately prior the Mr. Gordon's death, on the same terms, including cost, for one year.

In the event of termination due to Mr. Gordon's retirement, no amount or benefit will be due Mr. Gordon under the agreement.

The employment agreement restricts Mr. Gordon from revealing confidential information of Waterstone Financial and WaterStone Bank. In addition, for one year following termination of employment (other than upon termination following a change in control), Mr. Gordon may not compete with Waterstone Financial and WaterStone Bank or solicit or hire WaterStone Bank's employees.

Employment Agreement with Jeffrey R. McGuiness. Effective as of November 16, 2020, Waterstone Mortgage Corporation entered into an employment agreement with its President and Chief Executive Officer, Jeffrey McGuiness. The agreement has an initial term continuing through December 31, 2023. Thereafter, the agreement shall renew for successive on year terms such that the remaining term of the agreement would always be one year unless written notice of non-renewal was provided by either party at least 90 days prior to such anniversary date. Under the agreement, Mr. McGuiness is entitled to a base salary in 2022 of \$425,000 and participation in company-wide employee benefits, including Waterstone Mortgage Corporation's 401(k) Plan. Mr. McGuiness is also entitled to annual cash-based performance bonus compensation beginning in 2021. Mr. McGuiness was granted shares of restricted stock in January 2021 with a value of \$135,000 on the date of grant. The shares will vest on the third anniversary of the grant date. Mr. McGuiness was eligible for a cash-based sign-on bonus in the amount of \$325,000, which was paid by the Company on the date of the Company's first regularly scheduled payroll of 2021. The sign-on bonus will not be earned in full until December 31, 2023.

Mr. McGuiness may terminate his employment for "good reason," which includes any material breach of the agreement by Waterstone Mortgage Corporation, including the failure, without "good cause" (as defined in the agreement), to pay the amounts due under the agreement on a timely basis. In the event the agreement is terminated for good reason or in the event Waterstone Mortgage Corporation terminates Mr. McGuiness's employment for any reason other than "good cause," Mr. McGuiness will be entitled to receive his earned but unpaid base salary as of the date of his termination with the Company, the vested benefits, if any, to which he is entitled as a former employee under the employee benefit plans and a payment equal to one year's base salary, subject to the terms of the agreement and shall accelerate or cause to be accelerated the vesting of the restricted stock award. In the event of Mr. McGuiness's death during the term of the agreement, the agreement will terminate with no payment of severance compensation to Mr. McGuiness's estate. Similarly, in the event of his termination by the Company for good cause, Mr. McGuiness will not be entitled to any severance compensation.

In the event of Mr. McGuiness's termination of employment, the agreement contains provisions which prevent him from soliciting business from customers of Waterstone Mortgage Corporation, withdrawing any customers' business, hiring any employees, consultants or personnel of Waterstone Mortgage Corporation, disclosing confidential information with Waterstone Mortgage Corporation for two years following termination of employment.

Grants of Plan-Based Awards

The following table sets forth for the year ended December 31, 2022 certain information as to grants of plan-based cash awards.

GRANTS OF PLAN-BASED NON-EQUITY AWARDS FOR THE YEAR ENDED DECEMBER 31, 2022				
		Estimated Future Payments Under Non-Equity Incentive Plan Awards		
Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)
Douglas S. Gordon (1)	2/16/2022	218,750	437,500	656,250
William F. Bruss (1)	2/16/2022	94,000	150,400	206,800
Mark R. Gerke (1)	2/16/2022	64,375	96,563	128,750
Julie A. Glynn (1)	2/16/2022	59,255	88,838	118,450
Ryan J. Gordon (1)	2/16/2022	56,650	84,975	113,300
Jeffrey R. McGuinness (2)	—	106,250	212,500	318,750

- (1) See “Compensation Discussion and Analysis – Annual Incentive Plan” for actual awards made under the 2022 Annual Incentive Plan.
- (2) See “Compensation Discussion and Analysis – Annual Incentive Plan – Waterstone Mortgage Corporation” for actual awards made under the 2022 Annual Incentive Plan.

The following table sets forth for the year ended December 31, 2022 certain information as to grants of plan-based equity awards.

GRANTS OF PLAN-BASED EQUITY AWARDS FOR THE YEAR ENDED DECEMBER 31, 2022					
		Estimated Future Payments Under Equity Incentive Plan Awards			
Name	Grant Date	Threshold (#)	Target (#)	Maximum (#)	Grant Date Fair Value of Stock Awards (\$)
Douglas S. Gordon (1)	3/01/2022	2,252	4,503	6,755	131,250
William F. Bruss (1)	3/01/2022	968	1,935	2,903	56,405
Mark R. Gerke (1)	3/01/2022	663	1,325	1,988	38,627
Julie A. Glynn (1)	3/01/2022	610	1,219	1,829	35,537
Ryan J. Gordon (1)	3/01/2022	583	1,166	1,749	33,983

- (1) See “Compensation Discussion and Analysis – 2022 Long-Term Performance Based Equity Compensation Plan” for details regarding performance and time-based vesting requirements related to these awards.

Outstanding Equity Awards at Fiscal Year End. The following table sets forth information with respect to outstanding equity awards as of December 31, 2022. Grants were made under our 2015 and 2020 Equity Incentive Plans.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2022						
Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)
William F. Bruss	—	—	—	—	2,639(3)	45,496
	—	—	—	—	2,903 (5)	50,048
Mark R. Gerke	5,000	—	12.75	3/4/2025	1,807(3)	31,153
	10,000	—	14.98	6/21/2026	1,988 (5)	34,723
Julie A. Glynn	16,000	4,000 (1)	17.35	3/20/2028	1,663(3)	28,670
	—	—	—	—	1,829 (5)	31,532
Ryan J. Gordon	8,000	2,000 (1)	17.20	01/24/2028	1,590 (3)	27,412
	—	—	—	—	1,749 (5)	30,153
Douglas S. Gordon	—	—	—	—	6,145(3)	105,940
	—	—	—	—	6,755 (5)	116,456
Jeffrey R. McGuiness	—	—	—	—	7,132(4)	122,956

- (1) Options vest in five annual increments of 20% each beginning on the first anniversary of the grant date and subsequently on each anniversary of the date of the initial award.
- (2) Based on the \$17.24 per share closing price of our common stock on December 31, 2022.
- (3) Consists of restricted shares awarded on March 16, 2021. The restricted shares vest on March 16, 2024.
- (4) Consists of restricted shares awarded on January 26, 2021. The restricted shares vest on January 26, 2024.
- (5) Consists of restricted shares awarded on March 1, 2022. The restricted shares vest on March 3, 2025.

Option Exercises and Stock Vested. During the year ended December 31, 2022, there were no option exercises or stock vested for the Named Executive Officers.

Potential Payments Upon Termination or Change in Control

The following table sets forth estimates of the amounts that would become payable to our Named Executive Officers, under employment agreements and/or equity award agreements in the event of their termination of employment on December 31, 2022, under designated circumstances. The table does not include vested or accrued benefits under any tax-qualified benefit plans that do not discriminate in scope, terms or operation in favor of Executive Officers or equity awards or other benefits in which the executive is vested without regard to the change in control. The estimates shown are highly dependent on a variety of factors, including but not limited to the date of termination, interest rates, federal, state, and local tax rates, and compensation history. Actual payments due could vary substantially from the estimates shown. We consider each termination scenario listed below to be exclusive of all other scenarios and do not expect that any of our Executive Officers would be eligible to collect the benefits shown under more than one termination scenario. If a Named Executive Officer is terminated for “cause” as defined in the applicable agreement or award, we have no contractual payment or other obligations under the agreement.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

	<u>Mr. D. Gordon</u>	<u>Mr. Bruss</u>	<u>Mr. Gerke</u>	<u>Ms. Glynn</u>	<u>Mr. R. Gordon</u>	<u>Mr. McGuiness</u>
Discharge Without Cause or Resignation						
With Good Reason — no Change in Control						
Severance payment	\$ 2,903,216 (1)	\$ —	\$ —	\$ —	\$ —	\$ 425,000 (1)
Medical, dental and life insurance benefits	39,603 (2)	—	—	—	—	—
Acceleration of vesting of stock options	—	—	—	—	—	—
Acceleration of vesting of restricted stock	—	—	—	—	—	93,381 (8)
Total	<u>\$ 2,942,819</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 518,381</u>
Discharge Without Cause or Resignation						
With Good Reason — Change in Control						
Related						
Severance payment (lump sum)	\$ 6,252,381 (3)	\$ —	\$ —	\$ —	\$ —	\$ 425,000 (3)
Medical, dental and life insurance benefits	59,405 (2)	—	—	—	—	—
Acceleration of vesting of stock options	—	—	—	—	320 (6)	—
Acceleration of vesting of restricted stock	241,197 (4)	103,619 (4)	70,955 (4)	65,291 (4)	62,429 (4)	140,072 (4)
Total	<u>\$ 6,552,983</u>	<u>\$ 103,619</u>	<u>\$ 70,955</u>	<u>\$ 65,291</u>	<u>\$ 62,749</u>	<u>\$ 565,072</u>
Disability						
Severance/disability payment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Acceleration of vesting of stock option	—	—	—	—	320 (6)	—
Acceleration of vesting of restricted stock	68,591 (7)	29,457 (7)	20,170 (7)	18,563 (7)	17,748 (7)	140,072 (4)
Total	<u>\$ 68,591</u>	<u>\$ 29,457</u>	<u>\$ 20,170</u>	<u>\$ 18,563</u>	<u>\$ 18,068</u>	<u>\$ 140,072</u>
Death						
Salary continuation payment	\$ 875,000 (5)	\$ —	\$ —	\$ —	\$ —	\$ —
Medical, dental and life insurance benefits	19,802 (5)	—	—	—	—	—
Acceleration of vesting of stock options	—	—	—	—	320 (6)	—
Acceleration of vesting of restricted stock	68,591 (7)	29,457 (7)	20,170 (7)	18,563 (7)	17,748 (7)	140,072 (4)
Total	<u>\$ 963,393</u>	<u>\$ 29,457</u>	<u>\$ 20,170</u>	<u>\$ 18,563</u>	<u>\$ 18,068</u>	<u>\$ 140,072</u>

- (1) The cash severance payment under Mr. Gordon's employment agreement equals (i) the remaining base salary and employee benefits to which he is entitled under his employment agreement over the remaining term of the agreement, assuming he had earned a bonus equal to the average bonus or incentive award earned over the three calendar years preceding the year of termination, as determined under the agreement; (ii) the annual contributions that would have been made on Mr. Gordon's behalf under any employee benefit plans in which he participated; and (iii) the annual payments towards automobile lease and expenses that he would be entitled to for the remaining term of the agreement. The severance payment under Mr. McGuiness's employment agreement is equal one times his base salary to which he is entitled under his employment agreement payable bi-weekly over a one year period.
- (2) Mr. Gordon will be entitled to non-taxable medical and dental coverage and life insurance coverage for the remaining term of the agreement, in the event of a termination without cause or for good reason not related to a change in control. In the event of an involuntary termination without cause or for good reason following a change in control, Mr. Gordon will be entitled to the continuation of the same benefits for a period of 36 months from the date of termination.
- (3) For Mr. Gordon, the cash severance benefit payable on an involuntary termination of employment or termination for good reason in connection with a change in control is the same as the payment in such a termination that occurs without regard to a change in control, except that such payments would be calculated utilizing the highest bonus or incentive award earned over the three calendar years preceding the year of termination and would be based on a 36-month term. For Mr. McGuiness, the severance payment under his employment agreement is equal to one year's base salary to which he is entitled under his employment agreement over the remaining term of the agreement.
- (4) Value is based on the closing price of \$17.24 on December 31, 2022 of Waterstone Financial, Inc. common stock, including dividends declared to date with respect to those shares.
- (5) In the event of Mr. Gordon's death, Mr. Gordon's estate, legal representatives or named beneficiary or beneficiaries a base salary for the remaining year along with the same medical, dental, and other health benefits that that would have been made available to Mr. Gordon's family. In the event of Ms. Glynn's death, her beneficiary or estate, will receive a cash lump sum payment equal to one times the highest rate of base salary during the term of this agreement.
- (6) Value is based on the closing price of \$17.24 on December 31, 2022 of Waterstone Financial, Inc. common stock less the exercise price of the stock option.
- (7) Value is based on the closing price of \$17.24 on December 31, 2022 of Waterstone Financial, Inc. common stock, including dividends declared to date with respect to those shares. The number of shares assumed to have vested is based upon Company performance relative to target and/or months of service provided by the employee relative to the time-based vesting requirement.

Director Compensation

Set forth below is summary compensation for each of our non-employee directors for the year ended December 31, 2022. Compensation includes an annual retainer as well as chairmanship and committee fees.

DIRECTOR COMPENSATION TABLE FOR THE YEAR ENDED DECEMBER 31, 2022		
Name	Fees earned or paid in cash (\$)	Total (\$)
Ellen S. Bartel Nominating Committee Co-chairman	18,000	18,000
Thomas E. Dalum (1) Compensation Committee Chairman	7,500	7,500
Michael L. Hansen Audit Committee Chairman	24,000	24,000
Patrick S. Lawton Chairman of the Board	30,000	30,000
Kristine A. Rappé Executive Committee Chairman	18,000	18,000
Stephen J. Schmidt Nominating Committee Co-chairman	18,000	18,000
Derek Tyus	33,000	33,000

(1) Mr. Dalum did not stand for re-election in 2022. Accordingly, his service to the Board terminated at the conclusion of the 2022 Annual Meeting on May 17, 2022.

In 2022, we paid each non-officer director annual meeting fees of \$18,000. Additional annual fees paid to the Chairman of the Board totaled \$12,000 and additional annual fees paid to the Chairman of the Audit Committee totaled \$6,000.

As of December 31, 2022, Mr. Tyus had 5,152 unvested shares of restricted stock. Mr. Lawton had 25,000 vested but unexercised stock options and 12,500 unvested stock options. Ms. Rappé and Mr. Schmidt had 87,500 vested but unexercised stock options and 12,500 unvested stock options. Ms. Bartel had 12,500 vested but unexercised stock options and 12,500 unvested stock options. Mr. Hansen had 12,500 unvested stock options.

DELINQUENT SECTION 16(a) REPORTS

Under the federal securities laws, Waterstone Financial directors, its officers and any person holding more than 10% of the common stock are required to report their initial ownership of the common stock and any change in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to disclose in this Proxy Statement any failure to file such reports by these dates during the last year. We believe that all of our other directors and executive officers complied with these filing requirements on a timely basis for the year ended December 31, 2022.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Compensation Committee was an officer or employee of Waterstone Financial, WaterStone Bank or any subsidiary, nor did any of them have any other reportable interlock.

TRANSACTIONS WITH CERTAIN RELATED PERSONS

WaterStone Bank has had, and expects to continue to have, regular business dealings with its officers and directors, as well as their associates and the firms which they serve. Our historical policy has been that transactions with our directors and executive officers be on terms that are no more beneficial to the director or executive officer than we would provide to unaffiliated third parties. Under our policies and procedures, all of our transactions with

officers and directors require review, approval or ratification by the board of directors. Directors and executive officers, and their associates, regularly deposit funds with WaterStone Bank. The deposits are made on the same terms and conditions which are offered to other depositors.

Except for loans to directors made in the ordinary course of business that were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to WaterStone Bank and for which management believes neither involve more than the normal risk of collection nor present other unfavorable features, since January 1, 2022, the beginning of our last fiscal year, we and our subsidiaries have not had any transaction or series of transactions, or business relationships, nor are any such transactions or relationships proposed, in which the amount involved exceeds \$120,000 and in which our directors, executive officers or 5% or more shareholders have a direct or indirect material interest.

HUMAN CAPITAL RESOURCES

We believe in the value of teamwork and the power of diversity. We expect and encourage participation and collaboration, and understand that we need each other to be successful. We value accountability because it is essential to our success, and we accept our responsibility to hold ourselves accountable for meeting shareholder commitments and achieving high standards of performance. We encourage employees to contribute to their personal best while respecting the balance between work and personal life. To empower employees to reach their potential, we provide training and developmental programs, including traditional classroom training and coaching and experiential learning through initiatives beyond the scope of our employees' everyday responsibilities.

The Company's compensation programs are designed to align the compensation of each employee with Company and individual performance and provide the proper incentives to attract, retain and motivate employees to achieve high standards of performance.

Competitive Pay

- We provide employee wages that are competitive and consistent with employee positions, skill level, experience, knowledge and geographic location.
- We engage outside compensation and benefits consulting firms to provide benchmarking against our peers within the industry.
- Annual increases and incentive compensation are based upon merit, which is communicated to employees and documented through our talent management process as part of our annual review procedures.
- We align our employees interests and with that of shareholders through participation in our Employee Stock Ownership Plan, which is available to all Bank employees, upon reaching eligibility requirements.

Benefits

In addition to competitive pay, employees are offered a variety of competitive benefits including, but not limited to:

- Comprehensive medical, dental and vision programs.
- An employee assistance program, which offers ways to better balance work and personal commitments and reduce stress, including legal and financial services, child and elder care and nutrition and fitness.
- Training and development programs.
- Tuition reimbursement, which enables employees to further their formal education.
- Flexible and remote work options, which encourages employees to structure their schedules to best suit their personal situation.
- Short- and long-term disability salary continuation for medical disabilities.

SOCIAL AND ENVIRONMENTAL COMMITMENT

Management and the Board of Directors of Waterstone Financial, Inc. recognize that environmental and social matters impact WaterStone Bank's business, employees, customers, and stockholders. To that end, management continues to make a commitment to environmental and social initiatives including:

Social Commitment

- WaterStone Bank employees volunteered over 600 hours for community organizations in 2022.
- Bank employees have leadership roles with over 50 community organizations.
- The WaterStone Bank Foundation awarded more than \$650,000 in grants to more than 240 community organizations during 2022.

Environmental Awareness

- WaterStone Bank's low carbon business model seeks to promote responsibility to all stakeholders.
- The Bank installs energy-efficient lighting and appliances in its premises.
- The Bank takes efforts to properly recycle paper, plastic, glass, and metal and produces materials with recycled paper.
- The Bank seeks to reduce consumption, including the utilization of electronic documents to reduce paper usage.
- The Bank adopts technology that can reduce our carbon footprint, such as providing direct and remote deposit capabilities and promoting e-statement enrollment to decrease paper and ink use.

SHAREHOLDER PROPOSALS AND NOTICES

Shareholder proposals must be received by the Secretary of Waterstone Financial, William F. Bruss, no later than December 8, 2023 in order to be considered for inclusion in next year's annual meeting proxy materials pursuant to Securities and Exchange Commission Rule 14a-8.

Under Securities and Exchange Commission rules relating to the discretionary voting of proxies at shareholder meetings, if a proponent of a matter for shareholder consideration (other than a shareholder proposal) fails to notify Waterstone Financial at least 45 days prior to the month and day of mailing the prior year's Proxy Statement, then management proxies are allowed to use their discretionary voting authority if a proposal is raised at the annual meeting, without any discussion of the matter in the Proxy Statement. Therefore, any such matters must be received by February 21, 2024 in the case of the 2024 annual meeting of shareholders. Waterstone Financial is not aware of any such proposals for the 2023 annual meeting.

Our Bylaws provide an advance notice procedure for certain business, or nominations to the board of directors, to be brought before an annual meeting of shareholders. In order for a stockholder to properly bring business before an annual meeting, or to propose a nominee to the board of directors, our Secretary must receive written notice not earlier than the 90th day nor later than the 80th day prior to date of the annual meeting; provided, however, that in the event that less than 90 days' notice or prior public disclosure of the date of the annual meeting is provided to shareholders, then, to be timely, notice by the stockholder must be so received not later than the tenth day following the day on which public announcement of the date of such meeting is first made.

The notice with respect to stockholder proposals that are not nominations for director must set forth as to each matter such stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address of such stockholder as they appear on our books and of the beneficial owner, if any, on whose behalf the proposal is made; (iii) the class or series and number of shares of our capital stock which are owned beneficially or of record by such stockholder and such beneficial owner; (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business; and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

The notice with respect to director nominations must include (i) as to each individual whom the stockholder proposes to nominate for election as a director, (A) all information relating to such person that would indicate such person's qualification under Article 2, Section 12 of our Bylaws, including an affidavit that such person would not be disqualified under the provisions of Article 2, Section 12 of the Bylaws and (B) all other information relating to such individual that is required to be disclosed in connection with solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation; and (ii) as to the stockholder giving the notice, (A) the name and address of such stockholder as they appear on our books and of the beneficial owner, if any, on whose behalf the nomination is made; (B) the class or series and number of shares of our capital stock which are owned beneficially or of record by such stockholder and such beneficial owner; (C) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder; (D) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (E) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934 or any successor rule or regulation. Such notice must be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected.

The date on which the next Annual Meeting of Shareholders is expected to be held is May 21, 2024. Assuming the next Annual Meeting of Shareholders is held on May 21, 2024, advance written notice for certain business, or nominations to the Board of Directors, to be brought before the next annual meeting must be given to us no earlier than February 16, 2024 and no later than February 25, 2024. If notice is received before February 16, 2024 or after February 25, 2024, it will be considered untimely, and we will not be required to present the matter at the shareholders meeting.

In order to solicit proxies in support of director nominees other than the Company's nominees for our 2024 Annual Meeting of Stockholders, a person must provide notice postmarked or transmitted electronically to our executive office, 11200 W. Plank Ct., Wauwatosa, Wisconsin 53226, www.wsbonline.com, no later than March 20, 2024. Any such notice and solicitation shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934.

By Order of the Board of Directors



William F. Bruss
President and Secretary

Wauwatosa, Wisconsin
April 6, 2023

We will provide a copy of the Waterstone Financial Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2022 (without exhibits) without charge to any record or beneficial owner of our common stock on the written request of that person directed to: Mark R. Gerke, Chief Financial Officer, Waterstone Financial, Inc., 11200 W. Plank Ct., Wauwatosa, WI 53226. The 10-K provides a list of exhibits, which will be provided for a reasonable fee to reflect duplication and mailing costs; exhibits are also available through the Securities and Exchange Commission's website at www.sec.gov.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-36271

WATERSTONE FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

90-1026709

(I.R.S. Employer Identification No.)

11200 W Plank Ct, Wauwatosa, Wisconsin

(Address of principal executive offices)

53226

(Zip Code)

(414) 761-1000

Registrant's telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	WSBF	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the 1933 Act). Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 1934 Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the common equity was last sold on June 30, 2022 as reported by the NASDAQ Global Select Market®, was approximately \$387.4 million.

As of February 24, 2023, 22,058,568 shares of the Registrant's Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K Into Which Portions of Document are Incorporated
Proxy Statement for Annual Meeting of Shareholders on May 16, 2023	Part III

WATERSTONE FINANCIAL, INC.

FORM 10-K ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2022

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PART 1

Item 1. Business

Forward-Looking Statements

This Annual Report on Form 10-K may contain or incorporate by reference various forward-looking statements, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” and similar expressions and verbs in the future tense. These forward-looking statements 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 portfolio;
- 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 area, including employment prospects, that are different 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 or 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;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- 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;
- decreased demand for our products and services;
- changes in tax policies or assessment policies;
- changes in consumer demand, 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;
- cyber attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information and destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- the effect of any pandemic; including COVID-19;
- the effects of federal government shutdown;
- the effects of any national or international war, conflict, or act of terrorism;
- the ability of the U.S. Government to manage federal debt limits;
- 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.

See also the factors regarding future operations discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" below.

Waterstone Financial, Inc.

Waterstone Financial, Inc., a Maryland corporation ("New Waterstone"), was organized in 2013. Upon completion of the mutual-to-stock conversion of Lamplighter Financial, MHC in 2014, New Waterstone became the holding company of WaterStone Bank SSB and succeeded to all of the business and operations of Waterstone Financial, Inc., a Federal corporation ("Waterstone-Federal") and each of Waterstone-Federal and Lamplighter Financial, MHC ceased to exist. In this report, we refer to WaterStone Bank SSB, our wholly owned subsidiary, both before and after the reorganization, as "WaterStone Bank" or the "Bank."

Waterstone Financial, Inc. and its subsidiaries, including WaterStone Bank, are referred to herein as the "Company," "Waterstone Financial," or "we."

The Company maintains a website at www.wsbonline.com. We make available through that website, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and proxy materials as soon as is reasonably practical after the Company electronically files those materials with, or furnishes them to, the Securities and Exchange Commission. You may access those reports by following the links under "Investor Relations" at the Company's website. Information on this website is not and should not be considered a part of this document.

Waterstone Financial's executive offices are located at 11200 West Plank Court, Wauwatosa, Wisconsin 53226, and its telephone number at this address is (414) 761-1000.

BUSINESS OF WATERSTONE BANK

General

WaterStone Bank is a community bank that has served the banking needs of its customers since 1921. WaterStone Bank also has an active mortgage banking subsidiary, Waterstone Mortgage Corporation, which had 78 offices in 26 states as of December 31, 2022.

WaterStone Bank conducts its community banking business from 14 banking offices located in Milwaukee, Washington and Waukesha counties, Wisconsin. WaterStone Bank's principal lending activity is originating one- to four-family, multi-family residential, and commercial real estate loans for retention in its portfolio. At December 31, 2022, such loans comprised 31.09%, 44.90%, and 17.41%, respectively, of WaterStone Bank's loan portfolio. WaterStone Bank also offers home equity loans and lines of credit, construction and land loans, commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. Our deposit offerings include certificates of deposit, money market savings accounts, transaction deposit accounts, noninterest bearing demand accounts and individual retirement accounts. Our investment securities portfolio is comprised principally of mortgage-backed securities, collateralized mortgage obligations, government-sponsored enterprise bonds, private-label enterprise bonds, municipal obligations, and other debt securities.

WaterStone Bank is subject to comprehensive regulation and examination by the Wisconsin Department of Financial Institutions (the "WDFI") and the Federal Deposit Insurance Corporation (the "FDIC").

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

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates single-family residential real estate loans for sale into the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes a line of credit with another financial institution as needed. On a consolidated basis, Waterstone Mortgage Corporation originated \$2.76 billion in mortgage loans held for sale during the year ended December 31, 2022, which excludes the loans originated from Waterstone Mortgage Corporation and purchased by WaterStone Bank.

Subsidiary Activities

Waterstone Financial currently has one wholly-owned subsidiary, WaterStone Bank, which in turn has three wholly-owned subsidiaries. Wauwatosa Investments, Inc., which holds and manages our investment portfolio, is located and incorporated in Nevada. Waterstone Mortgage Corporation is a mortgage banking business incorporated in Wisconsin. Main Street Real Estate Holdings, LLC is a Wisconsin limited liability corporation and previously owned WaterStone Bank office facilities and held WaterStone Bank office facility leases.

Wauwatosa Investments, Inc. Established in 1998, Wauwatosa Investments, Inc. operates in Nevada as WaterStone Bank's investment subsidiary. This wholly-owned subsidiary owns and manages the majority of the consolidated investment portfolio. It has its own board of directors currently comprised of its President, the WaterStone Bank Chief Financial Officer, Treasury Officer and the Chairman of Waterstone Financial's board of directors.

Waterstone Mortgage Corporation. Acquired in 2006, Waterstone Mortgage Corporation is a mortgage banking business with offices in 26 states. It has its own board of directors currently comprised of its President, its Chief Financial Officer, its Chief Operating Officer, the WaterStone Bank Chief Executive Officer, President, Chief Financial Officer and Chief Credit Officer.

Main Street Real Estate Holdings, LLC. Established in 2002, Main Street Real Estate Holdings, LLC was established to acquire and hold WaterStone Bank office and retail facilities, both owned and leased. Main Street Real Estate Holdings, LLC currently conducts real estate broker activities limited to real estate owned.

Market Area

WaterStone Bank. WaterStone Bank's market area is broadly defined as the Milwaukee, Wisconsin metropolitan market, which is geographically located in the southeast corner of the state. WaterStone Bank's primary market area is Milwaukee and Waukesha counties and the five surrounding counties of Ozaukee, Washington, Jefferson, Walworth and Racine. We have nine branch offices in Milwaukee County, four branch offices in Waukesha County and one branch office in Washington County. At June 30, 2022 (the latest date for which information was publicly available), 49.0% of deposits in the State of Wisconsin were located in the seven-county Milwaukee metropolitan market and 42.4% of deposits in the State of Wisconsin were located in the three counties in which the Bank has a branch office.

WaterStone Bank's primary market area for deposits includes the communities in which we maintain our banking office locations. Our primary lending market area is broader than our primary deposit market area and includes all of the primary market area noted above but extends further west to the Madison, Wisconsin market and further north to the Appleton and Green Bay, Wisconsin markets.

Waterstone Mortgage Corporation. As of December 31, 2022, Waterstone Mortgage Corporation had 13 offices in Florida, nine offices in New Mexico, seven offices in each of Virginia and Wisconsin, five offices in Texas, four offices in Maryland, three offices in each of Arizona, Illinois, Oklahoma, and Pennsylvania, two offices in each of Colorado, Michigan, New Hampshire, South Carolina, and Tennessee, and one office in each of Delaware, Idaho, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, New Jersey, North Dakota, and Rhode Island.

Competition

WaterStone Bank. WaterStone Bank faces competition within our market area both in making real estate loans and attracting deposits. The Milwaukee-Waukesha metropolitan statistical area has a high concentration of financial institutions, including large commercial banks, community banks and credit unions. As of June 30, 2022, based on the FDIC annual Summary of Deposits Report, we had the 10th largest market share in our metropolitan statistical area out of 46 financial institutions, representing 1.4% of all deposits.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from money market funds, brokerage firms, and mutual funds. Some of our competitors offer products and services that we do not offer, such as trust services and private banking.

Our primary focus is to build and develop profitable consumer and commercial customer relationships while maintaining our role as a community bank.

Waterstone Mortgage Corporation. Waterstone Mortgage Corporation faces competition for originating loans both directly within the markets in which it operates and from entities that provide services throughout the United States through internet services. Waterstone Mortgage Corporation's competition comes principally from other mortgage banking firms, as well as from commercial banks, savings institutions and credit unions.

Lending Activities

The scope of the discussion included under "Lending Activities" is limited to lending operations related to loans originated for investment. A discussion of the lending activities related to loans originated for sale is included under "Mortgage Banking Activity."

Historically, our principal lending activity has been originating mortgage loans for the purchase or refinancing of residential and commercial real estate. Generally, we retain the loans that we originate, which we refer to as loans originated for investment. One- to four-family residential mortgage loans represented \$469.6 million, or 31.1%, of our total loan portfolio at December 31, 2022. Multi-family residential mortgage loans represented \$678.0 million, or 44.9%, of our total loan portfolio at December 31, 2022. Commercial real estate loans represented \$263.0 million, or 17.4%, of our total loan portfolio at December 31, 2022. We also offer construction and land loans, home equity lines of credit and commercial loans. At December 31, 2022, commercial business loans, home equity loans, and construction and land loans totaled \$24.9 million, \$11.5 million and \$62.5 million, respectively.

The largest exposure to one borrower or group of related borrowers was \$43.8 million in the multi-family category. The borrower represented a total of 2.9% of the total loan portfolio as of December 31, 2022.

Loan Portfolio Composition. 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 December 31,					
	2022		2021		2020	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
	(Dollars in Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	\$ 469,567	31.09%	\$ 300,523	24.92%	\$ 426,792	31.04%
Multi-family	677,981	44.90%	537,956	44.62%	571,948	41.59%
Home equity	11,455	0.76%	11,012	0.91%	14,820	1.08%
Construction and land	62,494	4.14%	82,588	6.85%	77,080	5.61%
Commercial real estate	262,973	17.41%	250,676	20.79%	238,375	17.33%
Commercial loans	24,934	1.65%	22,298	1.85%	45,386	3.30%
Consumer	774	0.05%	732	0.06%	736	0.05%
Total	<u>1,510,178</u>	<u>100.00%</u>	<u>1,205,785</u>	<u>100.00%</u>	<u>1,375,137</u>	<u>100.00%</u>
Allowance for credit losses ("ACL") - loans						
(1)	(17,757)		(15,778)		(18,823)	
Loans, net	<u>\$ 1,492,421</u>		<u>\$ 1,190,007</u>		<u>\$ 1,356,314</u>	

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

Loan Portfolio Maturities and Yields. The following table summarizes the final maturities of our loan portfolio at December 31, 2022. Maturities are based upon the final contractual payment dates and do not reflect the impact of prepayments and scheduled monthly payments that will occur.

Maturity period as of December 31, 2022	On- to four-family		Multi family		Home Equity		Construction and Land	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)							
One year or less	\$ 12,485	3.68%	\$ 17,242	4.36%	\$ 1,212	6.44%	\$ 568	5.99%
More than one year through five years	50,726	4.68%	433,847	4.02%	6,149	6.81%	25,940	5.54%
More than five years through 15 years	66,478	4.97%	225,422	4.89%	4,055	4.69%	35,986	3.90%
More than 15 years	339,878	4.75%	1,470	4.01%	39	5.13%	-	0.00%
Total	\$ 469,567	4.74%	\$ 677,981	4.32%	\$ 11,455	6.01%	\$ 62,494	4.60%

Maturity period as of December 31, 2022	Commercial Real Estate		Commercial Business		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)							
One year or less	\$ 27,745	4.34%	\$ 4,926	6.94%	\$ 774	7.98%	\$ 64,952	4.51%
More than one year through five years	160,154	4.56%	11,903	5.03%	-	0.00%	688,719	4.29%
More than five years through 15 years	75,074	4.30%	8,105	5.91%	-	0.00%	415,120	4.73%
More than 15 years	-	-	-	-	-	0.00%	341,387	4.74%
Total	\$ 262,973	4.46%	\$ 24,934	5.70%	\$ 774	7.98%	\$ 1,510,178	4.52%

The following table sets forth the scheduled repayments of fixed and adjustable rate loans at December 31, 2022 that are contractually due after December 31, 2023.

	Due After December 31, 2023		
	Fixed	Adjustable	Total
	(In Thousands)		
Mortgage loans:			
Residential real estate:			
One- to four-family	\$ 41,378	\$ 415,704	\$ 457,082
Multi-family	425,144	235,595	660,739
Home equity	1,369	8,874	10,243
Construction and land	41,347	20,579	61,926
Commercial real estate	167,676	67,552	235,228
Commercial loans	18,079	1,929	20,008
Consumer	-	-	-
Total loans	\$ 694,993	\$ 750,233	\$ 1,445,226

One- to Four-Family Residential Mortgage Loans. One- to four-family residential mortgage loans totaled \$469.6 million, or 31.1% of total loans at December 31, 2022. Our one- to four-family residential mortgage loans have fixed or adjustable rates. Our single family adjustable-rate mortgage loans generally provide for maximum annual rate adjustments of 200 basis points, with a lifetime maximum adjustment of 600 basis points. Our adjustable-rate mortgage loans typically amortize over terms of up to 30 years, and are indexed to either the 12-month SOFR rate or the 12-month LIBOR. Single family adjustable rate mortgage loans are originated at both our community banking segment and our mortgage banking segment. We do not offer and have never offered residential mortgage loans specifically designed for borrowers with sub-prime credit scores, including Alt-A and negative amortization loans.

Adjustable rate mortgage loans can decrease the interest rate risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the loan payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents and, therefore, the effectiveness of adjustable rate mortgage loans in decreasing the risk associated with changes in interest rates may be limited during periods of rapidly rising interest rates. Moreover, during periods of rapidly declining interest rates the interest income received from the adjustable rate loans can be significantly reduced, thereby adversely affecting interest income.

All residential mortgage loans that we originate include “due-on-sale” clauses, which give us the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise transfers the real property subject to the mortgage and the loan is not repaid. We also require homeowner’s insurance and where circumstances warrant, flood insurance, on properties securing real estate loans. The average one- to four-family first mortgage loan balance was approximately \$276,000 on December 31, 2022, and the largest outstanding balance on that date was \$5.9 million, which is a consolidation loan that is collateralized by 86 single family properties. A total of 37.1% of our one- to four-family loans are collateralized by properties in the state of Wisconsin.

Multi-family Real Estate Loans. Multi-family loans totaled \$678.0 million, or 44.9% of total loans at December 31, 2022. These loans are generally secured by properties located in our primary market area. Our multi-family real estate underwriting policies generally provide that such real estate loans may be made in amounts of up to 80% of the appraised value of the property provided the loan complies with our current loans-to-one borrower limit. Multi-family real estate loans are offered with interest rates that are fixed for periods of up to five years or are variable and either adjust based on a market index or at our discretion. Contractual maturities do not exceed 10 years while principal and interest payments are typically based on a 30-year amortization period. In reaching a decision whether to make a multi-family real estate loan, we consider gross revenues and the net operating income of the property, the borrower’s expertise and credit history, global cash flows, and the appraised value of the underlying property. We will also consider the terms and conditions of the leases and the credit quality of the tenants. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, income taxes, depreciation and amortization divided by interest expense and current maturities of long term debt) of at least 1.15 times. Generally, multi-family loans made to corporations, partnerships and other business entities require personal guarantees from the principals and by the owners of 20% or more of the borrower.

A multi-family borrower’s financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the borrower. We generally require borrowers with aggregate outstanding balances exceeding \$1.0 million to provide updated financial statements and federal tax returns annually. These requirements also apply to most guarantors on these loans. We also require borrowers with rental investment property to provide an annual report of income and expenses for the property, including a tenant list and copies of leases, as applicable. The average outstanding multi-family mortgage loan balance was approximately \$1.4 million on December 31, 2022, with the largest outstanding balance at \$16.7 million.

Loans secured by multi-family real estate generally involve larger principal amounts than owner-occupied, one- to four-family residential mortgage loans. Because payments on loans secured by multi-family properties often depend on the successful operation or management of the properties, repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

Home Equity Loans and Lines of Credit. We also offer home equity loans and home equity lines of credit, both of which are secured by owner-occupied and non-owner occupied one- to four-family residences. At December 31, 2022, outstanding home equity loans and equity lines of credit totaled \$11.5 million, or 0.8% of total loans outstanding. At December 31, 2022, the unadvanced portion of home equity lines of credit totaled \$9.5 million. The underwriting standards utilized for home equity loans and home equity lines of credit include a determination of the applicant’s credit history, an assessment of the applicant’s ability to meet existing obligations and payments on the proposed loan, and the value of the collateral securing the loan. Home equity loans are offered with adjustable rates of interest and with terms up to seven years. The loan-to-value ratio for our home equity loans and our lines of credit is generally limited to 90% when combined with the first security lien, if applicable. Our home equity lines of credit have ten-year terms and adjustable rates of interest, subject to a contractual floor, which are indexed to the prime rate, as reported in *The Wall Street Journal*. Interest rates on home equity lines of credit are generally limited to a maximum rate of 18%. The average outstanding home equity loan balance was approximately \$47,000 at December 31, 2022, with the largest outstanding balance at that date of \$334,000.

Construction and Land Loans. We originate construction loans for the acquisition of land and the construction of single-family residences, multi-family residences, and commercial real estate buildings. At December 31, 2022, construction and land loans totaled \$62.5 million, or 4.1% of total loans. A total of \$48.5 million had yet to be advanced as of December 31, 2022.

Our construction mortgage loans generally provide for the payment of interest only during the construction phase, which is typically up to nine months for single-family residences although our policy is to consider construction periods as long as three years for multi-family residences and commercial buildings. At the end of the construction phase, the construction loan converts to a longer-term mortgage loan upon stabilization. Construction loans can be made with a maximum loan-to-value ratio of 90%, provided that the borrower obtains private mortgage insurance if the owner-occupied residential loan balance exceeds 80% of the lesser of the appraised value or acquisition cost of the secured property. The average outstanding construction loan balance totaled approximately \$4.3 million on December 31, 2022, with the largest outstanding balance at \$15.3 million. The average outstanding land loan balance was approximately \$169,000 on December 31, 2022, and the largest outstanding balance on that date was \$604,000.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also review and inspect each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on either the percentage of completion method or the actual cost of the completed work.

Construction financing is generally considered to involve a higher degree of credit risk than longer-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance funds beyond the amount originally committed in order to protect the value of the property. Additionally, if the estimate of value is inaccurate, we may be confronted with a project, when completed, with a value that is insufficient to ensure full repayment of the loan.

Commercial Real Estate Loans. Commercial real estate loans totaled \$263.0 million at December 31, 2022, or 17.4% of total loans, and are made up of loans secured by office and retail buildings, industrial buildings, churches, restaurants, other retail properties and mixed use properties. These loans are generally secured by property located in our primary market area. Our commercial real estate underwriting policies provide that such real estate loans may be made in amounts of up to 80% of the appraised value of the property. Commercial real estate loans are offered with interest rates that are fixed up to five years or are variable and either adjust based on a market index or at our discretion. Contractual maturities do not exceed 10 years while principal and interest payments are typically based on a 20 to 25-year amortization period. In reaching a decision whether to make a commercial real estate loan, we consider gross revenues and the net operating income of the property, the borrower's expertise and credit history, business and global cash flow, and the appraised value of the underlying property. In addition, we will also consider the terms and conditions of the leases and the credit quality of the tenants, if applicable. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, income taxes, depreciation and amortization divided by interest expense and current maturities of long term debt) of at least 1.15 times. Environmental surveys are required for commercial real estate loans when environmental risks are identified. Generally, commercial real estate loans made to corporations, partnerships and other business entities require personal guarantees by the principals and by the owners of 20% or more of the borrower.

A commercial real estate borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, payment history reviews and periodic face-to-face meetings with the borrower. We generally require borrowers with aggregate outstanding balances exceeding \$1.0 million to provide annual updated financial statements and federal tax returns. These requirements also apply to all guarantors on these loans. We also require borrowers to provide an annual report of income and expenses for the property, including a tenant list and copies of leases, as applicable. The average commercial real estate loan in our portfolio at December 31, 2022 was approximately \$960,000, and the largest outstanding balance at that date was \$16.1 million.

Commercial Loans. Commercial loans totaled \$24.9 million at December 31, 2022, or 1.7% of total loans, and are made up of loans secured by accounts receivable, inventory, equipment and real estate.

Our commercial loans are generally made to borrowers that are located in our primary market area. Working capital lines of credit are granted for the purpose of carrying inventory and accounts receivable or purchasing equipment. These lines require that certain collateral levels must be maintained and are monitored on a monthly or quarterly basis. Working capital lines of credit are short-term loans of 12 months or less with variable interest rates. At December 31, 2022, the unadvanced portion of working capital lines of credit totaled \$17.4 million. Outstanding balances fluctuate up to the maximum commitment amount based on fluctuations in the balance of the underlying collateral. Personal property loans secured by equipment are considered commercial business loans and are generally made for terms of up to 84 months and for up to 80% of the value of the underlying collateral. Interest rates on equipment loans may be either fixed or variable. Commercial business loans are generally variable rate loans with initial fixed rate periods of up to five years.

A commercial business borrower's financial information is monitored on an ongoing basis by requiring periodic financial statement updates, usually quarterly, payment history reviews and periodic face-to-face meetings with the borrower. The average outstanding commercial loan at December 31, 2022 was \$367,000 and the largest outstanding balance on that date was \$7.1 million.

Origination and Servicing of Loans. All loans originated for investment are underwritten pursuant to internally developed policies and procedures. While we generally underwrite owner-occupied residential mortgage loans to Freddie Mac and Fannie Mae standards, due to several unique characteristics, our loans originated prior to 2008 do not conform to the secondary market standards. The unique features of these loans include interest payments in advance of the month in which they are earned and discretionary rate adjustments that are not tied to an independent index.

Exclusive of our mortgage banking operations, we retain in our portfolio all of the loans that we originate. At December 31, 2022, WaterStone Bank was not servicing any loan it originated and subsequently sold to unrelated third parties. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans.

Loan Approval Procedures and Authority. WaterStone Bank's lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by WaterStone Bank's board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan and the adequacy of the value of the property that will secure the loan, if applicable. To assess the borrower's ability to repay, we review the employment and credit history and information on the historical and projected income and expenses of borrowers. Loan officers, with concurrence from independent credit officers and underwriters, are authorized to approve and close any loan that qualifies under WaterStone Bank underwriting guidelines within the following lending limits:

- Any secured mortgage loan up to \$500,000 for a borrower with total outstanding loans from us of less than \$1.0 million that is independently underwritten can be approved by the Chief Credit Officer or select lending personnel.
- Any secured mortgage loan up to \$1.0 million can be approved jointly the Chief Executive Officer.
- Any secured mortgage loan ranging from \$500,001 to \$3.0 million or any new loan to a borrower with outstanding loans from us exceeding \$1.0 million must be approved by the Officer Loan Committee.
- Any non-real estate loan up to \$250,000 for a borrower with total outstanding loans from us of less than \$250,000 that is independently underwritten can be approved by select lending personnel.
- Any non-real estate loan up to \$500,000 for a borrower with total outstanding loans from us of less than \$500,000 that is independently underwritten can be approved by the Chief Executive Officer or Business Banking Manager.
- Any non-real estate loan ranging from \$500,001 to \$3.0 million or any new non-real estate loan to a borrower with outstanding loans exceeding \$500,000 must be approved by the Officer Loan Committee.
- Any new loan over \$3.0 million must be approved by the Officer Loan Committee and the board of directors prior to closing. Any new loan to a borrower with outstanding loans from us exceeding \$10.0 million must be reviewed by the board of directors.

Asset Quality

When a loan becomes more than 30 days delinquent, WaterStone Bank sends a letter advising the borrower of the delinquency. The borrower is given a specific date by which delinquent payments must be made or by which they must contact WaterStone Bank to make arrangements to bring the loan current over a longer period of time. If the borrower fails to bring the loan current within the specified time period or to make arrangements to cure the delinquency over a longer period of time, the matter is referred to legal counsel and foreclosure or other collection proceedings are considered.

All loans are reviewed on a regular basis, and loans are placed on non-accrual status when they become 90 or more days delinquent. When loans are placed on non-accrual status, unpaid accrued interest is reversed, and further income is recognized only to the extent received when collection of the remaining principal balance is reasonably assured.

Non-Performing Assets. Non-performing assets consist of non-accrual loans and other real estate owned. Loans are generally placed on non-accrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, management may place such loans on non-accrual status immediately, rather than waiting until the loan becomes 90 days past due. At the time a loan is placed on non-accrual status, previously accrued and uncollected interest on such loans is reversed and additional income is recorded only to the extent that payments are received and the collection of principal is reasonably assured. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

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

	At December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Non-accrual loans:			
Residential			
One- to four-family	\$ 4,209	\$ 5,420	\$ 5,072
Multi family	-	128	341
Home equity	98	26	63
Construction and land	-	-	43
Commercial real estate	-	-	41
Commercial	-	-	-
Consumer	-	-	-
Total non-accrual loans	4,307	5,574	5,560
Real estate owned			
One- to four-family	-	-	-
Multi family	-	-	-
Construction and land	145	148	322
Commercial real estate	-	-	-
Total real estate owned	145	148	322
Valuation allowance at end of period	-	-	-
Total real estate owned, net	145	148	322
Total nonperforming assets	\$ 4,452	\$ 5,722	\$ 5,882
Total non-accrual loans to total loans, net	0.29%	0.46%	0.40%
Total non-accrual loans to total assets	0.21%	0.25%	0.25%
Total nonperforming assets to total assets	0.22%	0.26%	0.27%

All loans that meet or exceed 90 days with respect to past due principal and interest are recognized as non-accrual. Troubled debt restructurings which are still on non-accrual status either due to being past due 90 days or greater, or which have not yet performed under the modified terms for a reasonable period of time, are included in the table above. In addition, loans which are past due less than 90 days are evaluated to determine the likelihood of collectability given other credit risk factors such as early stage delinquency, the nature of the collateral or the results of a borrower fiscal review. When the collection of all contractual principal and interest is determined to be unlikely, the loan is moved to non-accrual status and an updated appraisal of the underlying collateral is ordered. This process generally takes place between 60 and 90 days past contractual due dates. Upon determining the updated estimated value of the collateral, a loan loss provision is recorded to establish a specific reserve to the extent that the outstanding principal balance exceeds the updated estimated net realizable value of the collateral. When a loan is determined to be uncollectible, generally coinciding with the initiation of foreclosure action, the specific reserve is reviewed for adequacy, adjusted if necessary, and charged-off.

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

	At and for the Year Ended December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Balance at beginning of period	\$ 5,574	\$ 5,560	\$ 7,025
Additions	3,306	3,374	3,356
Transfers to real estate owned	-	-	(637)
Charge-offs	-	(12)	(11)
Returned to accrual status	(1,394)	(1,792)	(2,501)
Principal paydowns and other	(3,179)	(1,556)	(1,672)
Balance at end of period	\$ 4,307	\$ 5,574	\$ 5,560

Total non-accrual loans decreased by \$1.3 million to \$4.3 million as of December 31, 2022 compared to \$5.6 million as of December 31, 2021. The ratio of non-accrual loans to total loans receivable was 0.29% at December 31, 2022 compared to 0.46% at December 31, 2021. During the year ended December 31, 2022, no loans were transferred to real estate owned or were charged off, \$3.2 million in principal payments were received and \$1.4 million in loans were returned to accrual status. Offsetting this activity, \$3.3 million in loans were placed on non-accrual status during the year ended December 31, 2022.

Of the \$4.3 million in total non-accrual loans as of December 31, 2022, \$2.6 million in 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 \$30,000 in partial charge-offs have been recorded with respect to these loans as of December 31, 2022. 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. There were no specific reserve as of December 31, 2022. The remaining \$1.7 million of non-accrual loans were reviewed on an aggregate basis as of December 31, 2022.

The outstanding principal balance of our five largest non-accrual loans as of December 31, 2022 totaled \$2.4 million, which represents 55.7% of total non-accrual loans as of that date. These five loans did not have any charge-offs or require any specific valuation allowances as of December 31, 2022.

Interest payments received are treated as interest income on a cash basis as long as the remaining book value of the loan (i.e., after charge-off of all identified losses) is deemed to be fully collectible. If the remaining book value is not deemed to be fully collectible, all payments received are applied to unpaid principal. Determination as to the ultimate collectability of the remaining book value is supported by an updated credit department evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors.

There were no accruing loans past due 90 days or more during the years ended December 31, 2022 or December 31, 2021.

Troubled Debt Restructurings. The following table summarizes troubled debt restructurings by the Company's internal risk rating.

	December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Troubled debt restructurings			
Substandard	\$ 936	\$ 3,989	\$ 9,249
Watch	-	-	2,320
Total troubled debt restructurings	<u>\$ 936</u>	<u>\$ 3,989</u>	<u>\$ 11,569</u>

Troubled debt restructurings totaled \$936,000 at December 31, 2022, compared to \$4.0 million at December 31, 2021. At December 31, 2022, all of the troubled debt restructurings were performing in accordance with their restructured terms. All troubled debt restructurings are considered to be impaired and are risk rated as either substandard or watch and are included in the internal risk rating tables disclosed in the notes to the consolidated financial statements. Specific reserves have been established to the extent that the collateral-based impairment analyses indicate that a collateral shortfall exists or to the extent that a discounted cash flow analysis results in an impairment.

Our troubled debt restructurings are short-term modifications. Typical initial restructured terms include six to twelve months of principal forbearance, a reduction in interest rate or both. Restructured terms do not include a reduction of the outstanding principal balance unless mandated by a bankruptcy court. Troubled debt restructuring terms may be renewed or further modified at the end of the initial term for an additional period if performance has been acceptable and the short-term borrower difficulty persists.

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

	At December 31,			
	2022		2021	
	Accruing	Non-accruing	Accruing	Non-accruing
	(In Thousands)			
One- to four-family	\$ -	\$ 936	\$ -	\$ 1,670
Commercial real estate	-	-	1,222	-
Commercial	-	-	1,097	-
	<u>\$ -</u>	<u>\$ 936</u>	<u>\$ 2,319</u>	<u>\$ 1,670</u>

Interest payments received on non-accrual troubled debt restructurings are treated as interest income on a cash basis as long as the remaining book value of the loan (i.e., after charge-off of all identified losses) is deemed to be fully collectible. If the remaining book value is not deemed to be fully collectible, all payments received are applied to unpaid principal. Determination as to the ultimate collectability of the remaining book value is supported by an updated credit department evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors.

If a restructured loan is current in all respects and a minimum of six consecutive restructured payments have been received, it can be considered for return to accrual status. After a restructured loan that is current in all respects reverts to contractual/market terms, if a credit department review indicates no evidence of elevated market risk, the loan is removed from the troubled debt restructuring classification. The restructured loan will be classified as a troubled debt restructuring for at least the calendar year after the modification even after returning to a contractual/market rate and accrual status.

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

	At December 31,	
	2022	2021
	(Dollars in Thousands)	
Loans past due less than 90 days	\$ 2,578	\$ 2,694
Loans past due 90 days or more	3,683	4,368
Total loans past due	<u>\$ 6,261</u>	<u>\$ 7,062</u>
Total loans past due to total loans receivable	0.41%	0.59%

Past due loans decreased by \$801,000, or 11.3%, to \$6.3 million at December 31, 2022 from \$7.1 million at December 31, 2021. Loans past due less than 90 days decreased by \$116,000 during the year ended December 31, 2022. The decrease was primarily due to a decrease in one- to four-family loans during the year ended December 31, 2022. Loans past due 90 days or more decreased \$685,000. The decrease in loans past due 90 days or more was primarily due to a decrease in the one-to four-family loans during the year ended December 31, 2022.

Potential Problem Loans. We define potential problem loans as substandard loans which are still accruing interest. We do not necessarily expect to realize losses on potential problem loans, but we recognize potential problem loans carry a higher probability of default and require additional attention by management. The aggregate principal amounts of potential problem loans as of December 31, 2022 and 2021 were \$5.5 million and \$7.9 million, respectively. Management believes it has established an adequate allowance for probable loan losses as appropriate under generally accepted accounting principles.

Real Estate Owned. Total real estate owned was \$145,000 at December 31, 2022, and \$148,000 at December 31, 2021. During the year ended December 31, 2022 and December 31, 2021, there was no significant activity.

New appraisals received on real estate owned and collateral dependent impaired loans are based upon an "as is value" assumption. During the period of time in which we are awaiting receipt of an updated appraisal, loans evaluated for impairment based upon collateral value are measured by the following:

- Applying an updated adjustment factor to an existing appraisal;
- Confirming that the physical condition of the real estate has not significantly changed since the last valuation date;
- Comparing the estimated current value of the collateral to that of updated sales values experienced on similar collateral;
- Comparing the estimated current value of the collateral to that of updated values seen on current appraisals of similar collateral; and
- Comparing the estimated current value to that of updated listed sales prices on our real estate owned and that of similar properties (not owned by the Company).

We owned one property at December 31, 2022, December 31, 2021, and December 31, 2020. Habitable real estate owned is managed with the intent of attracting a lessee to generate revenue. Foreclosed properties are transferred to real estate owned at estimated net realizable value, with charge-offs, if any, charged to the allowance for loan losses upon transfer to real estate owned. The fair value is primarily based upon updated appraisals in addition to an analysis of current real estate market conditions.

Allowance for Credit Losses

The following table sets forth activity in our allowance for credit losses - loans for the years indicated.

	At or for the Year Ended December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Balance at beginning of period	\$ 15,778	\$ 18,823	\$ 12,387
Adoption of CECL (1)	430	-	-
Provision (credit) for credit losses - loans	1,030	(3,990)	6,340
Charge-offs:			
Mortgage			
One- to four-family	304	151	82
Multi family	-	-	5
Home Equity	-	-	13
Commercial real estate	-	13	8
Construction and land	-	10	-
Consumer	16	18	10
Commercial	-	-	-
Total charge-offs	320	192	118
Recoveries:			
Mortgage			
One- to four-family	78	949	148
Multi family	727	116	21
Home Equity	18	16	27
Commercial real estate	3	52	2
Construction and land	13	4	16
Consumer	-	-	-
Commercial	-	-	-
Total recoveries	839	1,137	214
Net recoveries	(519)	(945)	(96)
Allowance at end of period	\$ 17,757	\$ 15,778	\$ 18,823
Ratios:			
Allowance for credit losses to non-accrual loans at end of period (1)	412.28%	283.06%	338.54%
Allowance for credit losses to loans receivable at end of period (1)	1.18%	1.31%	1.37%
Net (recoveries) charge-offs to average loans:			
Mortgage			
One- to four-family	0.06%	(0.05%)	(0.00%)
Multi family	(0.12%)	(0.01%)	(0.00%)
Home Equity	(0.16%)	(0.03%)	(0.02%)
Construction and land	(0.00%)	(0.01%)	0.00%
Commercial real estate	(0.01%)	0.00%	(0.00%)
Consumer	2.12%	0.61%	0.32%
Commercial	0.00%	0.00%	0.00%
Net (recoveries) charge-offs to average loans outstanding	(0.04%)	(0.07%)	(0.01%)

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

The allowance for credit losses - loans increased \$2.0 million to \$17.8 million at December 31, 2022 from \$15.8 million at December 31, 2021. The increase resulted from the CECL model adoption on January 1, 2022 along with loan growth throughout the year. The CECL calculation resulted in an opening balance adjustment of \$430,000 to increase the allowance for credit losses along with a \$1.0 million provision for credit losses - loans during the during year. Additionally, net recoveries totaled \$519,000 for the year ended December 31, 2022. With the adoption of CECL, estimated recoveries may be accounted for within the calculation and do not impact the provision for credit losses line item when cash is received.

We had net recoveries of \$519,000, or 0.04% of average loans annualized, for the year ended December 31, 2022, compared to net recoveries of \$945,000 or 0.07% of average loans annualized, for the year ended December 31, 2021. Of the \$519,000 in net recoveries during the year ended December 31, 2022, the majority of the activity related to loans secured by multi-family loan categories.

Our underwriting policies and procedures emphasize that credit decisions must rely on both the credit quality of the borrower and the estimated value of the underlying collateral. Credit quality is assured only when the estimated value of the collateral is objectively determined and is not subject to significant fluctuation.

The allowance for credit losses - loans has been determined in accordance with GAAP. We are responsible for the timely and periodic determination of the amount of the allowance required. Any future provisions for loan losses will continue to be based upon our assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors.

Allocation of Allowance for Credit Losses - Loans. The following table sets forth the allowance for credit losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for credit losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

At December 31,									
2022			2021			2020			
Allowance for Credit Losses - Loans (1)	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses - Loans (1)	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses - Loans (1)	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	
(Dollars in Thousands)									
Real estate:									
Residential									
One- to four-family	\$ 4,743	31.09%	26.71%	\$ 3,963	24.92%	25.12%	\$ 5,459	31.04%	29.00%
Multi family	7,975	44.90%	44.91%	5,398	44.62%	34.21%	5,600	41.59%	29.75%
Home equity	174	0.76%	0.98%	89	0.91%	0.56%	194	1.08%	1.03%
Construction and land	1,352	4.14%	7.61%	1,386	6.85%	8.78%	1,755	5.61%	9.32%
Commercial real estate	3,199	17.41%	18.02%	4,482	20.79%	28.41%	5,138	17.33%	27.30%
Commercial	267	1.65%	1.50%	427	1.85%	2.71%	642	3.30%	3.41%
Consumer	47	0.05%	0.26%	33	0.06%	0.21%	35	0.05%	0.19%
Total allowance for credit losses - loans (1)	\$ 17,757	100.00%	100.00%	\$ 15,778	100.00%	100.00%	\$ 18,823	100.00%	100.00%

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

Our underwriting policies and procedures emphasize that credit decisions must rely on both the credit quality of the borrower and the estimated value of the underlying collateral. Credit quality is assured only when the estimated value of the collateral is objectively determined and is not subject to significant fluctuation.

The allowance for credit losses - loans has been determined in accordance with GAAP. We are responsible for the timely and periodic determination of the amount of the allowance required. Any future provisions for loan losses will continue to be based upon our assessment of the overall loan portfolio and the underlying collateral, trends in non-performing loans, current economic conditions and other relevant factors.

The establishment of the amount of the credit loss allowance inherently involves judgments by management as to the appropriateness of the allowance, which ultimately may or may not be correct. Higher than anticipated rates of loan default would likely result in a need to increase provisions in future years.

At December 31, 2022, the allowance for credit losses - loans was \$17.8 million, compared to \$15.8 million at December 31, 2021. As of December 31, 2022, the allowance for credit losses to total loans receivable was 1.18% and 412.28% of non-performing loans, compared to 1.31%, and 283.06%, respectively at December 31, 2021. The decrease in the allowance for credit losses during the year ended December 31, 2022 reflects an improvement in certain economic factors, decreasing the required allowance related to the loans collectively reviewed. The overall decrease was related to each of the one- to four-family, multi family, home equity, construction and land, commercial real estate, consumer, and commercial categories. See Note 3 of the notes to the consolidated financial statements for further discussion on the allowance for credit losses - loans.

Mortgage Banking Activity

In addition to the lending activities previously discussed, we also originate single-family residential mortgage loans for sale in the secondary market through Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originated, including loans sold to WaterStone Bank, \$2.76 billion in mortgage loans held for sale during the year ended December 31, 2022, which was a volume decrease of \$1.47 billion, or 34.6%, from the \$4.23 billion originated during the year ended December 31, 2021. The decrease in loan production volume was driven by a \$986.3 million, or 76.6%, decrease in refinance products as mortgage rates increased from the prior year. Mortgage purchase products decreased \$478.8 million, or 16.3%, due to an increase in mortgage rates year-over-year and the decline in affordable housing inventories. Total mortgage banking income decreased \$93.5 million, or 47.3%, to \$104.1 million during the year ended December 31, 2022 compared to \$197.6 million during the year ended December 31, 2021. The decrease in mortgage banking noninterest income was related to a 34.6% decrease in volume and an 18.3% decrease in gross margin on loans originated and sold for the year ended December 31, 2022 compared to December 31, 2021. Gross margin on those loans originated and sold is the ratio of mortgage banking income (excluding the change in interest rate lock fair value) divided by total loan originations. We sell loans on both a servicing-released and a servicing retained basis. Waterstone Mortgage Corporation has contracted with a third party to service the loans for which we retain servicing.

Our gross 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. Loans originated for the purchase of a residential property, which generally yield a higher margin than loans originated for refinancing existing loans, comprised 89.1% of total originations during the year ended December 31, 2022, compared to 69.5% of total originations during the year ended December 31, 2021. The mix of loan type trended towards more governmental loans and less conventional loans comprising 29.3% and 70.7% of all loan originations, respectively, during the year ended December 31, 2022, compared to 23.4% and 76.6% of all loan originations, respectively, during the year ended December 31, 2021.

Investment Activities

Wauwatosa Investments, Inc. is WaterStone Bank's investment subsidiary headquartered in the State of Nevada. Wauwatosa Investments, Inc. manages the back office function for WaterStone Bank's investment portfolio. Our Chief Financial Officer and Treasury Officer are responsible for executing purchases and sales in accordance with our investment policy and monitoring the investment activities of Wauwatosa Investments, Inc. The investment policy is reviewed annually by management and changes to the policy are recommended to and subject to the approval of WaterStone Bank's board of directors. Authority to make investments under the approved investment policy guidelines is delegated by the board to designated employees. While general investment strategies are developed and authorized by management, the execution of specific actions rests with the Chief Financial Officer and Treasury Officer who may act jointly in performing security trades. The Chief Financial Officer and Treasury Officer are responsible for ensuring that the guidelines and requirements included in the investment policy are followed and that all securities are considered prudent for investment. The Chief Financial Officer and the Treasury Officer are authorized to execute investment transactions (purchases and sales) without the prior approval of the board provided they are within the scope of the established investment policy.

Our investment policy requires that all securities transactions be conducted in a safe and sound manner. Investment decisions are based upon a thorough analysis of each security instrument to determine its quality, inherent risks, fit within our overall asset/liability management objectives, effect on our risk-based capital measurement and prospects for yield and/or appreciation.

Consistent with our overall business and asset/liability management strategy, which focuses on sustaining adequate levels of core earnings, our investment portfolio is comprised primarily of securities that are classified as available for sale. During the years ended December 31, 2022, 2021, and 2020, no investment securities were sold.

Available for Sale Portfolio

Mortgage-backed Securities and Collateralized Mortgage Obligations. We purchase mortgage-backed securities and collateralized mortgage obligations guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. We invest in mortgage-backed securities, collateralized mortgage obligations, and private-label mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk. We regularly monitor the credit quality of this portfolio.

Mortgage-backed securities, collateralized mortgage obligations, and private-label mortgage-backed securities are created by the pooling of mortgages and the issuance of a security. These securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we focus our investments on mortgage related securities backed by one- to four-family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as WaterStone Bank, and in the case of government agency sponsored issues, guarantee the payment of principal and interest to investors. Mortgage-backed securities, collateralized mortgage obligations, and private-label mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees, if any, and credit enhancements. These fixed-rate securities are usually more liquid than individual mortgage loans.

At December 31, 2022, mortgage-backed securities totaled \$13.3 million. The mortgage-backed securities portfolio had a weighted average yield of 2.48% and a weighted average remaining life of 9.7 years at December 31, 2022. The estimated fair value of our mortgage-backed securities portfolio at December 31, 2022 was \$1.8 million less than the amortized cost of \$15.1 million. Mortgage-backed securities valued at \$259,000 were pledged as collateral for mortgage banking activities as of December 31, 2022. Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the fair value of such securities may be adversely affected in a rising interest rate environment, particularly since all of our mortgage-backed securities have a fixed rate of interest.

At December 31, 2022, collateralized mortgage obligations totaled \$124.8 million. At December 31, 2022, the collateralized mortgage obligations portfolio consisted entirely of securities backed by government sponsored enterprises or U.S. Government agencies. The collateralized mortgage obligations portfolio had a weighted average yield of 2.06% and a weighted average remaining life of 6.0 years at December 31, 2022. The estimated fair value of our collateralized mortgage obligations portfolio at December 31, 2022 was \$21.0 million less than the amortized cost of \$145.7 million. Investments in collateralized mortgage obligations involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the fair value of such securities may be adversely affected in a rising interest rate environment, particularly since all of our collateralized mortgage obligations have a fixed rate of interest.

Private-Label Mortgage-backed Securities. At December 31, 2022, private-label mortgage-backed securities totaled \$8.1 million. These securities had a weighted average yield of 3.61% and a weighted average remaining life of 5.3 years at December 31, 2022. The estimated fair value of our private-label mortgage-backed securities portfolio at December 31, 2022 was \$935,000 less than the amortized cost of \$9.0 million. Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the fair value of such securities may be adversely affected in a rising interest rate environment, particularly since all of our mortgage-backed securities have a fixed rate of interest.

Government Sponsored Enterprise Bonds. At December 31, 2022, our Government sponsored enterprise bond portfolio totaled \$2.3 million, all of which were issued by Federal National Mortgage Association ("Fannie Mae") and were classified as available for sale. The weighted average yield on these securities was 0.60% and the weighted average remaining average life was 2.6 years at December 31, 2022. While these securities generally provide lower yields than other investments in our securities investment portfolio, we maintain these investments, to the extent appropriate, for liquidity purposes and prepayment protection. The estimated fair value of our government sponsored enterprise bond portfolio at December 31, 2022 was \$244,000 less than the amortized cost of \$2.5 million.

Municipal Obligations. These securities consist of obligations issued by school districts, counties and municipalities or their agencies and include general obligation bonds, industrial development revenue bonds and other revenue bonds. Our investment policy requires that such municipal obligations be rated A+ or better by a nationally recognized rating agency at the date of purchase. A security that is downgraded below investment grade will require additional analysis of creditworthiness and a determination will be made to hold or dispose of the investment. We regularly monitor the credit quality of this portfolio. At December 31, 2022, our municipal obligations portfolio totaled \$36.9 million, all of which was classified as available for sale. The weighted average yield on this portfolio was 3.94% at December 31, 2022, with a weighted average remaining life of 6.8 years. The estimated fair value of our municipal obligations bond portfolio at December 31, 2022 was \$765,000 less than the amortized cost of \$37.7 million.

Other Debt Securities. As of December 31, 2022, we held other debt securities in the portfolio that totaled \$11.2 million. Other debt securities consists of two corporate bonds. The weighted average yield on this portfolio was 3.43% at December 31, 2022, with a weighted average remaining life of 7.3 years. We regularly monitor the credit quality of this portfolio. The unrealized losses for the other debt securities is due to the current slope of the yield curve. One security earns a floating rate that is indexed to the 10 year Treasury interest rate.

As of December 31, 2022, no allowance for credit losses on securities was recognized. The Company does not consider its securities with unrealized losses to be attributable to credit-related factors, as the unrealized losses in each category have occurred as a result of changes in noncredit-related factors such as changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration. Furthermore, the Company does not have the intent to sell any of these securities and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost.

Portfolio Maturities and Yields. The composition and maturities of the debt securities portfolio at December 31, 2022 are summarized in the following table. Maturities are based on the final contractual payment dates and do not reflect the impact of prepayments or early redemptions that may occur. Municipal obligation yields have not been adjusted to a tax-equivalent basis. Certain mortgage related securities have interest rates that are adjustable and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
(Dollars in Thousands)										
Debt securities available for sale:										
Mortgage-backed securities	\$ 244	2.45%	\$ 5,420	2.71%	\$ 850	3.47%	\$ 8,620	2.24%	\$ 15,134	2.48%
Collateralized mortgage obligations:										
Government sponsored enterprise issued	3,088	5.26%	37,358	3.07%	103,640	1.62%	1,654	1.01%	145,740	2.06%
Private-label issued	890	6.79%	3,639	3.92%	4,512	2.72%	-	-	9,041	3.61%
Government sponsored enterprise bonds	-	-	2,500	0.60%	-	-	-	-	2,500	0.60%
Municipal obligations	3,706	2.69%	15,717	3.79%	5,622	5.13%	12,654	3.97%	37,699	3.94%
Other debt securities	-	-	-	-	12,500	3.43%	-	-	12,500	3.43%
Total debt securities available for sale	<u>\$ 7,928</u>	<u>4.14%</u>	<u>\$ 64,634</u>	<u>3.17%</u>	<u>\$ 127,124</u>	<u>2.01%</u>	<u>\$ 22,928</u>	<u>3.11%</u>	<u>\$ 222,614</u>	<u>2.53%</u>

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also rely on advances from the Federal Home Loan Bank of Chicago and borrowings from other commercial banks in the form of repurchase agreements collateralized by investment securities. In addition to deposits and borrowings, we derive funds from scheduled loan payments, investment maturities, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing market interest rates, economic conditions and competition from other financial institutions.

Deposits. A majority of our depositors are persons or businesses who work, reside, or are located in Milwaukee and Waukesha Counties and, to a lesser extent, other southeastern Wisconsin communities. We offer a selection of deposit instruments, including checking, savings, money market deposit accounts, and fixed-term certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. As of December 31, 2022, certificates of deposit comprised 53.6% of total customer deposits, and had a weighted average cost of 1.52% on that date. Our reliance on certificates of deposit has resulted in a higher cost of funds than would otherwise be the case if demand deposits, savings and money market accounts made up a larger part of our deposit base. Development of our branch network and expansion of our commercial products and services and aggressively seeking lower cost savings, checking and money market accounts are expected to result in decreased reliance on higher-cost certificates of deposit.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. To attract and retain deposits, we rely upon personalized customer service, long-standing relationships and competitive interest rates. We also provide remote deposit capture, internet banking and mobile banking.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts that we offer allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on historical experience, management believes our deposits are relatively stable. The ability to attract and maintain money market accounts and certificates of deposit, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. At December 31, 2022 and December 31, 2021, \$642.3 million and \$626.7 million of our deposit accounts were certificates of deposit, of which \$502.3 million and \$533.0 million, respectively, had remaining maturities of one year or less.

Deposits decreased by \$34.4 million, or 2.8%, from December 31, 2021 to December 31, 2022. The decrease in deposits was the result of a \$50.0 million, or 8.2%, decrease in total transaction accounts offset by a \$15.6 million, or 2.5% increase in time deposits. The Company had no deposits obtained directly from brokers as of December 31, 2022 and December 31, 2021.

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

	At December 31,								
	2022			2021			2020		
	Average Balance	Average Cost of Funds	Ending Weighted Average Yield	Average Balance	Average Cost of Funds	Ending Weighted Average Yield	Average Balance	Average Cost of Funds	Ending Weighted Average Yield
	(Dollars in Thousands)								
Deposit type:									
Demand deposits	\$ 159,495	0.00%	0.00%	\$ 146,767	0.00%	0.00%	\$ 116,771	0.00%	0.00%
NOW accounts	72,751	0.08%	0.08%	64,653	0.08%	0.08%	47,410	0.08%	0.07%
Regular savings	69,988	0.04%	0.13%	69,988	0.04%	0.03%	75,643	0.04%	0.03%
Money market and savings deposits	321,182	0.37%	1.41%	293,942	0.30%	0.27%	189,079	0.64%	0.59%
Total transaction accounts	623,416	0.20%	0.66%	575,350	0.17%	0.15%	428,903	0.30%	0.29%
Certificates of deposit	602,332	0.60%	1.52%	675,495	0.51%	0.38%	733,033	1.71%	0.86%
Total deposits	\$ 1,225,748	0.40%	1.12%	\$ 1,250,845	0.35%	0.27%	\$ 1,161,936	1.19%	0.63%

At December 31, 2022 and 2021, the aggregate balance of uninsured deposits of \$250,000 or more was \$313.3 million and \$263.3 million, respectively. The Company does not have uninsured deposits less than \$250,000 in aggregate balance. The following table sets forth the maturity of uninsured certificates of deposits at December 31, 2022 and 2021.

	At December 31,	
	2022	2021
	(In Thousands)	
Due in:		
Three months or less	\$ 26,246	\$ 29,554
Over three months through six months	20,371	25,018
Over six months through 12 months	40,637	31,572
Over 12 months	23,681	16,419
	\$ 110,935	\$ 102,563

Borrowings. Our borrowings at December 31, 2022 consisted of \$385.7 million in advances from the Federal Home Loan Bank of Chicago and \$1.1 million outstanding balance in short-term repurchase agreements used to fund loans held for sale. The following table sets forth information concerning balances and interest rates on borrowings at the dates and for the periods indicated.

	At or For the Year Ended December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Borrowings:			
Balance outstanding at end of year	\$ 386,784	\$ 477,127	\$ 508,074
Weighted average interest rate at the end of year	3.68%	2.02%	1.95%
Average balances outstanding during the year	\$ 348,482	\$ 479,262	\$ 545,741
Weighted average interest rate during the year	2.42%	2.08%	1.95%

Human Capital

As of December 31, 2022, we had 742 full-time equivalent employees. A total of 172 are WaterStone Bank employees and 570 are employees of Waterstone Mortgage Corporation. We believe we are able to attract and retain top talent by creating a culture that challenges and engages our employees, offering them opportunities to learn, grow and achieve their career goals. Further, our commitment to a culture of inclusion is integral to our goal of attracting and retaining the best talent and ultimately driving our business performance. Our Diversity and Inclusion strategy includes regular training and development for all employees and partnerships with non-profit organizations that share in our inclusion mission. Our employees participate in a wide array of volunteer activities and we support their charitable giving by matching employee contributions to qualified nonprofit organizations.

We offer comprehensive compensation and benefits packages to our employees including a 401k Plan, Employee Stock Ownership Plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off and certain family assistance programs, including paid family leave, flexible work arrangements, amongst others. We also offer stock-based compensation to certain management personnel as a way to attract and retain key talent. See Note 10 - Stock Based Compensation, Note 11 - Employee Benefit Plans, and Note 12 - Employee Stock Ownership Plan to the Consolidated Financial Statements included under Item 8 for further discussion of our stock-based compensation and benefit plans.

Supervision and Regulation

General

WaterStone Bank is a stock savings bank organized under the laws of the State of Wisconsin. The lending, investment, and other business operations of WaterStone Bank are governed by Wisconsin law and regulations, as well as applicable federal law and regulations, and WaterStone Bank is prohibited from engaging in any operations not authorized by such laws and regulations. WaterStone Bank is subject to extensive regulation, supervision and examination by the WDFI and by the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's Deposit Insurance Fund and depositors, and not for the protection of security holders. WaterStone Bank also is regulated to a lesser extent by the Federal Reserve Board, governing reserves to be maintained against deposits and other matters. WaterStone Bank also is a member of and owns stock in the Federal Home Loan Bank of Chicago, which is one of the 11 regional banks in the Federal Home Loan Bank System.

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 pay dividends, repurchase shares of common stock, acquire other financial institutions or establish new branches.

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.

As a savings and loan holding company, Waterstone Financial is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Waterstone Financial is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the WDFI, the Federal Deposit Insurance Corporation, the Federal Reserve Board or Congress, could have a material adverse impact on the operations and financial performance of Waterstone Financial, WaterStone Bank and Waterstone Mortgage Corporation.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to WaterStone Bank, Waterstone Mortgage Corporation and Waterstone Financial. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on WaterStone Bank, Waterstone Mortgage Corporation and Waterstone Financial.

Intrastate and Interstate Merger and Branching Activities

Wisconsin Law and Regulation. Any Wisconsin savings bank meeting certain requirements may, upon approval of the WDFI, establish one or more branch offices in the state of Wisconsin and the states of Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, and Ohio. In addition, upon WDFI approval, a Wisconsin savings bank may establish a branch office in any other state as the result of a merger or consolidation.

Federal Law and Regulation. Federal law permits the federal banking agencies to, under certain circumstances, approve acquisition transactions between banks located in different states, regardless of whether an acquisition would be prohibited under state law. Federal law also authorizes de novo branching into another state at locations at which banks chartered by the host state could establish a branch.

Loans and Investments

Wisconsin Law and Regulations. Under Wisconsin law and regulation, WaterStone Bank is authorized to make, invest in, sell, purchase, participate or otherwise deal in mortgage loans or interests in mortgage loans without geographic restriction, including loans made on the security of residential and commercial property. Wisconsin savings banks also may lend funds on a secured or unsecured basis for business, commercial or agricultural purposes, provided the total of all such loans does not exceed 20% of the savings bank's total assets, unless the WDFI authorizes a greater amount. Loans are subject to certain other limitations, including percentage restrictions based on total assets.

Wisconsin savings banks may invest funds in certain types of debt and equity securities, including obligations of federal, state and local governments and agencies. Subject to prior approval of the WDFI, compliance with capital requirements and certain other restrictions, Wisconsin savings banks may invest in residential housing development projects. Wisconsin savings banks may also invest in service corporations or subsidiaries with the prior approval of the WDFI, subject to certain restrictions. Similarly, the line of credit that WaterStone Bank provides to Waterstone Mortgage Corporation is subject to the approval of the WDFI.

Wisconsin savings banks may make loans and extensions of credit, both direct and indirect, to one borrower in amounts up to 20% of the savings bank's capital plus an additional 5% for loans fully secured by readily marketable collateral. In addition, and notwithstanding the 20% of capital and additional 5% of capital limitations set forth above, Wisconsin savings banks may make loans to one borrower, or a related group of borrowers, for any purpose in an amount not to exceed \$500,000, or to develop domestic residential housing units in an amount not to exceed the lesser of \$30 million or 30% of the savings bank's capital, subject to certain conditions. At December 31, 2022, WaterStone Bank did not have any loans which exceeded the "loans-to-one borrower" limitations.

In addition, under Wisconsin law, WaterStone Bank must qualify for and maintain a level of qualified thrift investments equal to 60% of its assets as prescribed in Section 7701(a)(19) of the Internal Revenue Code of 1986, as amended. A Wisconsin savings bank that fails to meet this qualified thrift lender test becomes subject to certain operating restrictions otherwise applicable only to commercial banks. At December 31, 2022, WaterStone Bank maintained 84.2% of its assets in qualified thrift investments and therefore met the qualified thrift lender requirement.

Federal Law and Regulation. Federal Deposit Insurance Corporation regulations also govern the equity investments of WaterStone Bank and, notwithstanding Wisconsin law and regulations, Federal Deposit Insurance Corporation regulations prohibit WaterStone Bank from making certain equity investments and generally limit WaterStone Bank's equity investments to those that are permissible for national banks and their subsidiaries. Under Federal Deposit Insurance Corporation regulations, WaterStone Bank must obtain prior Federal Deposit Insurance Corporation approval before directly, or indirectly through a majority-owned subsidiary, engaging "as principal" in any activity that is not permissible for a national bank unless certain exceptions apply. The activity regulations provide that state banks that meet applicable minimum capital requirements would be permitted to engage in certain activities that are not permissible for national banks, including certain real estate and securities activities conducted through subsidiaries. The Federal Deposit Insurance Corporation will not approve an activity that it determines presents a significant risk to the Federal Deposit Insurance Corporation insurance fund. The current activities of WaterStone Bank and its subsidiaries are permissible under applicable federal regulations.

Loans to, and other transactions with, affiliates of WaterStone Bank, such as Waterstone Financial, are restricted by the Federal Reserve Act and regulations issued by the Federal Reserve Board thereunder. See "Transactions with Affiliates and Insiders" below.

Lending Standards

Wisconsin Law and Regulation. Under Wisconsin law, WaterStone Bank is permitted to establish deposit accounts and accept deposits. WaterStone Bank's board of directors, or its designee, determine the rate and amount of interest to be paid on or credited to deposit accounts.

Federal Law and Regulation. The federal banking agencies have adopted uniform regulations prescribing standards for extensions of credit that are secured by liens on interests in real estate or made for the purpose of financing the construction of a building or other improvements to real estate. Under the joint regulations adopted by the federal banking agencies, all insured depository institutions, such as WaterStone Bank, must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures, and loan documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies that have been adopted by the federal bank regulators.

The Interagency Guidelines, among other things, require a depository institution to establish internal loan-to-value limits for real estate loans that are not in excess of the following supervisory limits:

- for loans secured by raw land, the supervisory loan-to-value limit is 65% of the value of the collateral;
- for land development loans (i.e., loans for the purpose of improving unimproved property prior to the erection of structures), the supervisory limit is 75%;
- for loans for the construction of commercial, over four-family or other non-residential property, the supervisory limit is 80%;
- for loans for the construction of one- to four-family properties, the supervisory limit is 85%; and
- for loans secured by other improved property (e.g., farmland, completed commercial property and other income-producing property, including non-owner occupied, one- to four-family property), the limit is 85%.

Although no supervisory loan-to-value limit has been established for permanent mortgages on owner-occupied, one- to four-family and home equity loans, the Interagency Guidelines state that for any such loan with a loan-to-value ratio that equals or exceeds 90% at origination, an institution should require appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral.

Deposits

Wisconsin Law and Regulation. Under Wisconsin law, WaterStone Bank is permitted to establish deposit accounts and accept deposits. WaterStone Bank's board of directors, or its designee, determines the rate and amount of interest to be paid on or credited to deposit accounts subject to Federal Deposit Insurance Corporation limitations.

Deposit Insurance

Wisconsin Law and Regulation. Under Wisconsin law, WaterStone Bank is required to obtain and maintain insurance on its deposits from a deposit insurance corporation. The deposits of WaterStone Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation.

Federal Law and Regulation. WaterStone Bank is a member of the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. The Bank's deposit accounts are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of \$250,000.

The Federal Deposit Insurance Corporation imposes an assessment against all insured depository institutions. An institution's assessment rate depends upon the perceived risk of the institution to the Deposit Insurance Fund, with less risky institutions paying lower rates. Currently, assessments for institutions of less than \$10 billion of total assets are based on financial measures and supervisory ratings derived from statistical models estimating the probability of failure within three years. The Federal Deposit Insurance Corporation adopted a final rule in October 2022 to increase initial base deposit insurance assessment rates by two basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates for institutions of WaterStone Bank's size range from 2.5 to 42 basis points of an institution's total assets less tangible capital. The Federal Deposit Insurance Corporation may increase or decrease the range of assessments uniformly, except that no adjustment can deviate more than two basis points from the base assessment rate without notice and comment rulemaking.

The Federal Deposit Insurance Corporation has the authority to increase insurance assessments. A significant increase in insurance premiums would have an adverse effect on the operating expenses and results of operations of WaterStone Bank. We cannot predict what deposit insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

Capitalization

Wisconsin Law and Regulation. Wisconsin savings banks are required to maintain a minimum capital to total assets ratio of 6% and must maintain total capital necessary to ensure the continuation of insurance of deposit accounts by the Federal Deposit Insurance Corporation. If the WDFI determines that the financial condition, history, management or earning prospects of a savings bank are not adequate, the WDFI may require a higher minimum capital level for the savings bank. If a Wisconsin savings bank's capital ratio falls below the required level, the WDFI may direct the savings bank to adhere to a specific written plan established by the WDFI to correct the savings bank's capital deficiency, as well as a number of other restrictions on the savings bank's operations, including a prohibition on the payment of dividends. At December 31, 2022, WaterStone Bank's capital to assets ratio, as calculated under Wisconsin law, was 15.90%.

Federal Law and Regulation. Federal regulations require Federal Deposit Insurance Corporation insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). WaterStone Bank exercised its AOCI opt-out election. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements.

In assessing an institution's capital adequacy, the Federal Deposit Insurance Corporation takes into consideration, not only these numeric factors, but qualitative factors as well, including the bank's exposure to interest rate risk. The Federal Deposit Insurance Corporation has the authority to establish higher capital requirements for individual institutions where deemed necessary due to a determination that an institution's capital level is, or is likely to become, inadequate in light of particular circumstances.

Legislation enacted in May required the federal banking agencies, including the Federal Reserve Board, to establish a "community bank leverage ratio" of between 8 to 10% of average total consolidated assets for qualifying institutions with assets of less than \$10 billion. Institutions with capital meeting the specified requirements and electing to follow the alternative framework are deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements. A qualifying institution may opt in and out of the community bank leverage ratio on its quarterly call report.

The optional community bank leverage ratio has currently been established at 9%. WaterStone Bank has not opted into the community bank leverage ratio.

Safety and Soundness Standards

Each federal banking agency, including the Federal Deposit Insurance Corporation, has adopted guidelines establishing general standards relating to internal controls, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits, and information security. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder.

Prompt Corrective Regulatory Action

Federal bank regulatory authorities are required to take "prompt corrective action" with respect to institutions that do not meet minimum capital requirements. For these purposes, the statute establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the regulations, a bank is deemed to be (i) "well capitalized" if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 8.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and a common equity Tier 1 ratio of 6.5% or more, and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a Tier 1 leveraged capital ratio of 4.0% or more and a common equity Tier 1 ratio of 4.5% or more, and does not meet the definition of "well capitalized"; (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 6.0%, a Tier 1 leverage capital ratio that is less than 4.0% or a common equity Tier 1 ratio of less than 4.5%; (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0% and a Tier 1 risk-based capital ratio that is less than 4.0% or a common equity Tier 1 ratio of less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Federal law and regulations also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an institution classified as less than well capitalized to comply with supervisory actions as if it were in the next lower category (except that the Federal Deposit Insurance Corporation may not reclassify a significantly undercapitalized institution as critically undercapitalized).

The Federal Deposit Insurance Corporation may order savings banks that have insufficient capital to take corrective actions. For example, a savings bank that is categorized as “undercapitalized” is subject to growth limitations and is required to submit a capital restoration plan, and a holding company that controls such a savings bank is required to guarantee that the savings bank complies with the restoration plan. A “significantly undercapitalized” savings bank may be subject to additional restrictions. Savings banks deemed by the Federal Deposit Insurance Corporation to be “critically undercapitalized” would be subject to the appointment of a receiver or conservator.

At December 31, 2022, WaterStone Bank was considered well-capitalized with a common equity Tier 1 ratio of 20.46%, Tier 1 leverage ratio of 17.08%, a Tier 1 risk-based ratio of 20.46% and a total risk based capital ratio of 21.52%.

A qualifying institution whose tier 1 capital equals or exceeds the specified community bank leverage ratio and opts into that framework will be considered well capitalized for prompt corrective action purposes.

Banking regulators addressed the regulatory capital treatment of credit loss allowance under Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (CECL) methodology by allowing banking organizations an option to phase in the day-one regulatory capital effects. See Note 1 for the section "Impact of Recent Accounting Pronouncements" for additional information regarding the adoption of this standard.

Dividends

Under Wisconsin law and applicable regulations, a Wisconsin savings bank that meets its regulatory capital requirements may declare dividends on capital stock based upon net profits, provided that its paid-in surplus equals its capital stock. In addition, prior WDFI approval is required before dividends exceeding 50% of net profits for any calendar year may be declared and before a stock dividend may be declared out of retained earnings. Under WDFI regulations, a Wisconsin savings bank which has converted from mutual to stock form also is prohibited from paying a dividend on its capital stock if the payment causes the regulatory capital of the savings bank to fall below the amount required for its liquidation account.

The Federal Deposit Insurance Corporation has the authority to prohibit WaterStone Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of WaterStone Bank. Institutions may not pay dividends if they would be “undercapitalized” following payment of the dividend within the meaning of the prompt corrective action regulations.

Information with respect to regulation regarding dividends declared and paid by Waterstone Financial is disclosed under "Holding Company Dividends."

Liquidity and Reserves

Wisconsin Law and Regulation. Under WDFI regulations, all Wisconsin savings banks are required to maintain a certain amount of their assets as liquid assets, consisting of cash and certain types of investments. The exact amount of assets a savings bank is required to maintain as liquid assets is set by the WDFI, but generally ranges from 4% to 15% of the savings bank’s average daily balance of net withdrawable accounts plus short-term borrowings (the “Required Liquidity Ratio”). At December 31, 2022, WaterStone Bank’s Required Liquidity Ratio was 8.0%, and WaterStone Bank was in compliance with this requirement. In addition, 50% of the liquid assets maintained by a Wisconsin savings bank must consist of “primary liquid assets,” which are defined to include securities issued by the United States Government, United States Government agencies, or the state of Wisconsin or a subdivision thereof, and cash. At December 31, 2022, WaterStone Bank was in compliance with this requirement.

Federal Law and Regulation. Under federal law and regulations, WaterStone Bank is required to maintain sufficient liquidity to ensure safe and sound banking practices. Regulation D, promulgated by the Federal Reserve Board, imposes reserve requirements on all depository institutions, including WaterStone Bank, which maintain transaction accounts or non-personal time deposits. Checking accounts, NOW accounts, Super NOW checking accounts, and certain other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D reserve requirements, as are any non-personal time deposits (including certain money market deposit accounts) at a savings institution. However, effective March 26, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero, thereby effectively eliminating the requirements. The Federal Reserve Board took that action due to a change in its approach to monetary policy; it has indicated that it has no plans to re-impose reserve requirements but could in the future if conditions warrant.

Transactions with Affiliates and Insiders

Wisconsin Law and Regulation. Under Wisconsin law, a savings bank may not make a loan to a person owning 10% or more of its stock, an affiliated person (including a director, officer, the spouse of either and a member of the immediate family of such person who is living in the same residence), agent, or attorney of the savings bank, either individually or as an agent or partner of another, except as under the rules of the WDFI and regulations of the Federal Deposit Insurance Corporation. In addition, unless the prior approval of the WDFI is obtained, a savings bank may not purchase, lease or acquire a site for an office building or an interest in real estate from an affiliated person, including a shareholder owning more than 10% of its capital stock, or from any firm, corporation, entity or family in which an affiliated person or 10% shareholder has a direct or indirect interest.

Federal Law and Regulation. Sections 23A and 23B of the Federal Reserve Act govern transactions between an insured savings bank, such as WaterStone Bank, and any of its affiliates, including Waterstone Financial. The Federal Reserve Board has adopted Regulation W, which comprehensively implements and interprets Sections 23A and 23B, in part by codifying prior Federal Reserve Board interpretations under Sections 23A and 23B.

An affiliate of a savings bank is any company or entity that controls, is controlled by or is under common control with the savings bank. A subsidiary of a savings bank that is not also a depository institution or a “financial subsidiary” under federal law is not treated as an affiliate of the savings bank for the purposes of Sections 23A and 23B; however, the Federal Deposit Insurance Corporation has the discretion to treat subsidiaries of a savings bank as affiliates on a case-by-case basis. Sections 23A and 23B limit the extent to which a savings bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such savings bank’s capital stock and surplus, and limit all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term “covered transaction” includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans and other extensions of credit by a savings bank to any of its affiliates must be secured by collateral in amounts ranging from 100% to 130% of the loan amounts, depending on the type of collateral. In addition, any affiliate transaction by a savings bank must be on terms that are substantially the same, or at least as favorable, to the savings bank as those that would be provided to a non-affiliate, and be consistent with safe and sound banking practices.

A savings bank’s loans to its executive officers, directors, any owner of more than 10% of its stock (each, an insider) and any of certain entities affiliated with any such person (an insider’s related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the Federal Reserve Board’s Regulation O thereunder. Under these restrictions, the aggregate amount of the loans to any insider and the insider’s related interests may not exceed the loans-to-one-borrower limit applicable to national banks, (which is generally 15% of capital and surplus). Aggregate loans by a savings bank to its insiders and insiders’ related interests in the aggregate may not exceed the savings bank’s unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer’s children and certain loans secured by the officer’s primary residence, may not exceed the greater of \$25,000 or 2.5% of the savings bank’s unimpaired capital and unimpaired surplus, but in no event more than \$100,000. Regulation O also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the savings bank, with any interested director not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider’s related interests, would exceed either \$500,000 or the greater of \$25,000 or 5% of the savings bank’s unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are no less stringent than, those that are prevailing at the time for comparable transactions with other persons and must not present more than a normal risk of collectability.

An exception to the requirement is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the savings bank and that does not give any preference to insiders of the bank over other employees of the bank. Consistent with these requirements, the Bank offered employees special terms for home mortgage loans on their principal residences. Effective April 1, 2006, this program was discontinued for new loan originations. Under the terms of the discontinued program, the employee interest rate is based on the Bank’s cost of funds on December 31st of the immediately preceding year and is adjusted annually. At December 31, 2022, the rate of interest on an employee rate mortgage loan was 0.73%, compared to the weighted average rate of 4.81% on all single family mortgage loans. This rate will increase to 1.75% effective March 1, 2023. Employee rate mortgage loans totaled \$495,000, or 0.1%, of our single family residential mortgage loan portfolio on December 31, 2022.

Transactions between Bank Customers and Affiliates

Wisconsin savings banks, such as WaterStone Bank, are subject to the prohibitions on certain tying arrangements. Subject to certain exceptions, a savings bank is prohibited from extending credit to or offering any other service to a customer, or fixing or varying the consideration for such extension of credit or service, on the condition that such customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution.

Examinations and Assessments

WaterStone Bank is required to file periodic reports with and is subject to periodic examinations by the WDFI and FDIC. WaterStone Bank is required to pay examination fees and annual assessments to fund its supervision. Federal regulations require annual on-site examinations for all depository institutions except certain well-capitalized and highly rated institutions with assets of less than \$3 billion which are examined every 18 months.

Customer Privacy

Under Wisconsin and federal law and regulations, savings banks, such as WaterStone Bank, are required to develop and maintain privacy policies relating to information on its customers, restrict access to and establish procedures to protect customer data. Applicable privacy regulations further restrict the sharing of non-public customer data with non-affiliated parties if the customer requests.

Community Reinvestment Act

Under the Community Reinvestment Act, WaterStone Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the Federal Deposit Insurance Corporation, in connection with its examination of WaterStone Bank, to assess WaterStone Bank's record of meeting the credit needs of its community and to take that record into account in the Federal Deposit Insurance Corporation's evaluation of certain applications by WaterStone Bank. For example, the regulations specify that a bank's Community Reinvestment Act performance will be considered in its expansion (e.g., branching or merger) proposals and may be the basis for approving, denying or conditioning the approval of an application. In May 2022, the Federal Deposit Insurance Corporation and other federal bank regulatory agencies released a notice of proposed rulemaking to strengthen and modernize the CRA regulations and framework. As of the date of its most recent regulatory examination, WaterStone Bank was rated "satisfactory" with respect to its Community Reinvestment Act compliance.

Federal Home Loan Bank System

The Federal Home Loan Bank System, consisting of 11 Federal Home Loan Banks, is under the jurisdiction of the Federal Housing Finance Board. The designated duties of the Federal Housing Finance Board are to supervise the Federal Home Loan Banks; ensure that the Federal Home Loan Banks carry out their housing finance mission; ensure that the Federal Home Loan Banks remain adequately capitalized and able to raise funds in the capital markets; and ensure that the Federal Home Loan Banks operate in a safe and sound manner.

WaterStone Bank, as a member of the Federal Home Loan Bank of Chicago, is required to acquire and hold shares of capital stock in the Federal Home Loan Bank of Chicago in specified amounts. WaterStone Bank is in compliance with this requirement with an investment in Federal Home Loan Bank of Chicago stock of \$17.4 million at December 31, 2022.

Among other benefits, the Federal Home Loan Banks provide a central credit facility primarily for member institutions. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the board of directors of the Federal Home Loan Bank of Chicago. At December 31, 2022, WaterStone Bank had \$385.7 million in advances from the Federal Home Loan Bank of Chicago.

USA PATRIOT Act

The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA PATRIOT Act also required the federal banking agencies to take into consideration the effectiveness of controls designed to combat money laundering activities in determining whether to approve a merger or other acquisition application of a member institution. Accordingly, if we engage in a merger or other acquisition, our controls designed to combat money laundering would be considered as part of the application process. We have established policies, procedures and systems designed to comply with these regulations.

Regulation of Waterstone Mortgage Corporation

Waterstone Mortgage Corporation is subject to numerous federal, state and local laws and regulations and may be subject to various judicial and administrative decisions imposing various requirements and restrictions on its business. These laws, regulations and judicial and administrative decisions to which Waterstone Mortgage Corporation is subject include those pertaining to: real estate settlement procedures; fair lending; fair credit reporting; truth in lending; compliance with net worth and financial statement delivery requirements; compliance with federal and state disclosure and licensing requirements; the establishment of maximum interest rates, finance charges and other charges; secured transactions; collection, foreclosure, repossession and claims-handling procedures; other trade practices and privacy regulations providing for the use and safeguarding of non-public personal financial information of borrowers; and guidance on non-traditional mortgage loans issued by the federal financial regulatory agencies. Waterstone Mortgage Corporation may also be required to comply with any additional requirements that its customers may be subject to by their regulatory authorities.

Holding Company Regulation

Waterstone Financial is a unitary savings and loan holding company subject to regulation and supervision by the Federal Reserve Board. The Federal Reserve Board has enforcement authority over Waterstone Financial and its non-savings institution subsidiaries. Among other things, that authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a risk to WaterStone Bank. In addition, any company that owns or controls, directly or indirectly, more than 25% of the voting securities of a state savings bank is subject to regulation as a savings bank holding company by the WDFI. Waterstone Financial is subject to regulation as a savings bank holding company under Wisconsin law. However, the WDFI has not issued specific regulations governing stock savings bank holding companies.

The business activities of savings and loan holding companies are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board regulations, unless the holding company has elected "financial holding company" status. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. Waterstone Financial has not elected financial holding company status. Federal law generally prohibits the acquisition of more than 5% of a class of voting stock of a company engaged in impermissible activities.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or savings and loan holding company without prior written approval of the Federal Reserve Board, and from acquiring or retaining control of any depository institution not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider such things as the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on and the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors. A savings and loan holding company may not acquire a savings institution in another state and hold the target institution as a separate subsidiary unless it is a supervisory acquisition under Section 13(k) of the Federal Deposit Insurance Act or the law of the state in which the target is located authorizes such acquisitions by out-of-state companies.

The Federal Reserve Board is required to impose upon bank and savings and loan holding companies consolidated regulatory capital requirements that are equally stringent as those applicable to the subsidiary depository institutions. However, the "small holding company" exception for holding companies with less than \$3 billion of consolidated assets, such as Waterstone Financial, generally results in such companies not being subject to the requirements unless otherwise advised by the Federal Reserve Board.

The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board promulgated regulations implementing the "source of strength" policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund a proposed dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The guidance also provides for prior consultation with supervisory staff for material increases in the amount of a company's common stock dividend. The policy statement also states that a holding company should inform the Federal Reserve Board supervisory staff, to provide opportunity for supervisory review and possible objection, prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of Waterstone Financial to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Holding Company Dividends

Waterstone Financial is not permitted to pay dividends on its common stock if its stockholders' equity would be reduced below the amount of the liquidation account established by Waterstone Financial in connection with the conversion. In addition, Waterstone Financial is subject to relevant state corporate law limitations and federal bank regulatory policy on the payment of dividends. Maryland law, which is the state of Waterstone Financial's incorporation, generally limits dividends if the corporation would not be able to pay its debts in the usual course of business after giving effect to the dividend or if the corporation's total assets would be less than the corporation's total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution.

The dividend rate and continued payment of dividends will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions.

Federal Securities Laws Regulation

Securities Exchange Act. Waterstone Financial common stock is registered with the Securities and Exchange Commission. Waterstone Financial is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Shares of common stock purchased by persons who are not affiliates of Waterstone Financial may be resold without registration. Shares purchased by an affiliate of Waterstone Financial are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Waterstone Financial meets the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of Waterstone Financial that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Waterstone Financial, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Waterstone Financial may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company such as Waterstone Financial unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under the Change in Bank Control Act federal law, means ownership, control of or the power to vote 25% or more of any class of voting stock. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with Waterstone Financial, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

In addition, the Savings and Loan Holding Company Act provides that no company may acquire control of a savings and loan holding company (as "control" is defined for purposes of that statute) without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation by the Federal Reserve Board. Effective September 30, 2020, the Federal Reserve Board adopted changes to its regulatory definition of "control" under the Savings and Loan Holding Company Act. Relevant factors include a company's voting and nonvoting equity interests in the savings and loan holding company, director, officer and employee overlaps and the scope of business relationships between the company and the savings and loan holding company or its subsidiary institution.

Federal and State Taxation

Federal Taxation

General. Waterstone Financial and subsidiaries are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Waterstone Financial and subsidiaries constitute an affiliated group of corporations and, therefore, are eligible to report their income on a consolidated basis. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Waterstone Financial or WaterStone Bank. The Company is no longer subject to federal tax examinations for years before 2019.

Method of Accounting. For federal income tax purposes, Waterstone Financial currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal income tax returns.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996 (the "1996 Act"), WaterStone Bank was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at our taxable income. As a result of the 1996 Act, WaterStone Bank was required to use the specific charge-off method in computing its bad debt deduction beginning with its 1996 federal tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve). At December 31, 2022, WaterStone Bank had no reserves subject to recapture in excess of its base year.

Waterstone Financial is required to use the specific charge-off method to account for tax bad debt deductions.

Taxable Distributions and Recapture. Prior to 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if WaterStone Bank failed to meet certain thrift asset and definitional tests or made certain distributions. Tax law changes in 1996 eliminated thrift-related recapture rules. However, under current law, pre-1988 tax bad debt reserves remain subject to recapture if WaterStone Bank makes certain non-dividend distributions, repurchases any of its common stock, pays dividends in excess of earnings and profits, or fails to qualify as a "bank" for tax purposes. At December 31, 2022, our total federal pre-base year bad debt reserve was approximately \$16.7 million.

Corporate Dividends-Received Deduction. Waterstone Financial may exclude from its federal taxable income 100% of dividends received from WaterStone Bank as a wholly-owned subsidiary by filing consolidated tax returns. The corporate dividends-received deduction is 65% when the corporation receiving the dividend owns at least 20% of the stock of the distributing corporation. The dividends-received deduction is 50% when the corporation receiving the dividend owns less than 20% of the distributing corporation.

Inflation Reduction Act of 2022. The Inflation Reduction Act, which was signed into law on August 16, 2022, among other things, implements a new alternative minimum tax of 15% on corporations with profits in excess of \$1 billion, a 1% excise tax on stock repurchases, and several tax incentives to promote clean energy and climate initiatives. These provisions are effective beginning January 1, 2023. Based on its analysis of the provisions, the Company does not expect this legislation to have a material impact on its consolidated financial statements.

State Taxation

The Company is subject to primarily the Wisconsin corporate franchise (income) tax and taxation in a number of states due primarily to the operations of the mortgage banking segment. Under current law, the state of Wisconsin imposes a corporate franchise tax of 7.9% on the combined taxable incomes of the members of our consolidated income tax group.

The years open to examination by state and local government authorities varies by jurisdiction.

As a Maryland business corporation, Waterstone Financial is required to file an annual report and pay franchise taxes to the state of Maryland.

Item 1A. Risk Factors

An investment in our securities is subject to risks inherent in our business and the industry in which we operate. Before making an investment decision, you should carefully consider the risks and uncertainties described below and all other information included in this report, as well as other reports we file with the SEC. The risks described below may adversely affect our business, financial condition and operating results. In addition to these risks and the other risks and uncertainties described in Item 1, "Business-Forward Looking Statements" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," there may be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. The value or market price of our securities could decline due to any of these identified or other risks. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Risks Related to Regulatory Matters

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, paying dividends, acquiring other financial institutions or establishing new branches.

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.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. During the last year, several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.

The Community Reinvestment Act ("CRA"), the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

The Federal Reserve Board may require us to commit capital resources to support WaterStone Bank.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Thus, any borrowing or funds needed to raise capital required to make a capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Interest Rates

The reversal of the historically low interest rate environment may adversely affect our net interest income and profitability.

The Federal Reserve Board decreased benchmark interest rates significantly, to near zero, in response to the COVID-19 pandemic. The Federal Reserve Board has reversed its policy of near zero interest rates given its concerns over inflation. Market interest rates have risen in response to the Federal Reserve Board's recent rate increases. As discussed below, the increase in market interest rates is expected to have an adverse effect on our net interest income and profitability.

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.

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.

Changes in interest rates also affect the current fair value of our interest-earning investment securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2022, the fair value of our investment portfolio totaled \$196.6 million. Net unrealized losses on these securities totaled \$26.1 million at December 31, 2022. During the year ended December 31, 2022, we incurred other comprehensive losses of \$18.3 million, net of tax benefit, related to net changes in unrealized holding losses in the available-for-sale investment securities portfolio.

Increases in interest rates can also have an adverse impact on our results of operations. A portion of our loans have adjustable interest rates. While the higher payment amounts we would receive on these loans in a rising interest rate environment may increase our interest income, some borrowers may be unable to afford the higher payment amounts, which may result in a higher rate of loan delinquencies and defaults, as well as lower loan originations, as borrowers who may qualify for a loan based on certain mortgage repayments, may not be able to afford repayments based on higher interest rates for the same loan amounts. The marketability of the underlying collateral also may be adversely affected in a high interest rate environment. Furthermore, in a period of rising interest rates, the interest income earned on interest-earning assets may not increase as rapidly as the interest paid on interest-bearing liabilities, which would be expected to compress our interest rate spread and have a negative effect on our profitability.

Any increase in market interest rates may reduce our mortgage banking income. We generate revenues primarily from gains on the sale of mortgage loans to investors, and from the amortization of deferred mortgage servicing rights. We had mortgage banking income decrease \$91.5 million during the year ended December 31, 2022. We also earn interest on loans held for sale while 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 and a decrease in revenues from loan sales. In addition, our results of operations are affected by the amount of noninterest expense 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 continue to be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity.

Although we have implemented asset and liability management strategies designed to reduce the effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rate could have a material adverse effect on our financial condition and results of operations. Also, our interest rate models and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet.

See "Management's Discussion and Analysis of Financial Condition" and "Quantitative and Qualitative Disclosures About Market Risk—Management of Market Risk."

Risks Related to Economic Matters

Changes in economic conditions could adversely affect our earnings, as our borrowers' ability to repay loans and the value of the collateral securing our loans decline.

Economic conditions have an impact, to some extent, on our overall performance. Conditions such as an economic recession, rising unemployment, changes in interest rates, money supply and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. Because a majority of our loans are secured by real estate, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which could have an adverse impact on our earnings. Consequently, declines in the economy in our market area could have a material adverse effect on our financial condition and results of operations.

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. 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. 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, as well as increases in our allowance for loan losses.

Inflation can have an adverse impact on our business and on our customers.

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Over the past year, in response to a pronounced rise in inflation, the Federal Reserve Board has raised certain benchmark interest rates to combat inflation. As inflation increases and market interest rates rise the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non-interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates by the Federal Reserve Board to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

Risks Related to Lending Matters

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.

We continue to focus on originating commercial business, 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. In addition, if we foreclose on these loans, our holding period for the collateral may be longer than for a single-family residential property if there are fewer potential purchasers of the collateral.

Our allowance for credit losses may prove to be insufficient to absorb life-time losses in our loan portfolio, which may adversely affect our business, financial condition and results of operations.

Under the current expected credit loss model, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. We estimate the ACL on loans based on the underlying assets' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. Expected credit losses are reflected in the allowance for credit losses through a charge to credit loss expense. When we deem all or a portion of a financial asset to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. We apply judgment to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACL when received.

We measure expected credit losses of financial assets on a collective (pool) basis, when the financial assets share similar risk characteristics. Depending on the nature of the pool of financial assets with similar risk characteristics, we use loss-rate methods to estimate expected credit losses. Our methodologies for estimating the ACL consider available relevant information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed. Our methodologies revert back to historical loss information on a straight-line basis over one year when it can no longer develop reasonable and supportable forecasts.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the financial asset to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or regulations, or more stringent interpretations or enforcement policies with respect to existing laws and regulations may increase our exposure to environmental liability, and heightened pressure from investors and other stakeholders may require us to incur additional expenses with respect to environmental matters. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

The foreclosure process may adversely impact our recoveries on non-performing loans

The judicial foreclosure process is protracted, which delays our ability to resolve non-performing loans through the sale of the underlying collateral. The longer timelines have been the result of the economic crisis, additional consumer protection initiatives related to the foreclosure process, increased documentary requirements and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. This may result in a material adverse effect on collateral values and our ability to minimize its losses.

Risks Related to Operational Matters

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

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.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain skilled people. Competition for the best people in most activities engaged in by us can be intense, and we may not be able to hire sufficiently skilled people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our markets, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Loss of key employees may disrupt relationships with certain customers.

Our business is primarily relationship-driven in that many of our key employees have extensive customer relationships. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe our relationship with our key personnel is good, we cannot guarantee that all of our key personnel will remain with our organization. Loss of such key personnel, should they enter into an employment relationship with one of our competitors, could result in the loss of some of our customers.

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 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 cybersecurity 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. Although we take numerous protective measures and otherwise endeavor to protect and maintain the privacy and security of confidential data, these systems may be vulnerable to unauthorized access, computer viruses, other malicious code, cyber-attacks, cyber-theft and other events that could have a security impact. If one or more of such events were to occur, this potentially could jeopardize confidential and other information processed and stored in, and transmitted through, our systems or otherwise cause interruptions or malfunctions in our or our customers' operations.

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, subject us to additional regulatory scrutiny, or expose us to litigation and possible financial liability. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully covered by our insurance. 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.

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud and other financial crimes. We have experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, losses may still occur.

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include Federal Home Loan Bank advances, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Risks Related to Competitive Matters

Consumers may decide to use alternative options to complete financial transactions.

Technology is allowing parties to complete financial transactions through alternative methods that historically have involved banks. Consumers can now easily access historically banking needs through online banking accounts, brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete certain transactions without the assistance of banks.

The removal of banking with financial transactions could result in the loss of customer loans, customer deposits, and the related fee income generated from those loans and deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

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. Competitive factors driven by consumer sentiment or otherwise can also reduce our ability to generate fee income, such as through overdraft fees.

Risks Related to Mortgage Banking 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.

Changes in the programs offered by secondary market purchasers or our ability to qualify for their programs may reduce our mortgage banking revenues, which would negatively impact our non-interest income.

We generate mortgage revenues primarily from gains on the sale of single-family mortgage loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and non-GSE investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations.

If we are required to repurchase mortgage loans that we have previously sold, it could 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. If we are required to repurchase mortgage loans or provide indemnification or other recourse, this could increase our costs and thereby affect our future earnings.

Risks Related to Environmental and Other Global Matters

Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers.

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes and other issues. The impact on our customers will likely vary depending on their specific attributes, including reliance on role in carbon intensive activities. among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of asset securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

Our business, financial condition, and results of operations could be adversely affected by natural disasters, health epidemics, and other catastrophic events.

We could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a pandemic, natural disaster, war, act of terrorism, accident, or other reason. Any of these events could result in the temporary reduction of operations, employees, and customers, which could limit our ability to provide services. Additionally, many of our borrowers may suffer property damage, experience interruption of their businesses or lose their jobs after such events. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value.

Risks Related to the COVID-19 Pandemic

The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have continued to affect the macroeconomic environment, both nationally and in the Company's existing geographic footprint. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be fully controlled and abated. The COVID-19 pandemic and the related adverse local and national economic consequences could result in a material, adverse effect on our business, financial condition, liquidity, and results of operations, and if these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated and such effects could have a material adverse impact on us in a number of ways.

Risks Related to Accounting Matters

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.

Other Risks Related to Our Business

Legal and regulatory proceedings and related matters could adversely affect us or the financial services industry in general.

We, and other participants in the financial services industry upon whom we rely to operate, have been and may in the future become involved in legal and regulatory proceedings. Most of the proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and other participants in the financial services industry or we may not prevail in any proceeding or litigation.

Any litigation or regulatory proceeding could entail substantial costs and divert management's attention away from our operations, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

Changes in the valuation of our securities portfolio could adversely affect our profits.

Our securities portfolio may be impacted by fluctuations in fair value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in fair value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for other-than-temporary impairment on a monthly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and, to a lesser extent given the relatively insignificant levels of depreciation in our debt portfolio, spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. In analyzing an equity issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. The declines in fair value could result in a material adverse effect on our capital levels. During the year ended December 31, 2022, we incurred other comprehensive losses of \$18.3 million, net of tax benefit, related to net changes in unrealized holding losses in the available-for-sale investment securities portfolio.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In addition, we will continue to make investments in research, development, and marketing for new products and services. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the development and introduction of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. Furthermore, if customers do not perceive our new offerings as providing significant value, they may fail to accept our new products and services. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, the burden on management and our information technology of introducing any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks.

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance ("ESG") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.

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 tax or other 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.

Various factors may make takeover attempts more difficult to achieve.

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 Waterstone Financial without the consent of our board of directors. A shareholder 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.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We operate from our corporate center, our 14 full-service banking offices, our drive-through office and 14 automated teller machines, located in Milwaukee, Washington and Waukesha Counties, Wisconsin. The net book value of our premises, land, equipment and leasehold improvements was \$21.1 million at December 31, 2022. The following table sets forth information with respect to our corporate center and our full-service banking offices as of December 31, 2022.

Corporate Center 11200 West Plank Court Wauwatosa, Wisconsin 53226	Wauwatosa 7500 West State Street Wauwatosa, Wisconsin 53213	Brookfield (1) 17495 W Capitol Dr. Brookfield, Wisconsin 53045
Franklin/Hales Corners 6555 South 108th Street Franklin, Wisconsin 53132	Germantown/Menomonee Falls W188N9820 Appleton Avenue Germantown, Wisconsin 53022	Oak Creek 6560 South 27th Street Oak Creek, Wisconsin 53154
Oconomowoc/Lake Country (1) 1233 Corporate Center Drive Oconomowoc, Wisconsin 53066	Pewaukee 1230 George Towne Drive Pewaukee, Wisconsin 53072	Waukesha/Brookfield 21505 East Moreland Blvd. Waukesha, Wisconsin 53186
West Allis/Greenfield Avenue 10101 West Greenfield Avenue West Allis, Wisconsin 53214	Fox Point/North Shore 8607 North Port Washington Road Fox Point, Wisconsin 53217	Greenfield/Loomis Road 5000 West Loomis Road Greenfield, Wisconsin 53220
West Allis/National Avenue 10296 West National Avenue West Allis, Wisconsin 53227	Oak Creek/Howell Avenue 8780 South Howell Avenue Oak Creek, Wisconsin 53154	Milwaukee/Oklahoma Avenue 6801 West Oklahoma Avenue Milwaukee, WI 53219

(1) Leased property

In addition to our banking offices, as of December 31, 2022, Waterstone Mortgage Corporation had 13 offices in Florida, nine offices in New Mexico, seven offices in each of Virginia and Wisconsin, five offices in Texas, four offices in Maryland, three offices in each of Arizona, Illinois, Oklahoma, and Pennsylvania, two offices in each of Colorado, Michigan, New Hampshire, South Carolina, and Tennessee, and one office in each of Delaware, Idaho, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, New Jersey, North Dakota, and Rhode Island.

Item 3. Legal Proceedings

The information required by this item is set forth in Note 14 - Commitments, Off-Balance Sheet Arrangements, and Contingent Liabilities of the notes to consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchase of Equity Securities

Our shares of common stock are traded on the NASDAQ Global Select Market® under the symbol WSBF. The approximate number of shareholders of record of Waterstone common stock as of February 25, 2022 was 1,400. On that same date there were 24,230,968 shares of common stock issued and outstanding.

Following are the Company's monthly common stock repurchases during the fourth quarter of 2022.

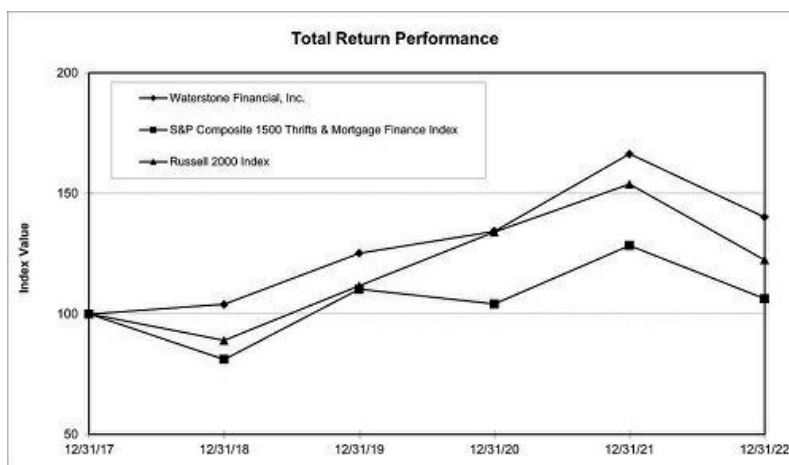
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plan(a)
October 1, 2022 - October 31, 2022	133,200	\$ 16.56	133,200	792,018
November 1, 2022 - November 30, 2022	24,086	16.40	24,086	767,932
December 1, 2022 - December 31, 2022	1,960	16.52	1,960	765,972
Total	<u>159,246</u>	<u>\$ 16.53</u>	<u>159,246</u>	765,972

(a) On December 10, 2021, the Board of Directors announced the termination of the then-existing stock repurchase plan and authorized the repurchase of 3,500,000 shares of common stock pursuant to a new share repurchase plan. This plan has no expiration date.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total shareholder return on Waterstone Financial common stock, based on the market price of the common stock and assuming reinvestment of cash dividends, with the cumulative total return of companies on the SNL Thrift NASDAQ Index and the Russell 2000. The graph assumes \$100 was invested on December 31, 2017, in Waterstone Financial, Inc. common stock and each of those indices.

Waterstone Financial, Inc.



Index	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Waterstone Financial, Inc.	100.00	104.01	125.22	134.29	166.41	140.19
S&P Composite 1500 Thrifts & Mortgage Finance Index	100.00	81.15	110.27	104.12	128.42	106.34
Russell 2000 Index	100.00	88.99	111.70	134.00	153.85	122.41

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion and analysis is presented to assist the reader in understanding and evaluating of the Company's financial condition and results of operations. It is intended to complement the consolidated financial statements, footnotes, and supplemental financial data appearing elsewhere in this Annual Report on Form 10-K and should be read in conjunction therewith. The detailed discussion in the sections below focuses on the results of operations for the year ended December 31, 2022, compared to the year ended December 2021, and the financial condition as of December 31, 2022 compared to the financial condition as of December 31, 2021.

As described in the notes to consolidated financial statements, we have two reportable segments: community banking and mortgage banking. The community banking segment provides consumer and business banking products and services to customers. Consumer products include loan products, deposit products, and personal investment services. Business banking products include loans for working capital, inventory and general corporate use, commercial real estate construction loans, and deposit accounts. The mortgage banking segment, which is conducted through Waterstone Mortgage Corporation, consists of originating residential mortgage loans primarily for sale in the secondary market.

Our community banking segment generates the significant majority of our consolidated net interest income and requires the significant majority of our provision for credit losses. Our mortgage banking segment generates the significant majority of our noninterest income and a majority of our noninterest expenses. We have provided below a discussion of the material results of operations for each segment on a separate basis for the year ended December 31, 2022, compared the year ended December 31, 2021, which focuses on noninterest income and noninterest expenses. We have also provided a discussion of the consolidated operations of Waterstone Financial, which includes the consolidated operations of WaterStone Bank and Waterstone Mortgage Corporation, for the same periods.

For a discussion of our results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020, see “Part II, Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” Discussion of Results of Operations included in our 2021 Form 10-K, filed with the SEC on February 28, 2022.

Significant Items

There were no Significant Items for the years ended December 31, 2022 and 2021.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP and follow general practices within the banking industry. Application of these principles requires management to make complex and subjective estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable and appropriate under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that the critical accounting policies and estimates discussed below involve a heightened level of management judgment due to the complexity, subjectivity and sensitivity involved in their application.

See Note 1 - Summary of Significant Accounting Policies to the consolidated financial statements contains a further discussion of our significant accounting policies.

Critical accounting policies are those that involve significant judgments and assumptions by management and that have, or could have, a material impact on our income or the carrying value of our assets.

Allowance for Credit Losses. The ACL represents management's estimate of current expected credit losses, or the amount of amortized cost basis not expected to be collected, on our loan portfolio and the amount of credit loss impairment on our AFS securities portfolio. Determining the amount of the ACL is considered a critical accounting estimate because of its complexity and because it requires extensive judgment and estimation. Estimates that are particularly susceptible to change that may have a material impact on the amount of the ACL include:

- Our evaluation of current conditions;
- Our assessment that the physical condition of the real estate has not significantly changed since the last valuation date;
- Our determination of a reasonable and supportable economic forecast and selection of the reasonable and supportable forecast period;
- Our evaluation of historical loss experience;
- Our evaluation of changes in composition and characteristics of the loan portfolio, including internal risk ratings;
- Our estimate of expected prepayments;
- Our selection of models and modeling techniques may also have a material impact on the estimate;
- The value of underlying collateral, which may impact loss severity and certain cash flow assumptions for collateral-dependent, criticized and classified loans;
- Our selection and evaluation of qualitative factors; and
- Our estimate of expected cash flows on AFS debt securities in unrealized loss positions.

The appropriateness of the allowance for credit losses is reviewed and approved quarterly by the WaterStone Bank Board of Directors. The allowance reflects management's best estimate of the amount needed to provide for the future losses over the life of the loan portfolio, and is based on a loss model using a forecast and historical losses developed and implemented by management and approved by the WaterStone Bank Board of Directors.

Actual results could differ from this estimate, and future additions to the allowance may be necessary based on unforeseen changes in loan quality and economic conditions. More specifically, if our future charge-off experience increases substantially from our past experience, or if the value of underlying loan collateral, in our case mostly real estate, declines in value by a substantial amount, or if unemployment in our primary market area increases significantly, our allowance for credit losses may be inadequate and we will incur higher provisions for loan losses and lower net income in the future.

See Note 1 - Summary of Significant Accounting Policies to the consolidated financial statements describes the methodology used to determine the ACL.

In addition, state and federal regulators periodically review the WaterStone Bank allowance for credit losses. Such regulators have the authority to require WaterStone Bank to recognize additions to the allowance at the time of their examination.

Income Taxes. The Company and its subsidiaries file consolidated federal, combined state income tax, and separate state income tax returns. The provision for income taxes is based upon income in the consolidated financial statements, rather than amounts reported on the income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as for net operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is “more likely than not” that a deferred tax asset will not be realized. The determination of the realizability of deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. Examples of positive evidence may include the existence of taxes paid in available carry-back years as well as the probability that taxable income will be generated in future periods. Examples of negative evidence may include cumulative losses in a current year and prior two years and general business and economic trends.

Positions taken in the Company's tax returns are subject to challenge by the taxing authorities upon examination. The benefit of uncertain tax positions are initially recognized in the financial statements only when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statements of operations.

Fair Value Measurements. The Company determines the fair value of its assets and liabilities in accordance with ASC 820. ASC 820 establishes a standard framework for measuring and disclosing fair value under generally accepted accounting principles. A number of valuation techniques are used to determine the fair value of assets and liabilities in the Company's financial statements. The valuation techniques include quoted market prices for investment securities, appraisals of real estate from independent licensed appraisers and other valuation techniques. Fair value measurements for assets and liabilities where limited or no observable market data exists are based primarily upon estimates, and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the valuation results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. Significant changes in the aggregate fair value of assets and liabilities required to be measured at fair value or for impairment are recognized in the consolidated statements of operations under the framework established by generally accepted accounting principles.

Recent Accounting Pronouncements.

Refer to Note 1- Summary of Significant Accounting Policies of our consolidated financial statements for a description of recent accounting pronouncements including the respective dates of adoption and effects on results of operations and financial condition.

Selected Financial Data

The summary financial information presented below is derived in part from the Company's audited financial statements, although the table itself is not audited.

	At or for the Year Ended December 31,		
	2022	2021	2020
	(In Thousands, except per share amounts)		
Selected Financial Condition Data:			
Total assets	\$ 2,031,672	\$ 2,215,858	\$ 2,184,587
Cash and cash equivalents	46,642	376,722	94,767
Securities available for sale	196,588	179,016	159,619
Loans held for sale	131,188	312,738	402,003
Loans receivable	1,510,178	1,205,785	1,375,137
Allowance for credit losses (1)	17,757	15,778	18,823
Loans receivable, net	1,492,421	1,190,007	1,356,314
Real estate owned, net	145	148	322
Deposits	1,199,012	1,233,386	1,184,870
Borrowings	386,784	477,127	508,074
Total shareholders' equity	370,486	432,773	413,118
Selected Operating Data:			
Interest income	\$ 70,245	\$ 69,883	\$ 78,484
Interest expense	13,291	14,368	24,984
Net interest income	56,954	55,515	53,500
Provision (credit) for credit losses (1)	968	(3,990)	6,340
Net interest income after provision for credit losses (1)	55,986	59,505	47,160
Noninterest income	105,555	203,195	244,017
Noninterest expense	137,062	170,594	183,061
Income before income taxes	24,479	92,106	108,116
Provision for income taxes	4,992	21,315	26,971
Net income	\$ 19,487	\$ 70,791	\$ 81,145
Per common share:			
Income per share - basic	\$ 0.89	\$ 2.98	\$ 3.32
Income per share - diluted	\$ 0.89	\$ 2.96	\$ 3.30
Book value	\$ 16.71	\$ 17.45	\$ 16.47
Dividends declared	\$ 0.80	\$ 1.80	\$ 1.36

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

	At or for the Year		
	Ended December 31,		
	2022	2021	2020
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on average assets	0.96%	3.20%	3.77%
Return on average equity	4.91	16.38	20.18
Interest rate spread (1)	2.76	2.47	2.34
Net interest margin (2)	3.00	2.68	2.67
Noninterest expense to average assets	6.79	7.71	8.50
Efficiency ratio (3)	84.34	65.94	61.53
Average interest-earning assets to average interest-bearing liabilities	134.23	130.76	126.07
Dividend payout ratio (4)	146.07	43.62	38.55
Capital Ratios:			
Waterstone Financial, Inc.:			
Equity to total assets at end of period	18.24%	19.53%	18.91%
Average equity to average assets	19.66	19.53	18.68
Total capital to risk-weighted assets	24.36	29.01	24.80
Tier 1 capital to risk-weighted assets	23.29	27.99	23.71
Common equity tier 1 capital to risk-weighted assets	23.29	27.99	23.71
Tier 1 capital to average assets	19.45	19.29	18.38
WaterStone Bank:			
Total capital to risk-weighted assets	21.52	25.52	22.52
Tier 1 capital to risk-weighted assets	20.46	24.50	21.44
Common equity tier 1 capital to risk-weighted assets	20.46	24.50	21.44
Tier 1 capital to average assets	17.08	16.88	16.61
Asset Quality Ratios:			
Allowance for credit losses - loans as a percent of total loans (5)	1.18%	1.31%	1.37%
Allowance for credit losses - loans as a percent of non-performing loans (5)	412.28	283.06	338.54
Net recoveries to average outstanding loans during the period	(0.04)	(0.07)	(0.01)
Non-performing loans as a percent of total loans	0.29	0.46	0.40
Non-performing assets as a percent of total assets	0.22	0.26	0.27
Other Data:			
Number of full-service banking offices	14	14	14
Number of full-time equivalent employees	742	870	812

- (1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) Represents net interest income as a percent of average interest-earning assets.
- (3) Represents noninterest expense divided by the sum of net interest income and noninterest income.
- (4) Represents dividends paid per share divided by basic earnings per share.
- (5) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

Comparison of Consolidated Waterstone Financial, Inc. Financial Condition at December 31, 2022 and at December 31, 2021

Total Assets. Total assets decreased by \$184.2 million, or 8.3%, to \$2.03 billion at December 31, 2022 from \$2.22 billion at December 31, 2021. The decrease in total assets primarily reflects a decrease in cash and cash equivalents and loans held for sale, partially offset by an increase in loans held for investment, securities available for sale and other assets. The total assets decrease reflects liability decreases in deposits and borrowings.

Cash and Cash Equivalents. Cash and cash equivalents decreased \$330.1 million to \$46.6 million at December 31, 2022 from \$376.7 million at December 31, 2021. The decrease in cash and cash equivalents primarily reflects the increases in loans held for investment, securities available for sale and decrease of funding sources from deposits and borrowings.

Securities Available for Sale. Securities available for sale increased by \$17.6 million to \$196.6 million at December 31, 2022 from \$179.0 million at December 31, 2021. The increase was primarily due to purchases of mortgage-related securities to take advantage of the increase in interest rates. The purchases are exceeding security paydowns for the year and maturities of debt securities. Also offsetting the purchases, the decline in fair market value of the portfolio decreased due to rising interest rates.

Loans Held for Sale. Loans held for sale decreased \$181.6 million, or 58.1%, to \$131.2 million at December 31, 2022 from \$312.7 million at December 31, 2021 due to the decrease of refinancing activity resulting from the increase in mortgage rates.

Loans Receivable. Loans receivable held for investment increased \$304.4 million, or 25.2%, to \$1.51 billion at December 31, 2022 from \$1.21 billion at December 31, 2021. The increase in total loans receivable was attributable to increases in each of the one- to four-family, multi-family, and commercial real estate loan categories.

Allowance for Credit Losses. The allowance for credit losses increased \$2.0 million to \$17.8 million at December 31, 2022 from \$15.8 million at December 31, 2021. The increase primarily resulted from the \$1.0 million provision increase due to the increase in loans held in portfolio along with the CECL model adoption on January 1, 2022. The CECL calculation resulted in an opening balance adjustment of \$430,000 to increase the allowance for credit losses. Additionally, net recoveries totaled \$519,000 for the year ended December 31, 2022. During the year ended December 31, 2022, we made adjustments to our forecast factor to reflect the current economic forecast, and qualitative factors, primarily to account for the changes in internal metrics and external risk factors. See Note 3 - Loans Receivable of the notes to consolidated financial statements for further discussion on the allowance for credit losses.

Prepaid Expenses and Other Assets. Total prepaid expenses and other assets increased \$14.6 million to \$59.8 million at December 31, 2022 from \$45.1 million at December 31, 2021. The increase was primarily due to an increase in the fair value mark on derivatives as interest rates increased and deferred taxes increased as unrealized losses on available for sale securities increased due to rising interest rates.

Deposits. Deposits decreased by \$34.4 million to \$1.20 billion at December 31, 2022, from \$1.23 billion at December 31, 2021. The decrease was driven by a decrease of \$66.2 million in money market and savings deposits offset by an increase of \$16.2 million in demand deposits and an increase of \$15.6 million in time deposits.

Borrowings. Total borrowings decreased \$90.3 million to \$386.8 million at December 31, 2022, from \$477.1 million at December 31, 2021. The community banking segment paid off \$420.0 million in long-term FHLB borrowings and \$5.0 million in short-term borrowings, borrowing \$150.0 million of new long-term FHLB borrowings, and \$187.5 million in new short-term FHLB borrowings. External short-term borrowings at the mortgage banking segment decreased a total of \$1.0 million to \$1.1 million at December 31, 2022 from \$2.0 million at December 31, 2021.

Other Liabilities. Other liabilities increased \$1.6 million to \$70.1 million at December 31, 2022 compared to \$68.5 million at December 31, 2021. Other liabilities increased primarily due to increase of the fair value mark on derivative liabilities related to the loans held for sale and the back-to-back swaps increased with the increase in interest rates offset by a decrease in dividends payable as a special dividend was declared in December 2021 and paid in February 2022.

Shareholders' Equity. Shareholders' equity decreased by \$62.3 million, or 14.4%, to \$370.5 million at December 31, 2022 from \$432.8 million at December 31, 2021. Shareholders' equity decreased primarily due to the declaration of dividends, a decrease in the fair value of the security portfolio, the repurchase of stock and the adoption of CECL. Partially offsetting the decreases, there were increases due to the net income, additional paid-in capital as stock options were exercised and equity awards vested, and unearned ESOP shares vesting.

Comparison of Community Banking Segment Operations for the Years Ended December 31, 2022 and 2021

Net income from our community banking segment for the year ended December 31, 2022 totaled \$22.8 million compared to \$28.3 million for the year ended December 31, 2021. Net interest income increased \$555,000 to \$56.6 million for the year ended December 31, 2022 compared to \$56.1 million for the year ended December 31, 2021. Net interest income increased primarily due to an increase in interest earned on mortgage-related securities and cash as the federal funds rates raises throughout the year along with a decrease on borrowing interest expense as less borrowings were needed to fund the mortgage banking segment line of credit. Offsetting the those increases to net interest income, interest earned on loans decreased as the mortgage banking segment line decreased as volumes slowed and interest expense on deposits increased as funding rates matched the federal funds rate increases.

There was a provision for credit losses of \$677,000 for the year ended December 31, 2022 compared to a negative provision for loan losses of \$4.1 million for the year ended December 31, 2021. The provision for credit losses consisted of a \$740,000 provision related to loans due to loan growth and a \$62,000 of negative provision related to unfunded commitments as the balance decreased for the year ended December 31, 2022. During the year ended December 31, 2022, we made adjustments to our forecast factor to reflect the current economic forecast, and qualitative factors, primarily to account for the changes in internal metrics and external risk factors.

Noninterest income decreased \$837,000 for the year ended December 31, 2022 due primarily to a decrease in service fees on deposits and prepayment fees on loans during the year ended December 31, 2022, offset by a gain from death benefit received on one bank owned life insurance policy and an increase in bank owned life insurance as interest rates increased.

Compensation, payroll taxes, and other employee benefits expense decreased \$1.3 million to \$19.0 million during the year ended December 31, 2022 primarily due to a decrease in health insurance, variable compensation, ESOP expense compared to the year ended December 31, 2021. Other noninterest expense increased \$3.6 million to \$5.6 million as certain loan-related expenses paid to the mortgage banking segment for the purchase of single-family adjustable rate mortgage loans increased. These fees are eliminated in the consolidated statements of income.

Comparison of Mortgage Banking Segment Operations for the Years Ended December 31, 2022 and 2021

Net loss totaled \$3.4 million for the year ended December 31, 2022 compared to net income of \$42.5 million for the year ended December 31, 2021. We originated \$2.76 billion in mortgage loans held for sale (including sales to the community banking segment) during the year ended December 31, 2022, which represents a decrease of \$1.47 billion, or 34.6%, from the \$4.23 billion originated during the year ended December 31, 2021. The decrease in loan production volume was driven by a \$986.3 million, or 76.6%, decrease in refinance products driven by an increase in fixed mortgage rates. Mortgage purchase products decreased \$478.8 million, or 16.3% due to inventory constraints in the market, housing affordability, and as interest rates have increased. Total mortgage banking noninterest income decreased \$93.5 million, or 47.3%, to \$104.1 million during the year ended December 31, 2022 compared to \$197.6 million during the year ended December 31, 2021. The decrease in mortgage banking noninterest income was related to a 34.6% decrease in volume and a 18.3% decrease in gross margin on loans originated and sold for the year ended December 31, 2022 compared to December 31, 2021. Gross margin on loans originated and sold is the ratio of mortgage banking income (excluding the change in interest rate lock fair value) divided by total loan originations. The gross margin on loans originated and sold contraction reflects decreased industry demand due to the increased competition from mortgage originators. We sell loans on both a servicing-released and a servicing-retained basis. Waterstone Mortgage Corporation has contracted with a third party to service the loans for which we retain servicing.

Additionally, 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. Our origination efforts continue to be focused on loans made for the purpose of residential purchases, as opposed to mortgage refinance. The percentage of origination volume related to purchase activity increased to 89.1% from 69.5% of total originations for the year ended December 31, 2022 and 2021, respectively, as refinance demand decelerated due to an increase in interest rates over the past year. The mix of loan type trended towards more governmental loans and less conventional loans, with governmental loans and conventional loans comprising 29.3% and 70.7%, respectively of all loan originations, respectively, during the year ended December 31, 2022, compared to 23.4% and 76.6% of all originations, respectively, during the year ended December 31, 2021.

During the year ended December 31, 2022, there were no sales of mortgage servicing rights. During the year ended December 31, 2021, the Company sold mortgage servicing rights related to \$1.24 billion in loans serviced for third parties. The sale generated \$12.4 million in net proceeds and a \$4.0 million gain.

Total compensation, payroll taxes and other employee benefits decreased \$34.3 million, or 29.7%, to \$81.0 million for the year ended December 31, 2022 compared to \$115.3 million for the year ended December 31, 2021. The decrease in compensation expense was primarily related to decreased commission expense and branch manager compensation driven by decreased loan origination volume and branch profitability as gross margins decreased. During the year ended December 31, 2022, the segment has added 11 branches and a total of 130 loan origination personnel. Losses associated with these new branches totaled approximately \$1.9 million during the year ended December 31, 2022. These branch losses are net of corporate revenue of approximately \$1.2 million during the year ended December 31, 2022.

Waterstone Mortgage Corporation originates loans in various states. The states where we originate greater than 10% of total activity are Florida and New Mexico.

Comparison of Consolidated Waterstone Financial, Inc. Results of Operations for the Years Ended December 31, 2022 and 2021

	Years Ended December 31,	
	2022	2021
	(Dollars In Thousands, except per share amounts)	
Net income	\$ 19,487	\$ 70,791
Earnings per share - basic	0.89	2.98
Earnings per share - diluted	0.89	2.96
Return on average assets	0.96%	3.20%
Return on average equity	4.91%	16.38%

Average Balance Sheets, Interest and Yields/Costs

The following table set forth average balance sheets, annualized average yields and costs, and certain other information for the periods indicated. Non-accrual loans were included in the computation of the average balances of loans receivable and held for sale. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense. Yields on interest-earning assets are computed on a fully tax-equivalent yield, where applicable.

	Years Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
(Dollars in Thousands)									
Assets									
Interest-earning assets:									
Loans receivable and held for sale (1)	\$ 1,467,306	62,935	4.29%	\$ 1,600,115	64,366	4.02%	\$ 1,716,341	72,633	4.23%
Mortgage related securities (2)	162,584	3,241	1.99%	103,324	1,954	1.89%	101,345	2,488	2.45%
Debt securities, federal funds sold and short-term investments (2)(3)	269,171	4,271	1.59%	366,949	3,827	1.04%	187,910	3,644	1.94%
Total interest-earning assets	1,899,061	70,447	3.71%	2,070,388	70,147	3.39%	2,005,596	78,765	3.93%
Noninterest-earning assets	120,744			142,040			147,697		
Total assets	\$ 2,019,805			\$ 2,212,428			\$ 2,153,293		
Liabilities and equity									
Interest-bearing liabilities:									
Demand accounts	\$ 72,751	61	0.08%	64,653	50	0.08%	47,410	38	0.08%
Money market and savings accounts	391,170	1,201	0.31%	363,930	904	0.25%	264,722	1,768	0.67%
Certificates of deposit	602,332	3,601	0.60%	675,495	3,466	0.51%	733,033	12,559	1.71%
Total interest-bearing deposits	1,066,253	4,863	0.46%	1,104,078	4,420	0.40%	1,045,165	14,365	1.37%
Borrowings	348,482	8,428	2.42%	479,262	9,948	2.08%	545,741	10,619	1.95%
Total interest-bearing liabilities	1,414,735	13,291	0.94%	1,583,340	14,368	0.91%	1,590,906	24,984	1.57%
Noninterest-bearing liabilities									
Non interest-bearing deposits	159,495			146,767			116,771		
Other noninterest-bearing liabilities	48,500			50,140			43,460		
Total noninterest-bearing liabilities	207,995			196,907			160,231		
Total liabilities	1,622,730			1,780,247			1,751,137		
Equity	397,075			432,181			402,156		
Total liabilities and equity	\$ 2,019,805			\$ 2,212,428			\$ 2,153,293		
Net interest income / Net interest rate spread (4)		57,156	2.77%		55,779	2.48%		53,781	2.36%
Less: taxable equivalent adjustment		202	0.01%		264	0.01%		281	0.02%
Net interest income, as reported		56,954	2.76%		55,515	2.47%		53,500	2.34%
Net interest-earning assets (5)	\$ 484,326			\$ 487,048			\$ 414,690		
Net interest margin (6)			3.00%			2.68%			2.67%
Tax equivalent effect			0.01%			0.01%			0.01%
Net interest margin on a fully tax equivalent basis			3.01%			2.69%			2.68%
Average interest-earning assets to average interest-bearing liabilities	134.23%			130.76%			126.07%		

(1) Includes net deferred loan fee amortization income of \$684,000, \$2.1 million and \$1.7 million for the years ended December 31, 2022, 2021, and 2020, respectively.

(2) Includes available for sale securities.

(3) Interest income from tax exempt securities is computed on a taxable equivalent basis using a tax rate of 21% for the years ended December 31, 2022, 2021, and 2020. The yields on debt securities, federal funds sold and short-term investments before tax-equivalent adjustments were 1.51%, 0.97%, and 1.79% for the years ended December 31, 2022, 2021, and 2020, 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 and is presented on a fully tax equivalent basis.

(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.

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. There were no out-of-period items or adjustments for any of the years presented.

	Years Ended December 31, 2022 versus 2021			Years Ended December 31, 2021 versus 2020		
	Increase (Decrease) due to			Increase (Decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In Thousands)					
Interest and dividend income:						
Loans receivable and held for sale (1)(2)	\$ (5,567)	\$ 4,136	\$ (1,431)	\$ (3,968)	\$ (4,299)	\$ (8,267)
Mortgage related securities (3)	1,190	97	1,287	47	(581)	(534)
Other interest-earning assets (3)(4)	(1,204)	1,648	444	2,398	(2,215)	183
Total interest-earning assets	(5,581)	5,881	300	(1,523)	(7,095)	(8,618)
Interest expense:						
Demand accounts	11	-	11	12	-	12
Money market and savings accounts	71	226	297	1,285	(2,149)	(864)
Certificates of deposit	(214)	349	135	(915)	(8,178)	(9,093)
Total interest-bearing deposits	(132)	575	443	382	(10,327)	(9,945)
Borrowings	(3,790)	2,270	(1,520)	(1,481)	810	(671)
Total interest-bearing liabilities	(3,922)	2,845	(1,077)	(1,099)	(9,517)	(10,616)
Net change in net interest income	\$ (1,659)	\$ 3,036	\$ 1,377	\$ (424)	\$ 2,422	\$ 1,998

- (1) Includes net deferred loan fee amortization income of \$684,000, \$2.1 million and \$1.7 million for the years ended December 31, 2022, 2021, and 2020, respectively.
- (2) Non-accrual loans have been included in average loans receivable balance.
- (3) Includes available for sale securities.
- (4) Interest income from tax exempt securities is computed on a taxable equivalent basis using a tax rate of 21% for the years ended December 31, 2022, 2021, and 2020.

Net Interest Income

Net interest income increased \$1.4 million, or 2.6%, to \$57.0 million during the year ended December 31, 2022 compared to \$55.5 million during the year ended December 31, 2021.

- Interest income on loans decreased \$1.4 million, or 2.2%, to \$62.9 million during the year ended December 31, 2022 compared to \$64.4 million during the year ended December 31, 2021 due primarily to a \$144.9 million, or 45.6%, decrease in average loans as loans held for sale originations decreased as interest rates increased. This decrease was partially offset by a 27 basis point increase in average yield on loans as interest rates continue to increase over the past year and an increase in average loan balance of \$12.1 million, or 0.9%, in the average balance of loans held in portfolio.
- Interest income from mortgage related securities increased \$1.3 million, or 65.9%, primarily as the average balance increased \$59.3 million.
- Interest expense on time deposits increased \$135,000, or 3.9%, primarily due to a nine basis point increase in average cost of time deposits. Offsetting the average cost of time deposits increase, the average balance of time deposits decreased \$73.2 million compared to the prior year.

- Interest expense on money market, savings, and escrow accounts increased \$297,000, or 32.9%, due primarily to a six basis point increase in average cost of money market, savings, and escrow accounts and the average balance increased \$27.2 million.
- Interest expense on borrowings decreased \$1.5 million, or 15.3%, due to a \$130.8 million decrease in the average balance of borrowings during the year ended December 31, 2022 compared to the year ended December 31, 2021 as \$470.0 million in FHLB borrowings paid off and \$385.7 million in new FHLB borrowings during the year ended December 31, 2022. The FHLB borrowings decreased was primarily due to the decrease in loans held for sale.

Provision for Credit Losses

The Company adopted ASC Topic 326 as of January 1, 2022, which resulted in an opening balance adjustment of \$430,000 to increase the allowance for credit losses. Additionally, there was a \$1.4 million opening balance adjustment to record an allowance for credit losses on unfunded loan commitments, which is presented in Other Liabilities on the Consolidated Statements of Financial Condition. Net of tax impact, the adoption of the CECL model resulted in a \$1.4 million reduction to retained earnings.

There was a provision for credit losses of \$968,000 during the year ended December 31, 2022 compared to a \$4.0 million negative provision for loan losses for the year ended December 31, 2021. The \$968,000 provision for credit losses consisted of a \$1.0 million provision related to loans and a \$62,000 of negative provision related to unfunded commitments for the year ended December 31, 2022. During the year ended December 31, 2022, we made adjustments to our forecast factor to reflect the current economic forecast, and qualitative factors, primarily to account for the changes in internal metrics and external risk factors.

The provision is primarily a function of the Company's reserving methodology and assessments of certain quantitative and qualitative factors which are used to determine an appropriate allowance for credit losses for the period. See further discussion regarding the allowance for loan losses in the "Asset Quality" section for an analysis of charge-offs, nonperforming assets, specific reserves and additional provisions and the "Allowance for Credit Loss" section.

Noninterest Income

	Years Ended December 31,			
	2022	2021	\$ Change	% Change
	(Dollars in Thousands)			
Service charges on loans and deposits	\$ 2,202	\$ 3,325	\$ (1,123)	(33.8%)
Increase in cash surrender value of life insurance	1,738	1,615	123	7.6%
Mortgage banking income	99,560	191,035	(91,475)	(47.9%)
Other	2,055	7,220	(5,165)	(71.5%)
Total noninterest income	\$ 105,555	\$ 203,195	\$ (97,640)	(48.1%)

Total noninterest income decreased \$97.6 million, or 48.1%, to \$105.6 million during the year ended December 31, 2022 compared to \$203.2 million during the year ended December 31, 2021. The decrease resulted primarily from a decrease in mortgage banking income along with decreases from no gain on sale of mortgage servicing rights.

- The decrease in mortgage banking income was primarily the result of a decrease in loan origination volume and gross margin on loans originated and sold. Gross margin on loans originated and sold is the ratio of mortgage banking income (excluding the change in interest rate lock fair value) divided by total loan originations. Total loan origination volume on a consolidated basis decreased \$1.65 billion, or 39.3%, to \$2.55 billion during the year ended December 31, 2022 compared to \$4.20 billion during the year ended December 31, 2021. Gross margin on loans originated and sold decreased 18.3% at the mortgage banking segment. Gross margin on loans originated and sold is the ratio of mortgage banking income (excluding the change in interest rate lock fair value) divided by total loan originations. See "Comparison of Mortgage Banking Segment Results of Operations for the Year December 31, 2022 and 2021" above, for additional discussion of the increase in mortgage banking income.
- Service charges on loans and deposits decreased primarily due to a decrease in loan prepayment fees.
- The decrease in other noninterest income was due primarily to a gain on sale of mortgage servicing rights in 2021 and decreases in mortgage servicing fee income as a result of the servicing fees prior to the sale. During the year ended December 31, 2021, the Company sold mortgage servicing rights related to \$1.24 billion in loans serviced for third parties. The sale generated \$12.4 million in net proceeds and a \$4.0 million gain. There was no comparable sale during the year ended December 31, 2022. As of December 31, 2022 and December 31, 2021, the Company maintained servicing rights related to \$409.6 million and \$204.8 million, respectively, in loans previously sold to third parties. Offsetting the decreases, there was a \$340,000 increase in gain from death benefit received on one bank owned life insurance policy during the year ended December 31, 2022 compared to none during the year ended December 31, 2021.

Noninterest Expenses

	Years Ended December 31,			
	2022	2021	\$ Change	% Change
				(Dollars in Thousands)
Compensation, payroll taxes, and other employee benefits	\$ 99,565	\$ 135,115	\$ (35,550)	(26.3%)
Occupancy, office furniture, and equipment	8,706	9,612	(906)	(9.4%)
Advertising	3,976	3,528	448	12.7%
Data processing	4,470	3,950	520	13.2%
Communications	1,189	1,309	(120)	(9.2%)
Professional fees	1,815	1,275	540	42.4%
Real estate owned	19	3	16	533.3%
Loan processing expense	4,744	4,610	134	2.9%
Other	12,578	11,192	1,386	12.4%
Total noninterest expenses	<u>\$ 137,062</u>	<u>\$ 170,594</u>	<u>\$ (33,532)</u>	<u>(19.7%)</u>

Total noninterest expenses decreased \$33.5 million, or 19.7%, to \$137.1 million during the year ended December 31, 2022 compared to \$170.6 million during the year ended December 31, 2021.

- Compensation, payroll taxes and other employee benefit expense at our mortgage banking segment decreased \$34.3 million, or 29.7%, to \$81.0 million for the year ended December 31, 2022. The decrease in compensation expense was primarily related to decreased commission expense and branch manager compensation driven by decreased loan origination volume and branch profitability as gross margins decreased.
- Compensation, payroll taxes and other employee benefits expense at the community banking segment decreased \$1.3 million, or 6.3%, to \$19.0 million during the year ended December 31, 2022. The decrease was primarily due to a decrease in health insurance, variable compensation, and ESOP expense as the average stock price has decreased compared to the year ending December 31, 2021, offset by an increase in salaries due to annual raises.
- Occupancy, office furniture and equipment expense at the mortgage banking segment decreased \$770,000 to \$5.1 million during the year ended December 31, 2022 primarily resulting from lower rent, computer, and depreciation expenses.
- Occupancy, office furniture and equipment expense at the community banking segment decreased \$136,000 to \$3.6 million during the year ended December 31, 2022 compared to the prior year. The decrease was due primarily to decreased depreciation expense and maintenance expense.
- Advertising expense increased \$448,000, or 12.7%, to \$4.0 million during the year ended December 31, 2022. This was primarily due to an increase at the mortgage banking segment in an effort to increase new customers.
- Data processing expense increased \$520,000, or 13.2%, to \$4.5 million during the year ended December 31, 2022. This was primarily due to increases at the community banking and mortgage banking segments for continued investments in technology and security.
- Professional fees increased \$540,000, or 42.4%, to \$1.8 million during the year ended December 31, 2022. The increase was due to receiving a countersuit settlement related to a previously closed legal matter at the mortgage banking segment during the year ended December 31, 2021.
- Other noninterest expense increased \$1.3 million, or 12.4%, to \$12.6 million during the year ended December 31, 2022. Other noninterest expenses increased at the mortgage banking segment increased as the provision for loan sale losses and corporate meetings expenses increased during the year ended December 31, 2022. Offsetting the increases at the mortgage banking segment, the amortization expense on mortgage servicing rights decreased due to the bulk sale of mortgage servicing rights during the year ended December 31, 2021.

Income Taxes

Income tax expense decreased \$16.3 million to \$5.0 million during the year ended December 31, 2022, compared to \$21.3 million during the year ended December 31, 2021 as pretax income decreased \$67.6 million. Income tax expense was recognized during the year ended December 31, 2022 at an effective rate of 20.4% compared to an effective rate of 23.1% during the year ended December 31, 2021. The decrease in the effective rate reflects an increase of permanent deductions relative to the amount of pretax income and additionally the 2022 rate reflects the lower state tax apportionment based on the final 2020 tax returns. During the year ended December 31, 2021, the Company recorded a \$949,000 return to provision income tax adjustment to reflect actual state tax apportionment based on the final 2021 tax returns. There was no return to provision adjustment during the year ended December 31, 2022.

Liquidity and Capital Resources

We maintain liquid assets at levels we consider adequate to meet our liquidity needs. The liquidity ratio is equal to average daily cash and cash equivalents for the period divided by average total assets. We adjust our liquidity levels to fund loan commitments, repay our borrowings, fund deposit outflows and pay real estate taxes on mortgage loans. We also adjust liquidity as appropriate to meet asset and liability management objectives. The operational adequacy of our liquidity position at any point in time is dependent upon the judgment of the Chief Financial Officer as supported by the Asset/Liability Committee. Liquidity is monitored on a daily, weekly and monthly basis using a variety of measurement tools and indicators. Regulatory liquidity, as required by the WDFI, is based on current liquid assets as a percentage of the prior month's average deposits and short-term borrowings. Minimum primary liquidity is equal to 4.0% of deposits and short-term borrowings and minimum total regulatory liquidity is equal to 8.0% of deposits and short-term borrowings. The Bank's primary and total regulatory liquidity at December 31, 2022 were 4.49% and 19.46%, respectively.

Our primary sources of liquidity are deposits, amortization and repayment of loans, sales of loans held for sale, maturities of investment securities and other short-term investments, and earnings and funds provided from operations. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan repayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competitors. We set the interest rates on our deposits to maintain a desired level of total deposits. In addition, we invest excess funds in short-term, interest-earning assets, which provide liquidity to meet lending requirements. Additional sources of liquidity used to manage long- and short-term cash flows include advances from the FHLB.

A portion of our liquidity consists of cash and cash equivalents, which are a product of our operating, investing and financing activities. At December 31, 2022 and 2021, \$46.6 million and \$376.7 million, respectively, of our assets were invested in cash and cash equivalents. Our primary sources of cash are principal repayments on loans, proceeds from the calls and maturities of debt and mortgage related securities, increases in deposit accounts, Federal funds purchased and advances from the FHLB.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

During the years ended December 31, 2022, and 2021, we originated on a consolidated basis \$2.55 billion and \$4.20 billion in loans for sale and sold loans on a consolidated basis of \$2.81 billion and \$4.48 billion. During the year ended December 2022, loan originations net of loan repayments resulted in a negative cash flows of \$303.9 million. During the year ended December 2021, loan repayments net of loan originations resulted in a positive cash flows of \$170.3 million. Cash received from the principal repayments of debt and mortgage related securities and maturity and calls of debt securities totaled \$50.7 million and \$49.5 million for the years ended December 31, 2022 and 2021, respectively. We purchased \$90.0 million and \$73.7 million in debt securities and mortgage related securities classified as available for sale during the years ended December 31, 2022 and 2021, respectively. The net decrease in deposits was \$34.4 million for the year ending December 31, 2022. The net increase in deposits was \$48.5 million for the year ending December 31, 2021. We received a \$1.2 million death benefit on a bank owned life insurance policy in 2022. There were net decreases in borrowings of \$90.3 million and \$30.9 million for the years ended December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, we repurchased common stock of \$47.8 million and \$10.2 million, respectively. During the years ended December 31, 2022 and 2021, we paid cash dividends on common stock of \$30.3 million and \$30.4 million, respectively.

Deposits decreased by \$34.4 million from December 31, 2021 to December 31, 2022. The decrease was driven by a decrease of \$66.2 million in money market and savings deposits offset by an increase of \$16.2 million in demand deposits and \$15.6 million in time deposits. Deposit flows are generally affected by the level of interest rates, market conditions and products offered by local competitors and other factors.

Liquidity management is both a daily and longer-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB which provide an additional source of funds. At December 31, 2022, we had \$185.7 million in short term advances from the FHLB. At December 31, 2022, we had \$200.0 million in long term advances from the FHLB with contractual maturity dates in 2025, 2027, and 2032. There are four advances that have contractual maturities in 2025. The 2027 advance has a contractual maturity date in December 2027. The 2032 advance has a quarterly call options which begins in March 2023. As an additional source of funds, the mortgage banking segment has a repurchase agreement. At December 31, 2022, we had \$1.1 million outstanding under the repurchase agreement with a total outstanding commitment of \$50.0 million.

At December 31, 2022, we had outstanding commitments to originate loans receivable of \$61.2 million. In addition, at December 31, 2022, we had unfunded commitments under construction loans of \$48.5 million, unfunded commitments under business lines of credit of \$17.4 million and unfunded commitments under home equity lines of credit and standby letters of credit of \$11.1 million. At December 31, 2022, certificates of deposit scheduled to mature in less than one year totaled \$502.3 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In the event a significant portion of our deposits are not retained by us, we will have to utilize other funding sources, such as Federal Home Loan Bank of Chicago advances, Federal Reserve Discount Window or brokered deposits to maintain our level of assets. However, such borrowings may not be available on attractive terms, or at all, if and when needed. Alternatively, we would reduce our level of liquid assets, such as our cash and cash equivalents and securities available for sale in order to meet funding needs. In addition, the cost of such deposits may be significantly higher if market interest rates are higher or there is an increased amount of competition for deposits in our market area at the time of renewal.

Capital

Shareholders' equity decreased by \$62.3 million, or 14.4%, to \$370.5 million at December 31, 2022 from \$432.8 million at December 31, 2021. Shareholders' equity decreased primarily due to the declaration of dividends, a decrease in the fair value of the security portfolio, the repurchase of stock and the adoption of CECL. Partially offsetting the decreases, there were increases due to the net income, additional paid-in capital as stock options were exercised and equity awards vested, and unearned ESOP shares vesting.

The Company's Board of Directors authorized a stock repurchase program in the fourth quarter of 2021. As of December 31, 2022, the Company had repurchased 13.9 million shares at an average price of \$15.27 under previously approved stock repurchase plans.

Waterstone Financial, Inc. and WaterStone Bank are subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning assets and off-balance sheet items to broad risk categories. At December 31, 2022, Waterstone Financial, Inc. and WaterStone Bank exceeded all regulatory capital requirements and are considered "well capitalized" under regulatory guidelines. See "Supervision and Regulation—Capital Requirements" and Note 9 - Regulatory Capital of the notes to the consolidated financial statements.

Contractual Obligations, Commitments, Contingent Liabilities, and Off-balance Sheet Arrangements

During the year ended December 31, 2022, we repaid \$5.0 million in FHLB short-term debt and \$470.0 million in FHLB long-term debt and borrowed \$200.0 million of FHLB long-term debt and \$185.7 million of short-term debt.

See Note 8 - Borrowings of the notes to the consolidated financial statements for additional information about the remaining maturities of our FHLB long-term debt.

See Note 14 - Commitments, Off-Balance Sheet Arrangements, and Contingent Liabilities of the notes to the consolidated financial statements for additional information.

WaterStone Bank has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following tables present information indicating various non-deposit contractual obligations and commitments of WaterStone Bank as of December 31, 2022 and the respective maturity dates.

Impact of Inflation and Changing Prices

The financial statements and accompanying notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than do the effects of inflation.

Quarterly Financial Information

The following table sets forth certain quarterly data for the periods indicated:

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In Thousands, except per share data)			
2022 (unaudited)				
Interest income	\$ 15,030	\$ 16,416	\$ 18,125	\$ 20,674
Interest expense	3,166	2,335	2,727	5,063
Net interest income	11,864	14,081	15,398	15,611
Provision (credit) for credit losses (1)	(76)	48	332	664
Net interest income after provision for credit losses (1)	11,940	14,033	15,066	14,947
Total noninterest income	29,818	31,238	27,404	17,095
Total noninterest expense	34,935	35,050	35,694	31,384
Income before income taxes	6,823	10,221	6,776	658
Income taxes	1,532	2,231	1,506	(277)
Net income	\$ 5,291	\$ 7,990	\$ 5,270	\$ 935
Income per share - basic	\$ 0.23	\$ 0.36	\$ 0.25	\$ 0.04
Income per share - diluted	\$ 0.23	\$ 0.36	\$ 0.25	\$ 0.04
2021 (unaudited)				
Interest income	\$ 17,969	\$ 17,824	\$ 17,506	\$ 16,584
Interest expense	4,017	3,547	3,392	3,412
Net interest income	13,952	14,277	14,114	13,172
Provision for loan losses (1)	(1,070)	(750)	(700)	(1,470)
Net interest income after provision for loan losses (1)	15,022	15,027	14,814	14,642
Total noninterest income	56,199	52,044	52,936	42,016
Total noninterest expense	43,000	43,297	43,323	40,974
Income before income taxes	28,221	23,774	24,427	15,684
Income taxes	6,877	5,880	5,427	3,131
Net income	\$ 21,344	\$ 17,894	\$ 19,000	\$ 12,553
Income per share - basic	\$ 0.90	\$ 0.75	\$ 0.80	\$ 0.53
Income per share - diluted	\$ 0.89	\$ 0.74	\$ 0.79	\$ 0.53

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amount presented is calculated under the prior accounting standard.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, WaterStone Bank's board of directors has established an Asset/Liability Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors. Management monitors the level of interest rate risk on a regular basis and the Asset/Liability Committee meets at least weekly to review our asset/liability policies and interest rate risk position, which are evaluated quarterly.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk: (i) emphasizing variable rate loans including variable rate one- to four-family, and commercial real estate loans as well as three to five year commercial real estate balloon loans; (ii) reducing and shortening the expected average life of the investment portfolio; and (iii) whenever possible, lengthening the term structure of our deposit base and our borrowings from the FHLBC. These measures should reduce the volatility of our net interest income in different interest rate environments.

Income Simulation. 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 simulation uses projected repricing of assets and liabilities at December 31, 2022 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 positive impact on net interest income and earnings.

The following interest rate scenario displays the percentage change in net interest income over a one-year time horizon assuming increases of 100, 200 and 300 basis points and a decrease of 100 basis points. The results incorporate actual cash flows and repricing characteristics for balance sheet accounts following an instantaneous parallel change in market rates based upon a static (no growth balance sheet).

Analysis of Net Interest Income Sensitivity

	Immediate Change in Rates			
	+300	+200	+100	-100
As of December 31, 2022				
Dollar Change	\$ (5,632)	\$ (3,886)	\$ (2,053)	\$ (233)
Percentage Change	(10.8%)	(7.4%)	(3.9%)	(0.4%)

At December 31, 2022, a 100 basis point instantaneous increase in interest rates had the effect of decreasing forecast net interest income over the next 12 months by 3.92% while a 100 basis point decrease in rates had the effect of decreasing net interest income by 0.44%.

Item 8. Financial Statements and Supplementary Data

Management's Annual Report on Internal Control Over Financial Reporting

The management of Waterstone Financial, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(1) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2022. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control-Integrated Framework. Based on that assessment, we believe that, as of December 31, 2022, our internal control over financial reporting is effective based on those criteria.

CliftonLarsonAllen LLP has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, as stated in their report dated February 28, 2023.

/s/ Douglas S. Gordan
Douglas S. Gordon
Chief Executive Officer

/s/ Mark R. Gerke
Mark R. Gerke
Chief Financial Officer



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Waterstone Financial, Inc.
Wauwatosa, Wisconsin

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Waterstone Financial, Inc. and Subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework*, issued by COSO in 2013.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provides a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matters communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans

As described in Notes 1 and 3 to the consolidated financial statements, the Company's estimate of the allowance for credit losses on loans was \$17.8 million at December 31, 2022 on a loan portfolio of \$1.51 billion. The allowance for credit losses (ACL) on loans is an estimate of lifetime expected credit losses. The ACL considers historical loss rates, which are adjusted for reasonable and supportable forecasts, and other qualitative adjustments. The Company segments the loan portfolio into loan pools based on loan type with similar origination years and similar credit risk elements. Loans that do not share credit risk elements are evaluated on an individual basis. For loan product types one-to-four family, multi family, commercial real estate, and commercial, an average historical loss rate is calculated by classifying net charge-offs by year of loan origin and dividing into total originations for that specific year. This methodology is referred to as vintage analysis. The average loss rate is then projected over the estimated remaining loan lives unique to each loan pool, to determine estimated lifetime losses. For loan product types construction and land and consumer, an average annual net loss rate is computed and extrapolated over the remaining life of the loans. This methodology is referred to as the weighted average remaining maturity method (WARM). For all loan pools the Company then considers the need for an additional allowance based upon qualitative factors as determined by pool. These qualitative factors are intended to adjust for changes not reflected in historical loss rates and otherwise unaccounted for in the quantitative process.

The principal considerations for our determination of the qualitative factors used in the allowance for credit losses for loans as a critical audit matter includes the subjectivity, complexity, and estimation uncertainty involved in determining significant model assumptions and adjusting model outputs to reflect economic and portfolio trends and conditions not captured within the models.

The primary procedures we performed to address this critical audit matter included the following:

- Obtained an understanding of the Company's models and the process for establishing the allowance for credit losses for the loan portfolio.
- Tested the design and operating effectiveness of controls relating to management's determination of the allowance for credit losses for loans, including controls over the allowance for credit losses models and the inputs and assumptions used to support the reserve calculations. Controls over the models include review of the model calculations and the macro-economic forecasts utilized in the models. Additionally, we tested controls over the approval of key policies and decisions during the implementation of the new accounting standard and validation of the models.
- Evaluated the reasonableness of management's application of industry and qualitative factor adjustments to the allowance for credit losses, including the comparison of factors considered by management to third party or internal sources as well as evaluated the appropriateness and level of the qualitative factor adjustments.
- Assessed the overall trends in credit quality by comparing the Company's quarterly changes in qualitative factors and the allowance for credit losses.
- Evaluated management's determination of reasonable and supportable forecasts, including comparing key factors to independent sources.
- Evaluated subsequent events and transactions and considered whether they corroborated or contradicted the Company's conclusion.
- Testing the calculations used by management to translate the assumptions and key factors into the allowance estimated amount.

/s/ CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

We have served as the Company's auditor since 2021.

Milwaukee, Wisconsin
February 28, 2023

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
Waterstone Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows of Waterstone Financial, Inc. and Subsidiaries (the Company) for the year ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We served as the Company's auditor from 2014 through 2020
Chicago, Illinois
March 1, 2021

Waterstone Financial, Inc. and Subsidiaries
Consolidated Statements of Financial Condition
December 31, 2022 and 2021

	December 31,	
	2022	2021
	(In Thousands, except share data)	
Assets		
Cash	\$ 33,700	\$ 343,016
Federal funds sold	10,683	13,981
Interest-earning deposits in other financial institutions and other short term investments	2,259	19,725
Cash and cash equivalents	46,642	376,722
Securities available for sale (at fair value)	196,588	179,016
Loans held for sale (at fair value)	131,188	312,738
Loans receivable	1,510,178	1,205,785
Less: Allowance for credit losses ("ACL") - loans (1)	17,757	15,778
Loans receivable, net	1,492,421	1,190,007
Office properties and equipment, net	21,105	22,273
Federal Home Loan Bank stock (at cost)	17,357	24,438
Cash surrender value of life insurance	66,443	65,368
Real estate owned, net	145	148
Prepaid expenses and other assets	59,783	45,148
Total assets	\$ 2,031,672	\$ 2,215,858
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits	\$ 230,596	\$ 214,409
Money market and savings deposits	326,145	392,314
Time deposits	642,271	626,663
Total deposits	1,199,012	1,233,386
Borrowings	386,784	477,127
Advance payments by borrowers for taxes	5,334	4,094
Other liabilities	70,056	68,478
Total liabilities	1,661,186	1,783,085
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock (par value \$0.01 per share) Authorized - 50,000,000 shares in 2022 and 2021, no shares issued	-	-
Common stock (par value \$.01 per share) Authorized - 100,000,000 shares at December 31, 2022 and at December 31, 2021, Issued and Outstanding - 22,174,225 at December 31, 2022 and 24,795,124 at December 31, 2021	222	248
Additional paid-in capital	128,550	174,505
Retained earnings	274,246	273,398
Unearned ESOP shares	(13,056)	(14,243)
Accumulated other comprehensive loss, net of taxes	(19,476)	(1,135)
Total shareholders' equity	370,486	432,773
Total liabilities and shareholders' equity	\$ 2,031,672	\$ 2,215,858

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

See accompanying notes to consolidated financial statements

Waterstone Financial, Inc. and Subsidiaries
Consolidated Statements of Operations
Years ended December 31, 2022, 2021 and 2020

	Years ended December 31,		
	2022	2021	2020
	(In Thousands, except per share amounts)		
Interest income:			
Loans	\$ 62,935	\$ 64,366	\$ 72,633
Mortgage-related securities	3,241	1,954	2,488
Debt securities, federal funds sold and short-term investments	4,069	3,563	3,363
Total interest income	70,245	69,883	78,484
Interest expense:			
Deposits	4,863	4,420	14,365
Borrowings	8,428	9,948	10,619
Total interest expense	13,291	14,368	24,984
Net interest income	56,954	55,515	53,500
Provision (credit) for credit losses (1)	968	(3,990)	6,340
Net interest income after provision (credit) for credit losses (1)	55,986	59,505	47,160
Noninterest income:			
Service charges on loans and deposits	2,202	3,325	4,462
Increase in cash surrender value of life insurance	1,738	1,615	1,905
Mortgage banking income	99,560	191,035	233,245
Other	2,055	7,220	4,405
Total noninterest income	105,555	203,195	244,017
Noninterest expenses:			
Compensation, payroll taxes, and other employee benefits	99,565	135,115	139,046
Occupancy, office furniture, and equipment	8,706	9,612	10,223
Advertising	3,976	3,528	3,691
Data processing	4,470	3,950	3,941
Communications	1,189	1,309	1,329
Professional fees	1,815	1,275	8,118
Real estate owned	19	3	(8)
Loan processing expense	4,744	4,610	4,646
Other	12,578	11,192	12,075
Total noninterest expenses	137,062	170,594	183,061
Income before income taxes	24,479	92,106	108,116
Income tax expense	4,992	21,315	26,971
Net income	\$ 19,487	\$ 70,791	\$ 81,145
Income per share:			
Basic	\$ 0.89	\$ 2.98	\$ 3.32
Diluted	\$ 0.89	\$ 2.96	\$ 3.30
Weighted average shares outstanding:			
Basic	21,884	23,741	24,464
Diluted	22,010	23,931	24,607

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

See accompanying notes to consolidated financial statements

Waterstone Financial, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2022, 2021 and 2020

	Years ended December 31,		
	2022	2021	2020
Net income	\$ 19,487	\$ 70,791	\$ 81,145
Other comprehensive income (loss), net of tax:		(In Thousands)	
Net unrealized holding (loss) gain arising during the period, net of tax benefit (expense) of \$6,868, \$1,294, and (\$630), respectively	(18,341)	(3,461)	1,684
Total other comprehensive (loss) income	(18,341)	(3,461)	1,684
Comprehensive income	\$ 1,146	\$ 67,330	\$ 82,829

See accompanying notes to consolidated financial statements

Waterstone Financial, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2022, 2021 and 2020

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Unearned ESOP Shares</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balances at December 31, 2019	27,148	\$ 271	\$ 211,997	\$ 197,393	\$ (16,617)	\$ 642	\$ 393,686
Comprehensive income:							
Net income	-	-	-	\$ 81,145	-	-	\$ 81,145
Other comprehensive income:	-	-	-	-	-	1,684	1,684
Total comprehensive income							82,829
ESOP shares committed to be released to Plan participants	-	-	489	-	1,187	-	1,676
Cash dividend, \$1.36 per share	-	-	-	(33,251)	-	-	(33,251)
Stock compensation activity, net of tax	293	3	3,701	-	-	-	3,704
Stock based compensation expense	-	-	716	-	-	-	716
Purchase of common stock returned to authorized but unissued	(2,353)	(23)	(36,219)	-	-	-	(36,242)
Balances at December 31, 2020	<u>25,088</u>	<u>\$ 251</u>	<u>\$ 180,684</u>	<u>\$ 245,287</u>	<u>\$ (15,430)</u>	<u>\$ 2,326</u>	<u>\$ 413,118</u>
Comprehensive income:							
Net income	-	\$ -	\$ -	\$ 70,791	\$ -	\$ -	\$ 70,791
Other comprehensive loss:	-	-	-	-	-	(3,461)	(3,461)
Total comprehensive income							67,330
ESOP shares committed to be released to Plan participants	-	-	942	-	1,187	-	2,129
Cash dividend, \$1.80 per share	-	-	-	(42,680)	-	-	(42,680)
Stock compensation activity, net of tax	208	2	2,305	-	-	-	2,307
Stock based compensation expense	-	-	745	-	-	-	745
Purchase of common stock returned to authorized but unissued	(501)	(5)	(10,171)	-	-	-	(10,176)
Balances at December 31, 2021	<u>24,795</u>	<u>\$ 248</u>	<u>\$ 174,505</u>	<u>\$ 273,398</u>	<u>\$ (14,243)</u>	<u>\$ (1,135)</u>	<u>\$ 432,773</u>
Comprehensive income:							
Net income	-	\$ -	\$ -	\$ 19,487	\$ -	\$ -	\$ 19,487
Other comprehensive loss:	-	-	-	-	-	(18,341)	(18,341)
Total comprehensive income	-	-	-	-	-	-	1,146
Adoption of new accounting pronouncement (See Note 1)	-	-	-	(1,392)	-	-	(1,392)
ESOP shares committed to be released to Plan participants	-	-	702	-	1,187	-	1,889
Cash dividend, \$0.80 per share	-	-	-	(17,247)	-	-	(17,247)
Stock compensation activity, net of tax	62	1	563	-	-	-	564
Stock based compensation expense	-	-	583	-	-	-	583
Purchase of common stock returned to authorized but unissued	(2,683)	(27)	(47,803)	-	-	-	(47,830)
Balances at December 31, 2022	<u>22,174</u>	<u>\$ 222</u>	<u>\$ 128,550</u>	<u>\$ 274,246</u>	<u>\$ (13,056)</u>	<u>\$ (19,476)</u>	<u>\$ 370,486</u>

See accompanying notes to consolidated financial statements

Waterstone Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2022, 2021 and 2020

	Years ended December 31,		
	2022	2021	2020
	(In Thousands)		
Operating activities:			
Net income	\$ 19,487	\$ 70,791	\$ 81,145
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for credit losses (1)	968	(3,990)	6,340
Depreciation, amortization, accretion	4,033	6,048	5,608
Deferred taxes	(484)	1,378	(2,620)
Stock based compensation	583	745	716
Origination of mortgage servicing rights	(2,462)	(5,778)	(13,406)
Proceeds on sales of mortgage servicing rights	-	12,448	6,985
Gain on sale of loans held for sale	(76,156)	(193,399)	(245,358)
Loans originated for sale	(2,549,935)	(4,198,139)	(4,332,028)
Proceeds on sales of loans originated for sale	2,807,641	4,480,804	4,395,505
Gain on death benefit on bank owned life insurance	(340)	-	(1,456)
(Increase) decrease in accrued interest receivable	(1,712)	944	387
Increase in cash surrender value of life insurance	(1,738)	(1,615)	(1,905)
(Increase) decrease in derivative assets	(10,897)	6,688	(9,222)
Decrease in accrued interest on deposits and borrowings	399	(178)	(422)
Decrease (increase) in prepaid tax expense	1,068	(2,558)	113
Legal settlement	-	(4,250)	4,250
Increase (decrease) in derivative liabilities	16,260	(5,140)	5,140
Net gain related to real estate owned	-	(12)	(107)
Gain on sale of mortgage servicing rights	-	(4,032)	(600)
Change in other assets and other liabilities, net	(50)	(6,301)	7,353
Net cash provided (used) by operating activities	206,665	154,454	(93,582)
Investing activities:			
Net (increase) decrease in loans receivable	(303,874)	170,297	12,353
Purchases of:			
FHLB Stock	(5,005)	-	(5,570)
Debt securities	(9,732)	-	(10,125)
Mortgage related securities	(80,265)	(73,687)	(19,372)
Bank owned life insurance	(180)	(180)	(180)
Premises and equipment	(701)	(778)	(1,225)
Proceeds from:			
Principal repayments on mortgage-related securities	33,191	40,445	45,254
Maturities of debt securities	17,555	9,055	5,290
Sales of FHLB stock	12,086	2,282	-
Sales of real estate owned	-	183	1,133
Death benefit from bank owned life insurance	1,183	-	9,633
Net cash provided (used) by investing activities	(335,742)	147,617	37,191
Financing activities:			
Net (decrease) increase in deposits	(34,374)	48,516	117,094
Net change in short-term borrowings	179,657	(30,947)	24,512
Repayment of long-term debt	(470,000)	-	-
Proceeds from long-term debt	200,000	-	-
Net change in advance payments by borrowers for taxes	1,240	572	(690)
Cash dividends on common stock	(30,260)	(30,388)	(31,520)
Proceeds from stock option exercises	564	2,307	3,704
Purchase of common stock returned to authorized but unissued	(47,830)	(10,176)	(36,242)
Net cash provided (used) by financing activities	(201,003)	(20,116)	76,858
(Decrease) increase in cash and cash equivalents	(330,080)	281,955	20,467
Cash and cash equivalents at beginning of period	376,722	94,767	74,300
Cash and cash equivalents at end of period	\$ 46,642	\$ 376,722	\$ 94,767
Supplemental information:			
Cash paid during the period for:			
Income tax payments	\$ 4,090	\$ 22,663	\$ 29,478
Interest payments	12,892	14,546	25,406
Noncash investing activities:			
Loans receivable transferred to other real estate	-	-	637
Dividends declared but not paid in other liabilities	4,511	17,525	5,232

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

See accompanying notes to consolidated financial statements

1) Summary of Significant Accounting Policies

The following significant accounting and reporting policies of Waterstone Financial, Inc. and subsidiaries (collectively, the "Company"), conform to U.S. generally accepted accounting principles, or ("GAAP"), and are used in preparing and presenting these consolidated financial statements.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income. The Company reclassified certain line items in the Consolidated Statements of Cash Flows.

a) Nature of Operations

The Company is a one-bank holding company with two operating segments – community banking and mortgage banking. WaterStone Bank SSB (the "Bank" or "WaterStone Bank") is principally engaged in the business of attracting deposits from the general public and using such deposits to originate real estate, business and consumer loans.

The Bank provides a full range of financial services to customers through branch locations in southeastern Wisconsin. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The Bank owns a mortgage banking subsidiary that originates residential real estate loans held for sale at various branch offices across the country. Mortgage banking volume fluctuates widely in connection with movements in interest rates. Mortgage banking income is reported as a single line item in the statements of operations while mortgage banking expense is distributed among the various noninterest expense lines. Compensation, payroll taxes and other employee benefits expense fluctuates in relation to fluctuations in mortgage banking income.

b) Principles of Consolidation

The consolidated financial statements include the accounts and operations of Waterstone Financial, Inc. and its wholly owned subsidiary, WaterStone Bank. The Bank has the following wholly owned subsidiaries: Wauwatosa Investments, Inc., Waterstone Mortgage Corporation, and Main Street Real Estate Holdings, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

c) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include: the allowance for credit losses, income taxes, and fair value measurements.

d) Cash and Cash Equivalents

The Company considers federal funds sold and highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

e) Securities*Available for Sale Securities*

At the time of purchase, investment debt securities are classified as available for sale, as management has the intent and ability to hold such securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell investment securities available for sale would be based on various factors, including, but not limited to asset/liability management strategies, changes in interest rates or prepayment risks, liquidity needs, or regulatory capital considerations. Available for sale securities are carried at fair value, with the unrealized gains and losses, net of deferred tax, reported as a separate component of equity in accumulated other comprehensive income (loss). The amortized cost of securities available for sale is adjusted for accretion of discounts to maturity and amortization of premiums over the estimated life of each security or, in the case of callable securities, through the first call date, using the effective yield method. Such amortization and accretion is included in interest income. Interest income on securities is recognized using the interest method according to the terms of the security. Realized gains or losses on securities sales (using specific identification method) are included in noninterest income.

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is carried at cost, which is the amount that the stock is redeemable by tendering to the FHLB or the amount at which shares can be sold to other FHLB members.

f) *Loans Held for Sale*

The origination of residential real estate loans is an integral component of the business of the Company. The Company generally sells its originations of long-term fixed interest rate mortgage loans in the secondary market, and on a selective basis, retains the rights to service the loans sold. Gains and losses on the sales of these loans are determined using the specific identification method. Mortgage loans originated for sale are generally sold within 45 days after closing.

The Company has elected to carry loans held for sale at fair value. Fair value is generally determined by estimating a gross premium or discount, which is derived from pricing currently observable in the market. The amount by which cost differs from market value is accounted for as a valuation adjustment to the carrying value of the loans. Changes in value are included in mortgage banking income in the consolidated statements of operations.

Costs to originate loans held for sale are expensed as incurred and are included on the appropriate noninterest expense lines of the statements of operations. Salaries, commissions and related payroll taxes are the primary costs to originate and comprised approximately 74.7% of total mortgage banking noninterest expense for 2022.

The value of mortgage loans held for sale and other residential mortgage loan commitments to customers are hedged by utilizing both best efforts and mandatory forward commitments to sell loans to investors in the secondary market. Such forward commitments are generally entered into at the time when applications are taken to protect the value of the mortgage loans from increases in market interest rates during the period held. The Company recognizes revenue associated with the expected future cash flows of servicing loans at the time a forward loan commitment is made.

g) *Loans Receivable and Related Interest Income*

Loans are classified as held for investment when management has both the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. Loans are carried at the principal amount outstanding, net of any unearned income, charge-offs and unamortized deferred fees and costs. Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan yield. Amortization is based on a level-yield method over the contractual life of the related loans or until the loan is paid in full.

Loan interest income is recognized on the accrual basis. Accrual of interest is generally discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal, or when a loan becomes contractually past due 90 days or more with respect to interest or principal. At that time, previously accrued and uncollected interest on such loans is reversed and additional income is recorded only to the extent that payments are received and the collection of principal is reasonably assured. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

A loan is accounted for as a troubled debt restructuring if the Company, for economic reasons related to the borrower's financial condition, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves a modification of terms such as a reduction of the stated interest rate, a deferral of principal payments or a combination of both for a temporary period of time. If the borrower was performing in accordance with the original contractual terms at the time of the restructuring, the restructured loan is accounted for on an accruing basis as long as the borrower continues to comply with the modified terms. If the loan was not accounted for on an accrual basis at the time of restructuring, the restructured loan remains in non-accrual status until the loan completes a minimum of six consecutive contractual payments.

h) Allowance for Credit Losses

AFS Debt Securities

The impairment model for available-for-sale (“AFS”) debt securities differs from the CECL approach utilized by HTM debt securities because AFS debt securities are measured at fair value rather than amortized cost. Although *ASC Topic 326* replaced the legacy other-than-temporary impairment (“OTTI”) model with a credit loss model, it retained the fundamental nature of the legacy OTTI model. One notable change from the legacy OTTI model is when evaluating whether credit loss exists, an entity may no longer consider the length of time fair value has been less than amortized cost. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. The Company reviews its AFS debt securities for credit loss impairment at the individual security level on at least a quarterly basis. A security is impaired if its fair value is less than its amortized cost basis. A decline in fair value below amortized cost basis represents a credit loss impairment to the extent the Company does not expect to recover the amortized cost basis of the security. Impairment related to credit losses is recorded through the ACL to the extent fair value is less than the amortized cost basis. Declines in fair value that have not been recorded through the ACL are recorded through other comprehensive income, net of applicable taxes.

In assessing whether an impairment is credit loss related, the Company compares the present value of cash flows expected to be collected to the security's amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an ACL is recorded. The Company discounts expected cash flows at the effective interest rate implicit in the security at the purchase date, adjusted for expected prepayments. For floating rate securities, the Company uses the floating rate as it changes over the life of the security. In developing estimates about cash flows expected to be collected and determining whether a credit loss exists, the Company considers information about past events, current conditions and reasonable and supportable forecasts. Factors and information that the Company uses in making its assessments include, but are not necessarily limited to, the following:

- The extent to which fair value is less than amortized cost;
- Adverse conditions specifically related to the security, an industry or geographic area;
- Changes in the financial condition of the issuer or underlying loan obligors;
- The payment structure and remaining payment terms of the security, including levels of subordination or over-collateralization;
- Failure of the issuer to make scheduled payments;
- Changes in credit ratings;
- Relevant market data;
- Estimated prepayments, defaults, and the value and performance of underlying collateral at the individual security level.

The relative importance assigned to each of these factors varies depending on the facts and circumstances pertinent to the individual security being evaluated.

Timely payment of principal and interest on securities issued by the U.S. Government, U.S. government agencies and U.S. government sponsored entities is explicitly or implicitly guaranteed by the U. S. government. Therefore, the Company expects to recover the amortized cost basis of these securities.

If the Company intends to sell a security in an unrealized loss position, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, any allowance for credit losses will be written off and the amortized cost basis will be written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings. AFS securities will be charged off to the extent that there is no reasonable expectation of recovery of amortized cost basis. AFS securities will be placed on non-accrual status if the Company does not reasonably expect to receive interest payments in the future and interest accrued will be reversed against interest income. Securities will be returned to accrual status only when collection of interest is reasonably assured.

Loans

The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The ACL is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date.

The measurement of expected credit losses encompasses information about historical events, current conditions and reasonable and supportable forecasts. Determining the amount of the ACL is complex and requires extensive judgment by management about matters that are inherently uncertain. Re-evaluation of the ACL estimate in future periods, in light of changes in composition and characteristics of the loan portfolio, changes in the reasonable and supportable forecast and other factors then prevailing may result in material changes in the amount of the ACL and credit loss expense in those future periods.

Loans are charged off against the ACL in the period in which they are deemed uncollectible and recoveries are credited to the ACL when received. Expected recoveries on loans previously charged off and expected to be charged-off, not to exceed the aggregate of amounts previously charged-off and expected to be charged-off, are included in the ACL estimate. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 180 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off when the asset is taken back by the company. Commercial and other consumer loans are charged off when, in management's judgment, they are considered to be uncollectible.

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, geography, and internal risk ratings. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. Expected prepayments are estimated using a model that incorporates company's prepayment data, calibrated to reflect the Company's experience. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a TDR will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The ACL estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model. The model include both current and forecasted unemployment rates. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Company uses a 1-year reasonable and supportable forecast period in estimating the ACL. After the reasonable and supportable forecast periods, the models effectively revert to long-term mean loss on a straight-line basis over 12 months.

Collateral dependent loans

Collateral dependent loans are those for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not typically share similar risk characteristics with other loans and expected credit losses are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Estimates of expected credit losses for collateral dependent loans, whether or not foreclosure is probable, are based on the fair value of the collateral, adjusted for selling costs when repayment depends on sale of the collateral.

Troubled debt restructurings

For TDRs or loans for which there is a reasonable expectation that a TDR will be executed that are not collateral dependent, the credit loss estimate is determined by comparing the net present value of expected cash flows, discounted at the loan's original effective interest rate, to the amortized cost basis of the loan.

Unfunded commitments

Expected credit losses related to off-balance sheet credit exposures are estimated over the contractual period for which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. Expected credit losses are estimated using essentially the same methodologies employed to estimate expected credit losses on the amortized cost basis of loans, taking into consideration the likelihood and amount of additional amounts expected to be funded over the terms of the commitments. The liability for credit losses on off-balance sheet credit exposures is presented within other liabilities on the consolidated statements of financial condition, distinct from the ACL. Adjustments to the liability are included in the provision for credit losses.

i) *Real Estate Owned*

Real estate owned consists of properties acquired through, or in lieu of, loan foreclosure. Real estate owned is transferred into the portfolio at estimated net realizable value. To the extent that the net carrying value of the loan exceeds the estimated fair value of the property at the date of transfer, the excess is charged to the allowance for loan losses within 90 days of being transferred. Subsequent write-downs to reflect current fair value, as well as gains and losses upon disposition and revenue and expenses incurred in maintaining such properties, are treated as period costs and included in real estate owned in the consolidated statements of operations.

j) *Mortgage Servicing Rights*

The Company sells residential mortgage loans in the secondary market and, on a selective basis, retains the right to service the loans sold. Upon sale, a mortgage servicing rights asset is capitalized, which represents the then current fair value of future net cash flows expected to be realized for performing servicing activities. Mortgage servicing rights, when purchased, are initially recorded at fair value. Mortgage servicing rights are amortized over the period of estimated net servicing income, and assessed for impairment at each reporting date. Mortgage servicing rights are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value, and are included in other assets in the consolidated statements of financial condition. To the extent that the Company sells mortgage servicing rights, a gain is recognized for the amount of which sale proceeds exceed the remaining unamortized cost of the servicing rights that were sold. Gains on sale of mortgage servicing rights are included in other noninterest income in the consolidated statements of operations.

k) Cash Surrender Value of Life Insurance

The Company purchases bank owned life insurance on the lives of certain employees. The Company is the beneficiary of the life insurance policies. The cash surrender value of life insurance is reported at the amount that would be received in cash if the policies were surrendered. Increases in the cash value of the policies and proceeds of death benefits received are recorded in noninterest income. The increase in cash surrender value of life insurance is not subject to income taxes, as long as the Company has the intent and ability to hold the policies until the death benefits are received.

l) Office Properties and Equipment

Office properties and equipment, including leasehold improvements and software, are stated at cost, net of depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lease term, if shorter than the estimated useful life. Maintenance and repairs are charged to expense as incurred, while additions or major improvements are capitalized and depreciated over their estimated useful lives. Estimated useful lives of the assets are 10 to 30 years for office properties, three years to 10 years for equipment, and three years for software.

m) Income Taxes

The Company and its subsidiaries file consolidated federal and combined state income tax returns. The provision for income taxes is based upon income in the consolidated financial statements, rather than amounts reported on the income tax returns. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Company evaluates the realizability of its deferred tax assets on a quarterly basis. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is "more likely than not" that a deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions.

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. The benefit of uncertain tax positions are initially recognized in the financial statements only when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statements of operations.

n) Earnings Per Share

Earnings per share (EPS) are computed using the two-class method. Stock compensation awards that contain rights to receive nonforfeitable dividends prior to the awards being vested are considered participating securities and, as such, included in the common shares outstanding. Basic earnings per share is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of all potential common shares. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Shares of the Employee Stock Ownership Plan committed to be released are considered outstanding for both common and diluted EPS.

o) Comprehensive Income (Loss)

Comprehensive income (loss) is the total of reported net income and changes in unrealized gains or losses, net of tax (or benefit), on securities available for sale.

p) Employee Stock Ownership Plan (ESOP)

Compensation expense under the ESOP is equal to the fair value of common shares released or committed to be released to participants in the ESOP in each respective period. Common stock purchased by the ESOP and not committed to be released to participants is included in the consolidated statements of financial condition at cost as a reduction of shareholders' equity.

q) Share Repurchases

The Company has a share repurchase program. Repurchases under the repurchase program may be made in the open market, through block trades and other negotiated transactions. The share repurchase program transactions take place primarily in open market transactions, subject to market conditions. There is no fixed termination date for the repurchase program, and the program may be suspended. Under Maryland law, shares repurchased are constituted as authorized but unissued. The Company reduced the common stock at par value and to the extent the cost acquired exceeds par value, it is recorded through additional paid-in capital on the consolidated statements of financial condition and consolidated statements of changes in shareholders' equity.

r) Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, loans held for sale, investment securities, as well as revenue related to our mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within our disclosures.

Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when our performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed (such as a stop payment). Payments for these activities are generally received at the time the performance obligations are satisfied.

Wealth management fee income - this represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management investment management and similar fiduciary activities. These fees are typically paid to us on a monthly basis and recognized as our performance obligation is satisfied each month.

Other non-interest income includes items such as bank owned life insurance income, dividends on FHLB stock and other general operating income, none of which are subject to the requirements of ASC 606. Also included in other-non-interest income are interchange fees earned when our debit and credit card clients process transactions through card networks. Our performance obligations are generally complete when the transactions generating the fees are processed.

s) Impact of Recent Accounting Pronouncements

ASC Topic 326 "Financial Instruments - Credit Losses." Authoritative accounting guidance under ASC Topic 326, "Troubled Debt Restructurings and Vintage Disclosures" eliminates the accounting guidance for troubled debt restructurings ("TDRs"), while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The accounting guidance also requires public business entities to expand the vintage disclosures to include gross charge-offs by year of origination. The updated guidance is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company intends to adopt this pronouncement prospectively with no material impact on the Company's statements of operation or financial condition.

ASC Topic 848 "Reference Rate Reform." Authoritative accounting guidance under ASC Topic 848, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting" provides optional expedients and exceptions for certain contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of rate reform. The guidance is effective from the date of issuance until December 31, 2022. The guidance permits entities to not apply modification accounting or remeasure lease payments in lease contracts if the changes to the contract are related to the discontinuation of the reference rate. If certain criteria are met, the amendments also allow exceptions to the de-designation criteria of the hedging relationship and the assessment of hedge effectiveness during the transition period. The Company believes there will be no material impact on the Company's statements of operation or financial condition.

Accounting Standards Adopted in 2022

The Company adopted *ASC Topic 326* on January 1, 2022, and applied the standard's provisions as a cumulative-effect adjustment to retained earnings, as of January 1, 2022 (i.e., modified retrospective approach). Upon adoption of the standard, the Company recorded a \$430,000 increase to the allowance for credit losses and \$1.4 million increase to the allowance for unfunded commitments, which resulted in a \$1.4 million after-tax decrease to retained earnings as of January 1, 2022. The tax effect resulted in a \$439,000 increase to deferred tax assets.

The Company did not record an allowance for AFS securities on January 1, 2022 as the investment portfolio consists primarily of debt securities explicitly or implicitly backed by the U.S. Government for which credit risk is deemed minimal. The impact going forward will depend on the composition, characteristics, and credit quality of the loan and securities portfolios as well as the economic conditions at future reporting periods. See Note 2 - Securities Available for Sale and Note 3 - Loans Receivable for more information.

2) Securities

Securities Available for Sale

The amortized cost and fair value of the Company's investment in securities follow:

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	\$ 15,134	\$ 4	\$ (1,824)	\$ 13,314
Collateralized mortgage obligations:				
Government sponsored enterprise issued	145,740	-	(20,975)	124,765
Private-label issued	9,041	-	(935)	8,106
Mortgage-related securities	169,915	4	(23,734)	146,185
Government sponsored enterprise bonds	2,500	-	(244)	2,256
Municipal securities	37,699	428	(1,193)	36,934
Other debt securities	12,500	-	(1,338)	11,162
Debt securities	52,699	428	(2,775)	50,352
Other securities	51	-	-	51
Total	<u>\$ 222,665</u>	<u>\$ 432</u>	<u>\$ (26,509)</u>	<u>\$ 196,588</u>

	December 31, 2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	\$ 19,133	\$ 542	\$ (187)	\$ 19,488
Collateralized mortgage obligations:				
Government sponsored enterprise issued	100,543	503	(1,744)	99,302
Private-label issued	2,913	30	-	2,943
Mortgage-related securities	122,589	1,075	(1,931)	121,733
Government sponsored enterprise bonds	2,500	-	(52)	2,448
Municipal securities	42,295	1,206	(7)	43,494
Other debt securities	12,500	41	(1,200)	11,341
Debt securities	57,295	1,247	(1,259)	57,283
Total	<u>\$ 179,884</u>	<u>\$ 2,322</u>	<u>\$ (3,190)</u>	<u>\$ 179,016</u>

The Company's mortgage-backed securities and collateralized mortgage obligations issued by government sponsored enterprises are guaranteed by one of the following government sponsored enterprises: Fannie Mae, Freddie Mac or Ginnie Mae. At December 31, 2022, \$259,000 of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities. At December 31, 2021, \$430,000 of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities.

The amortized cost and fair value of securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers or borrowers may have the right to prepay obligations with or without prepayment penalties.

	December 31, 2022	
	Amortized cost	Fair value
	(In Thousands)	
Debt and other securities		
Due within one year	\$ 3,706	\$ 3,695
Due after one year through five years	18,218	18,076
Due after five years through ten years	18,122	16,830
Due after ten years	12,653	11,751
Mortgage-related securities	169,915	146,185
Other securities	51	51
Total	<u>\$ 222,665</u>	<u>\$ 196,588</u>

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	December 31, 2022					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	\$ 8,383	\$ 655	\$ 4,573	\$ 1,169	\$ 12,956	\$ 1,824
Collateralized mortgage obligations:						
Government sponsored enterprise issued	65,270	6,400	59,495	14,575	124,765	20,975
Private-label issued	7,012	935	-	-	7,012	935
Government sponsored enterprise bonds	2,256	244	-	-	2,256	244
Municipal securities	18,648	192	4,095	1,001	22,743	1,193
Other debt securities	2,362	138	8,800	1,200	11,162	1,338
Total	<u>\$ 103,931</u>	<u>\$ 8,564</u>	<u>\$ 76,963</u>	<u>\$ 17,945</u>	<u>\$ 180,894</u>	<u>\$ 26,509</u>

	December 31, 2021					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	\$ 4,042	\$ (101)	\$ 1,956	\$ (86)	\$ 5,998	\$ (187)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	66,254	(1,589)	4,371	(155)	70,625	(1,744)
Government sponsored enterprise bonds	2,448	(52)	-	-	2,448	(52)
Municipal securities	1,471	(7)	-	-	1,471	(7)
Other debt securities	-	-	8,800	(1,200)	8,800	(1,200)
Total	<u>\$ 74,215</u>	<u>\$ (1,749)</u>	<u>\$ 15,127</u>	<u>\$ (1,441)</u>	<u>\$ 89,342</u>	<u>\$ (3,190)</u>

The Company reviews the investment securities portfolio on a quarterly basis to monitor securities in unrealized loss positions, which were comprised of 185 individual securities, to determine whether the impairment is due to credit-related factors or noncredit-related factors. In making this evaluation, management considers the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2022 and December 31, 2021, no allowance for credit losses on securities was recognized. The Company does not consider its securities with unrealized losses to be attributable to credit-related factors, as the unrealized losses in each category have occurred as a result of changes in noncredit-related factors such as changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration. Furthermore, the Company does not have the intent to sell any of these securities and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost.

During the years ended December 31, 2022, 2021, and 2020, there were no sales of securities.

3) Loans Receivable

Loans receivable at December 31, 2022 and 2021 are summarized as follows:

	December 31,	
	2022	2021
(In Thousands)		
Mortgage loans:		
Residential real estate:		
One- to four-family	\$ 469,567	\$ 300,523
Multi family	677,981	537,956
Home equity	11,455	11,012
Construction and land	62,494	82,588
Commercial real estate	262,973	250,676
Consumer	774	732
Commercial loans	24,934	22,298
Total loans receivable	<u>\$ 1,510,178</u>	<u>\$ 1,205,785</u>

The Company provides several types of loans to its customers, including residential, construction, commercial and consumer loans. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to one borrower or to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. While credit risks tend to be geographically concentrated in the Company's Milwaukee metropolitan area and while 76.7% of the Company's loan portfolio involves loans that are secured by residential real estate, there are no concentrations with individual or groups of related borrowers. While the real estate collateralizing these loans is primarily residential in nature, it ranges from owner-occupied single family homes to large apartment complexes.

Qualifying loans receivable totaling \$976.7 million were pledged as collateral against \$385.7 million and \$886.7 million were pledged as collateral against \$475.0 million in outstanding Federal Home Loan Bank of Chicago advances under a blanket security agreement at December 31, 2022 and December 31, 2021, respectively.

Certain of the Company's executive officers, directors, employees, and their related interests have loans with the Bank. As of December 31, 2022 and December 31, 2021, loans aggregating approximately \$2.8 million and \$2.5 million, respectively, were outstanding to such parties. None of these loans were past due or considered impaired as of December 31, 2022 and December 31, 2021.

An analysis of past due loans receivable as of December 31, 2022 and 2021 follows:

	As of December 31, 2022					
	1-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or Greater Past Due	Total Past Due	Current (3)	Total Loans
(In Thousands)						
Mortgage loans:						
Residential real estate:						
One- to four-family	\$ 2,328	\$ -	\$ 3,618	\$ 5,946	\$ 463,621	\$ 469,567
Multi family	-	-	-	-	677,981	677,981
Home equity	14	-	65	79	11,376	11,455
Construction and land	-	-	-	-	62,494	62,494
Commercial real estate	-	233	-	233	262,740	262,973
Consumer	-	-	-	-	774	774
Commercial loans	3	-	-	3	24,931	24,934
Total	<u>\$ 2,345</u>	<u>\$ 233</u>	<u>\$ 3,683</u>	<u>\$ 6,261</u>	<u>\$ 1,503,917</u>	<u>\$ 1,510,178</u>

	As of December 31, 2021					
	1-59 Days Past Due (1)	60-89 Days Past Due (2)	90 Days or Greater Past Due	Total Past Due	Current (3)	Total Loans
(In Thousands)						
Mortgage loans:						
Residential real estate:						
One- to four-family	\$ 622	\$ 2,028	\$ 4,214	\$ 6,864	\$ 293,659	\$ 300,523
Multi family	-	-	128	128	537,828	537,956
Home equity	14	23	26	63	10,949	11,012
Construction and land	-	-	-	-	82,588	82,588
Commercial real estate	-	-	-	-	250,676	250,676
Consumer	-	-	-	-	732	732
Commercial loans	7	-	-	7	22,291	22,298
Total	<u>\$ 643</u>	<u>\$ 2,051</u>	<u>\$ 4,368</u>	<u>\$ 7,062</u>	<u>\$ 1,198,723</u>	<u>\$ 1,205,785</u>

(1) Includes \$- and \$43,000 for December 31, 2022 and 2021, respectively, which are on non-accrual status.

(2) Includes \$- and \$347,000 for December 31, 2022 and 2021, respectively, which are on non-accrual status.

(3) Includes \$624,000 and \$816,000 for December 31, 2022 and 2021, respectively, which are on non-accrual status.

We currently manage our loan portfolios and the respective exposure to credit losses (credit risk) by the following specific portfolio segments, which are levels at which we develop and document our systematic methodology to determine the allowance for credit losses attributable to each respective portfolio segment. These segments are as follows:

One- to four-family residential mortgage loans – This residential real estate sub-segment contains permanent mortgage loans principally to consumers secured by residential real estate. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval, based upon measures including credit scores, debt-to-income ratios and collateral values. Credit risk arises from the borrower's continuing financial stability, which can be adversely impacted by job loss, divorce, illness or personal bankruptcy, among other factors. Also impacting credit risk would be a shortfall in the value of the residential real estate in relation to the outstanding loan balance in the event of a default or subsequent liquidation of the real estate collateral.

Multi family residential real estate loans – Multi family real estate loans consist of multifamily rentals with a history of occupancy and cash flow. This segment includes both internally originated and purchased participation loans. These loans carry the risk of adverse changes in the local economy and a tenant's deteriorating credit strength, lease expirations in soft markets and sustained vacancies, which can adversely impact cash flow.

Home equity residential mortgage loans – This segment includes sub-segment for senior lien and subordinate lien lines of credit. Credit risk is similar to residential real estate loans described above as it is subject to the borrower's continuing financial stability and the value of the collateral securing the loan.

Construction and land loans – Construction and land loans are intended to finance the construction of commercial and residential properties, including the construction of single-family dwellings, and also includes loans for the acquisition and development of land. Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property within specified cost limits. The Company completes inspections during the construction phase prior to any disbursements. The Company limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

Commercial real estate loans – Commercial real estate loans consist of non-owner occupied properties, such as investment properties for retail, and office with a history of occupancy and cash flow. This segment includes both internally originated loans. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

Consumer loans – This segment of loans includes primarily installment loans and personal lines of credit. Consumer loans generally involve greater credit risk than residential mortgage loans because of the difference in the nature of the underlying collateral. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation in the underlying collateral. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections depend on the borrower's personal financial stability. As such, these loans are subject to a higher risk of default than the typical consumer loan.

Commercial business loans – Commercial loans are made to provide funds for equipment and general corporate needs, as well as to finance owner-occupied real estate. Repayment of these loans primarily uses the funds obtained from the operation of the borrower's business. Commercial loans also include lines of credit that are utilized to finance a borrower's short-term credit needs and/or to finance a percentage of eligible receivables and inventory. This segment includes both internally originated and purchased participation loans. Credit risk arises from the successful operation of the business, which may be affected by competition, rising interest rates, regulatory changes and adverse conditions in the local and regional economy.

As of December 31, 2022 and December 31, 2021, there were no loans that were 90 or more days past due and still accruing interest.

A summary of the activity for the years ended December 31, 2022, 2021 and 2020 in the allowance for credit losses - loans follows:

	<u>One- to Four- Family</u>	<u>Multi Family</u>	<u>Home Equity</u>	<u>Construction and Land</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
(In Thousands)								
Year ended December 31, 2022								
Balance at beginning of period	\$ 3,963	\$ 5,398	\$ 89	\$ 1,386	\$ 4,482	\$ 33	\$ 427	\$ 15,778
Adoption of CECL	88	100	58	886	(640)	7	(69)	430
Provision (credit) for credit losses								
- loans (1)	918	1,750	9	(923)	(656)	23	(91)	1,030
Charge-offs	(304)	-	-	-	-	(16)	-	(320)
Recoveries	78	727	18	3	13	-	-	839
Balance at end of period	<u>\$ 4,743</u>	<u>\$ 7,975</u>	<u>\$ 174</u>	<u>\$ 1,352</u>	<u>\$ 3,199</u>	<u>\$ 47</u>	<u>\$ 267</u>	<u>\$ 17,757</u>
Year ended December 31, 2021								
Balance at beginning of period	\$ 5,459	\$ 5,600	\$ 194	\$ 1,755	\$ 5,138	\$ 35	\$ 642	\$ 18,823
Provision (credit) for loan losses	(2,294)	(318)	(121)	(408)	(650)	16	(215)	(3,990)
Charge-offs	(151)	-	-	(13)	(10)	(18)	-	(192)
Recoveries	949	116	16	52	4	-	-	1,137
Balance at end of period	<u>\$ 3,963</u>	<u>\$ 5,398</u>	<u>\$ 89</u>	<u>\$ 1,386</u>	<u>\$ 4,482</u>	<u>\$ 33</u>	<u>\$ 427</u>	<u>\$ 15,778</u>
Year ended December 31, 2020								
Balance at beginning of period	\$ 4,907	\$ 4,138	\$ 201	\$ 610	\$ 2,145	\$ 14	\$ 372	\$ 12,387
Provision (credit) for loan losses	486	1,446	(21)	1,151	2,977	31	270	6,340
Charge-offs	(82)	(5)	(13)	(8)	-	(10)	-	(118)
Recoveries	148	21	27	2	16	-	-	214
Balance at end of period	<u>\$ 5,459</u>	<u>\$ 5,600</u>	<u>\$ 194</u>	<u>\$ 1,755</u>	<u>\$ 5,138</u>	<u>\$ 35</u>	<u>\$ 642</u>	<u>\$ 18,823</u>

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

The Company utilized the Vintage Loss Rate method in determining expected future credit losses for each of the loan categories except for the Construction and Consumer categories. This technique considers losses over the full life cycle of loan pools. A vintage is a group of loans originated in the same annual time period. The loss rate method measures the amount of loan charge-offs, net of recoveries, ("loan losses") recognized over the life of a pool by loan segment and vintage and compares those loan losses to the original loan balance of that pool as of a similar vintage.

Additionally, the weighted average remaining maturity ("WARM") method is used for the Construction and Consumer loan pools. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

To estimate a CECL loss rate for the pool, management first identifies the loan losses recognized between the pool date and the reporting date for the pool and determines which loan losses were related to loans outstanding at the pool date. The loss rate method then divides the loan losses recognized on loans outstanding as of the pool date by the outstanding loan balance as of the pool date.

The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look-back period includes January 2012 through the current period, on an annual basis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses.

The Company's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

The Company segments the loan portfolio into pools based on the following risk characteristics: collateral type, credit characteristics, loan origination balance, and outstanding loan balances.

Allowance for Credit Losses-Unfunded Commitments:

In addition to the ACL-Loans, the Company has established an ACL-Unfunded commitments, classified in other liabilities on the consolidated statements of financial condition. This reserve is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments, and is determined quarterly based on methodology similar to the methodology for determining the ACL-Loans. The allowance for unfunded commitments at December 31, 2022 was \$1.3 million.

Provision for Credit Losses:

The provision for credit losses is determined by the Company as the amount to be added to the ACL loss accounts for various types of financial instruments including loans, investment securities, and unfunded commitment credit exposures after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. See Note 2 - Securities Available for Sale for additional information regarding the ACL related to investment securities. The following table presents the components of the provision for credit losses.

	Years ended December 31,		
	2022	2021	2020
	(In Thousands)		
Provision (credit) for credit losses - loans (1) on:			
Loans	\$ 1,030	\$ (3,990)	\$ 6,340
Unfunded commitments	(62)	-	-
Investment securities	-	-	-
Total	<u>\$ 968</u>	<u>\$ (3,990)</u>	<u>\$ 6,340</u>

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

Collateral Dependent Loans:

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of the year ended December 31, 2022 follows:

December 31, 2022	One- to	Multi Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	Four- Family							
	(In Thousands)							
Allowance related to collateral dependent loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allowance related to pooled loans	4,743	7,975	174	1,352	3,199	47	267	17,757
Allowance at end of period	<u>\$ 4,743</u>	<u>\$ 7,975</u>	<u>\$ 174</u>	<u>\$ 1,352</u>	<u>\$ 3,199</u>	<u>\$ 47</u>	<u>\$ 267</u>	<u>\$ 17,757</u>
Collateral dependent loans	\$ 2,584	\$ -	\$ 40	\$ -	\$ 5,455	\$ -	\$ -	\$ 8,079
Pooled loans	466,983	677,981	11,415	62,494	257,518	774	24,934	1,502,099
Total gross loans	<u>\$ 469,567</u>	<u>\$ 677,981</u>	<u>\$ 11,455</u>	<u>\$ 62,494</u>	<u>\$ 262,973</u>	<u>\$ 774</u>	<u>\$ 24,934</u>	<u>\$ 1,510,178</u>

The Company's procedures dictate that an updated valuation must be obtained with respect to underlying collateral at the time a loan is deemed impaired. Updated valuations may also be obtained upon transfer from loans receivable to real estate owned based upon the age of the prior appraisal, changes in market conditions or known changes to the physical condition of the property.

Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. The adjustment factor is based upon the Company's actual experience with respect to sales of real estate owned over the prior two years. In situations in which we are placing reliance on an appraisal that is more than one year old, an additional adjustment factor is applied to account for downward market pressure since the date of appraisal. The additional adjustment factor is based upon relevant sales data available for our general operating market as well as company-specific historical net realizable values as compared to the most recent appraisal prior to disposition.

With respect to multi-family income-producing real estate, appraisals are reviewed and estimated collateral values are adjusted by updating significant appraisal assumptions to reflect current real estate market conditions. Significant assumptions reviewed and updated include the capitalization rate, rental income and operating expenses. These adjusted assumptions are based upon recent appraisals received on similar properties as well as on actual experience related to real estate owned and currently under Company management.

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of the year ended December 31, 2021 follows:

	<u>One- to Four- Family</u>	<u>Multi Family</u>	<u>Home Equity</u>	<u>Construction and Land</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
December 31, 2021								
Allowance related to loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Allowance related to loans collectively evaluated for impairment	3,963	5,398	89	1,386	4,482	33	427	15,778
Balance at end of period	\$ 3,963	\$ 5,398	\$ 89	\$ 1,386	\$ 4,482	\$ 33	\$ 427	\$ 15,778
Loans individually evaluated for impairment	\$ 5,420	\$ 128	\$ 26	\$ -	\$ 1,222	\$ -	\$ 1,097	\$ 7,893
Loans collectively evaluated for impairment	295,103	537,828	10,986	82,588	249,454	732	21,201	1,197,892
Total gross loans	\$ 300,523	\$ 537,956	\$ 11,012	\$ 82,588	\$ 250,676	\$ 732	\$ 22,298	\$ 1,205,785

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company establishes a risk rating at origination for all commercial loan and commercial real estate relationships. For relationships over \$1.0 million, management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt. Factors that are important to managing overall credit quality include sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early identification of potential problems, an allowance for credit losses, and sound non-accrual and charge-off policies. Our underwriting policies require an officers' loan committee review and approval of all loans in excess of \$500,000 except for residential loans which has an approval limit in excess of \$1.0 million. A member of the credit department, independent of the loan originator, performs a loan review for all loans. Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we maintain a loan review system under which our credit management personnel review non-owner occupied one- to four-family, multi-family, construction and land, and commercial real estate that individually, or as part of an overall borrower relationship exceed \$1.0 million in potential exposure and review commercial loans that individually, or as part of an overall borrower relationship exceed \$200,000 in potential exposure. Loans meeting these criteria are reviewed on an annual basis, or more frequently, if the loan renewal is less than one year. With respect to this review process, management has determined that pass loans include loans that exhibit acceptable financial statements, cash flow and leverage. The Company uses the following definitions for risk ratings:

Watch. Loans classified as watch have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Watch assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and, additionally, the weakness or weaknesses to make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. Substandard loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The following table presents information relating to the Company's internal risk ratings of its loans receivable as of December 31, 2022 and 2021:

	<u>One- to Four- Family</u>	<u>Multi Family</u>	<u>Home Equity</u>	<u>Construction and Land</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Commercial</u>	<u>Total</u>
At December 31, 2022								
Substandard	\$ 4,209	\$ -	\$ 98	\$ -	\$ 5,454	\$ -	\$ 61	\$ 9,822
Watch	5,696	192	96	2,227	5,203	-	2,023	15,437
Pass	459,662	677,789	11,261	60,267	252,316	774	22,850	1,484,919
Total	\$ 469,567	\$ 677,981	\$ 11,455	\$ 62,494	\$ 262,973	\$ 774	\$ 24,934	\$ 1,510,178
At December 31, 2021								
Substandard	\$ 5,420	\$ 128	\$ 26	\$ -	\$ 6,827	\$ -	\$ 1,097	\$ 13,498
Watch	7,937	-	37	4,212	5,870	-	3,194	21,250
Pass	287,166	537,828	10,949	78,376	237,979	732	18,007	1,171,037
Total	300,523	537,956	11,012	82,588	250,676	732	22,298	1,205,785

The following table presents data on impaired loans as of and for the year ended December 31, 2021.

As of or for the Year Ended December 31, 2021							
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Int Paid YTD	
(In Thousands)							
Total Impaired with Reserve							
One- to four-family	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multi family	-	-	-	-	-	-	-
Home equity	-	-	-	-	-	-	-
Construction and land	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Impaired with no Reserve							
One- to four-family	\$ 5,420	\$ 5,450	\$ -	\$ 30	\$ 5,465	\$ 186	\$ 186
Multi family	128	128	-	-	129	4	4
Home equity	26	26	-	-	29	2	2
Construction and land	-	-	-	-	-	-	-
Commercial real estate	1,222	1,222	-	-	1,222	56	56
Consumer	-	-	-	-	-	-	-
Commercial	1,097	1,097	-	-	1,097	50	50
	<u>\$ 7,893</u>	<u>\$ 7,923</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 7,942</u>	<u>\$ 298</u>	<u>\$ 298</u>
Total Impaired							
One- to four-family	\$ 5,420	\$ 5,450	\$ -	\$ 30	\$ 5,465	\$ 186	\$ 186
Multi family	128	128	-	-	129	4	4
Home equity	26	26	-	-	29	2	2
Construction and land	-	-	-	-	-	-	-
Commercial real estate	1,222	1,222	-	-	1,222	56	56
Consumer	-	-	-	-	-	-	-
Commercial	1,097	1,097	-	-	1,097	50	50
	<u>\$ 7,893</u>	<u>\$ 7,923</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 7,942</u>	<u>\$ 298</u>	<u>\$ 298</u>

The difference between a loan's recorded investment and the unpaid principal balance represents a partial charge-off resulting from a confirmed loss when the value of the collateral securing the loan is below the loan balance and management's assessment that the full collection of the loan balance is not likely.

Credit Quality Information:

The following table presents total loans by risk categories and year of origination as of December 31, 2022.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>Prior</u>	<u>Revolving</u>	<u>Total</u>
	(In Thousands)							
One- to four-family								
Pass	\$ 246,437	\$ 55,494	\$ 37,438	\$ 21,813	\$ 20,580	\$ 76,568	\$ 1,332	\$ 459,662
Watch	4,823	-	-	-	-	873	-	5,696
Substandard	218	1,255	519	-	-	2,217	-	4,209
Total	<u>251,478</u>	<u>56,749</u>	<u>37,957</u>	<u>21,813</u>	<u>20,580</u>	<u>79,658</u>	<u>1,332</u>	<u>469,567</u>
Multi-family								
Pass	255,100	144,731	139,386	44,221	22,689	70,905	757	677,789
Watch	-	-	-	-	-	192	-	192
Substandard	-	-	-	-	-	-	-	-
Total	<u>255,100</u>	<u>144,731</u>	<u>139,386</u>	<u>44,221</u>	<u>22,689</u>	<u>71,097</u>	<u>757</u>	<u>677,981</u>
Home equity								
Pass	290	81	865	104	174	82	9,665	11,261
Watch	-	96	-	-	-	-	-	96
Substandard	22	18	-	-	-	-	58	98
Total	<u>312</u>	<u>195</u>	<u>865</u>	<u>104</u>	<u>174</u>	<u>82</u>	<u>9,723</u>	<u>11,455</u>
Construction and land								
Pass	2,958	49,092	2,308	5,690	123	96	-	60,267
Watch	-	-	-	2,227	-	-	-	2,227
Substandard	-	-	-	-	-	-	-	-
Total	<u>2,958</u>	<u>49,092</u>	<u>2,308</u>	<u>7,917</u>	<u>123</u>	<u>96</u>	<u>-</u>	<u>62,494</u>
Commercial Real Estate								
Pass	87,971	53,788	39,015	24,795	21,467	24,595	685	252,316
Watch	1,616	-	95	2,226	1,266	-	-	5,203
Substandard	-	-	-	-	5,454	-	-	5,454
Total	<u>89,587</u>	<u>53,788</u>	<u>39,110</u>	<u>27,021</u>	<u>28,187</u>	<u>24,595</u>	<u>685</u>	<u>262,973</u>
Consumer								
Pass	19	-	-	-	-	-	755	774
Watch	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>755</u>	<u>774</u>
Commercial								
Pass	9,385	1,228	1,256	240	936	5,622	4,183	22,850
Watch	-	-	1,928	-	-	92	3	2,023
Substandard	61	-	-	-	-	-	-	61
Total	<u>9,446</u>	<u>1,228</u>	<u>3,184</u>	<u>240</u>	<u>936</u>	<u>5,714</u>	<u>4,186</u>	<u>24,934</u>
Total Loans	<u>\$ 608,900</u>	<u>\$ 305,783</u>	<u>\$ 222,810</u>	<u>\$ 101,316</u>	<u>\$ 72,689</u>	<u>\$ 181,242</u>	<u>\$ 17,438</u>	<u>\$ 1,510,178</u>

The following presents data on troubled debt restructurings:

	As of December 31, 2022					
	Accruing		Non-accruing		Total	
	Amount	Number	Amount	Number	Amount	Number
	(Dollars in Thousands)					
One- to four-family	\$ -	-	\$ 936	4	\$ 936	4
	\$ -	-	\$ 936	4	\$ 936	4
	As of December 31, 2021					
	Accruing		Non-accruing		Total	
	Amount	Number	Amount	Number	Amount	Number
	(Dollars in Thousands)					
One- to four-family	\$ -	-	\$ 1,670	5	\$ 1,670	5
Commercial real estate	1,222	1	-	-	1,222	1
Commercial	1,097	1	-	-	1,097	1
	\$ 2,319	2	\$ 1,670	5	\$ 3,989	7

Troubled debt restructurings involve granting concessions to a borrower experiencing financial difficulty by modifying the terms of the loan in an effort to avoid foreclosure. Typical restructured terms include six months to twelve months of principal forbearance, a reduction in interest rate or both. In no instances have the restructured terms included a reduction of outstanding principal balance. At December 31, 2022, \$936,000 in loans had been modified in troubled debt restructurings, all of which were included in the non-accrual total.

All loans that have been modified in a troubled debt restructuring are considered to be impaired. As such, an analysis has been performed with respect to all of these loans to determine the need for an ACL. When a loan is expected to perform in accordance with the restructured terms and ultimately return to and perform under contract terms, a valuation allowance is established equal to the excess of the present value of the expected future cash flows under the original contract terms as compared with the modified terms, including an estimated default rate. When there is doubt as to the borrower's ability to perform under the restructured terms or ultimately return to and perform under market terms, an ACL is established equal to the impairment when the carrying amount exceeds fair value of the underlying collateral.

If an updated credit department review indicates no other evidence of elevated credit risk and the borrower completes a minimum of six consecutive contractual payments, the loan is returned to accrual status at that time.

The following presents troubled debt restructurings by concession type at December 31, 2022 and 2021:

	As of December 31, 2022					
	Performing in accordance with modified terms		In Default		Total	
	Amount	Number	Amount	Number	Amount	Number
	(Dollars in Thousands)					
Interest reduction and principal forbearance	\$ 399	2	\$ -	-	\$ 399	2
Interest reduction	18	1	-	-	18	1
Principal forbearance	519	1	-	-	519	1
Total	\$ 936	4	\$ -	-	\$ 936	4
	As of December 31, 2021					
	Performing in accordance with modified terms		In Default		Total	
	Amount	Number	Amount	Number	Amount	Number
	(Dollars in Thousands)					
Interest reduction and principal forbearance	\$ 388	2	\$ -	-	\$ 388	2
Interest reduction	24	1	-	-	24	1
Principal forbearance	3,577	4	-	-	3,577	4
Total	\$ 3,989	7	\$ -	-	\$ 3,989	7

The following presents data on troubled debt restructurings:

	For the Year Ended			
	December 31, 2022		December 31, 2021	
	Amount	Number	Amount	Number
	(Dollars in Thousands)			
Loans modified as a troubled debt restructure				
One- to four-family	\$ 63	1	\$ 1,258	2
Total	<u>\$ 63</u>	<u>1</u>	<u>\$ 1,258</u>	<u>2</u>

There were no troubled debt restructurings within the past twelve months for which there was a default during the years ended December 31, 2022 and 2021.

The following table presents data on non-accrual loans:

	As of December 31,	
	2022	2021
	(Dollars in Thousands)	
Residential		
One- to four-family	\$ 4,209	\$ 5,420
Multi family	-	128
Home equity	98	26
Construction and land	-	-
Commercial real estate	-	-
Commercial	-	-
Consumer	-	-
Total non-accrual loans	<u>\$ 4,307</u>	<u>\$ 5,574</u>
Total non-accrual loans to total loans	0.29%	0.46%
Total non-accrual loans to total assets	0.21%	0.25%

Residential one- to four-family mortgage loans that were in the process of foreclosure were \$795,000 and \$1.4 million at December 31, 2022 and December 31, 2021, respectively.

4) Office Properties and Equipment

Office properties and equipment are summarized as follows:

	December 31,	
	2022	2021
	(In Thousands)	
Land	\$ 7,516	\$ 7,516
Office buildings and improvements	34,084	34,273
Furniture and equipment	13,000	13,043
	54,600	54,832
Less accumulated depreciation	(33,495)	(32,559)
	<u>\$ 21,105</u>	<u>\$ 22,273</u>

Depreciation of premises and equipment totaled \$1.8 million, \$2.1 million and \$2.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

5) Real Estate Owned

Real estate owned is summarized as follows:

	December 31,	
	2022	2021
	(In Thousands)	
One- to four-family	\$ -	\$ -
Multi family	-	-
Construction and land	145	148
Commercial real estate	-	-
Total real estate owned	\$ 145	\$ 148
Valuation allowance at end of period	-	-
Total real estate owned, net	\$ 145	\$ 148

The following table presents the activity in real estate owned:

	Year Ended December 31,	
	2022	2021
	(In Thousands)	
Real estate owned at beginning of period	\$ 148	\$ 148
Transferred in from loans receivable	-	-
Sales	-	-
Write downs	-	-
Other activity	(3)	-
Real estate owned at end of period	\$ 145	\$ 148

6) Mortgage Servicing Rights

The following table presents the activity related to the Company's mortgage servicing rights included in prepaid and other assets on the consolidated statement of financial condition:

	Year ended December 31,	
	2022	2021
	(In Thousands)	
Mortgage servicing rights at beginning of the year	\$ 1,555	\$ 5,977
Additions	2,461	5,788
Amortization	(579)	(1,789)
Sales	-	(8,444)
Mortgage servicing rights at end of the year	3,437	1,532
Valuation allowance recovered during the year	7	23
Mortgage servicing rights at the end of the year, net	\$ 3,444	\$ 1,555

During the year ended December 31, 2022, on a consolidated basis, \$2.55 billion in residential loans were originated for sale, which excludes the loans originated from Waterstone Mortgage Corporation and purchased by WaterStone Bank. During the same period, sales of loans held for sale totaled \$2.81 billion, generating mortgage banking income of \$99.6 million. The unpaid principal balance of loans serviced for others was \$409.6 million and \$204.8 million at December 31, 2022 and December 31, 2021 respectively. Loans serviced for others are not reflected in the consolidated statements of financial condition.

The fair value of mortgage servicing rights was \$5.0 million at December 31, 2022 and \$1.8 million at December 31, 2021.

During the year ended December 31, 2022, no mortgage servicing rights were sold. During the year ended December 31, 2021, the Company sold mortgage servicing rights related to \$1.24 billion in loans receivable and with a book value of \$8.4 million for \$12.4 million resulting in a gain on sale of \$4.0 million.

The following table shows the estimated future amortization expense for mortgage servicing rights at December 31, 2022 for the years ending December 31 periods as indicated:

	(In Thousands)
2023	\$ 626
2024	564
2025	501
2026	438
2027	376
Thereafter	939
Total	\$ 3,444

7) Deposits

The aggregate amount of time deposit accounts with balances greater than \$250,000 at December 31, 2022 and 2021 amounted to \$115.5 million and \$102.6 million, respectively.

A summary of interest expense on deposits is as follows:

	Years ended December 31,		
	2022	2021	2020
	(In Thousands)		
Interest-bearing demand deposits	\$ 61	\$ 50	\$ 38
Money market and savings deposits	1,201	904	1,768
Time deposits	3,601	3,466	12,559
	<u>\$ 4,863</u>	<u>\$ 4,420</u>	<u>\$ 14,365</u>

A summary of the contractual maturities of time deposits at December 31, 2022 is as follows:

	(In Thousands)
Within one year	\$ 502,254
More than one to two years	130,784
More than two to three years	7,608
More than three to four years	809
More than four through five years	816
	<u>\$ 642,271</u>

Certain directors and executive officers, including their immediate families and companies in which they are principal owners, are depositors of the Corporation. Such deposits amounted to \$9.2 million at December 31, 2022 and \$27.4 million at December 31, 2021.

8) Borrowings

Borrowings consist of the following:

	December 31, 2022		December 31, 2021	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(Dollars in Thousands)			
Short term:				
Repurchase agreements	\$ 1,084	7.21%	\$ 2,127	3.00%
Federal Home Loan Bank, Chicago	185,700	4.26%	5,000	0.00%
Long term:				
Federal Home Loan Bank, Chicago advances maturing:				
2025	125,000	3.83%	-	0.00%
2027	50,000	1.73%	50,000	1.73%
2028	-	-	255,000	2.37%
2029	-	-	165,000	1.61%
2032	25,000	2.35%	-	-
	<u>\$ 386,784</u>	<u>3.68%</u>	<u>\$ 477,127</u>	<u>2.02%</u>

The short-term repurchase agreement represents the outstanding portion of a total \$50.0 million commitment with one unrelated bank. The short-term repurchase agreement is utilized by Waterstone Mortgage Corporation to finance loans originated for sale. This agreement is secured by the underlying loans being financed. Related interest rates are based upon the note rate associated with the loans being financed. The short-term repurchase agreement had a \$1.1 million balance at December 31, 2022 and a \$2.1 million balance at December 31, 2021.

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. In addition, the Company enters into agreements under which it sells loans held for sale subject to an obligation to repurchase the same loans. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of assets. The obligation to repurchase the assets is reflected as a liability in the Company's consolidated statements of financial condition, while the securities and loans held for sale underlying the repurchase agreements remain in the respective investment securities and loans held for sale asset accounts. In other words, there is no offsetting or netting of the investment securities or loans held for sale assets with the repurchase agreement liabilities. The Company's repurchase agreement is subject to master netting agreements, which sets forth the rights and obligations for repurchase and offset. Under the master netting agreement, the Company is entitled to set off the collateral placed with a single counterparty against obligations owed to that counterparty.

The \$185.7 million FHLB short-term advances consist of a \$7.7 million advance with a fixed rate of 4.16% and a maturity date of January 9, 2023, a \$25.0 million advance with a fixed rate of 4.23% and a maturity date of January 23, 2023, a \$20.0 million advance with a fixed rate of 4.23% and a maturity date of January 23, 2023, a \$48.0 million advance with a fixed rate of 4.25% and a maturity date of January 30, 2023, a \$20.0 million advance with a fixed rate of 4.29% and a maturity date of January 6, 2023, a \$50.0 advance with a fixed rate of 4.29% and a maturity date of January 6, 2023, and a \$15.0 million advance with a fixed rate of 4.31% and a maturity date of January 4, 2023.

The \$125.0 million in advances due in 2025 consists of one \$50.0 million advance with a fixed rate of 3.50% and a single call option in September 2023, one \$25.0 million advance with a fixed rate of 4.09% and a quarterly call option starting in November 2023, one \$25.0 million advance with a fixed rate of 4.25% and a quarterly call option starting in November 2023, and one \$25.0 million advance with a fixed rate of 3.82% and a quarterly call option starting in May 2023.

The \$50.0 million advance due in 2027 has a fixed rate of 1.73% and has a contractual maturity date in December 2027.

The \$25.0 million advance due in 2032 has a fixed rate of 2.35% and has a contractual maturity date in December 2032. There is a quarterly call option starting in March 2023.

The Company selects loans that meet underwriting criteria established by the Federal Home Loan Bank Chicago (FHLBC) as collateral for outstanding advances. The Company's borrowings at the FHLBC are limited to 80% of the carrying value of unencumbered one- to four-family mortgage loans, 64% of the carrying value of home equity loans and 75% of the carrying value of over four-family loans. In addition, these advances are collateralized by FHLBC stock of \$17.4 million at December 31, 2022 and \$24.4 million at December 31, 2021. In the event of prepayment, the Company is obligated to pay all remaining contractual interest on the advance.

9) Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements, or overall financial performance deemed by the regulators to be inadequate, can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As required by applicable legislation, the federal banking agencies were required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement.

The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. The Community Bank Leverage Ratio is currently 9%. A financial institution can elect to be subject to this new definition, and opt-out of this new definition, at any time. As a qualified community bank, we elected to opt-out of this definition during the second quarter of 2020.

Prompt corrective action regulations provide five classifications: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The minimum capital ratios set forth in the Regulatory Capital Plans will be increased and other minimum capital requirements will be established if and as necessary. In accordance with the Regulatory Capital Plans, the Bank will not pursue any acquisition or growth opportunity, declare any dividend or conduct any stock repurchase that would cause the Bank's total risk-based capital ratio and/or its Tier 1 leverage ratio to fall below the established minimum capital levels or the capital levels required for capital adequacy plus the capital conservation buffer. The minimum capital conservation buffer is 2.5%.

As of December 31, 2022, the Bank was well-capitalized, with all capital ratios exceeding the well-capitalized requirement. There are no conditions or events that management believes have changed the Bank's prompt corrective action capitalization category.

The Bank is subject to regulatory restrictions on the amount of dividends it may declare and pay to the Company without prior regulatory approval, and to regulatory notification requirements for dividends that do not require prior regulatory approval.

The actual and required capital amounts and ratios as of December 31, 2022 and 2021 are presented in the table below:

	December 31, 2022							
	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars In Thousands)								
Total Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	407,099	24.36%	133,709	8.00%	175,493	10.50%	N/A	N/A
Waterstone Bank	359,623	21.52%	133,690	8.00%	175,468	10.50%	167,112	10.00%
Tier I Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	389,342	23.29%	100,281	6.00%	142,065	8.50%	N/A	N/A
Waterstone Bank	341,866	20.46%	100,267	6.00%	142,045	8.50%	133,690	8.00%
Common Equity Tier 1 Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	389,342	23.29%	75,211	4.50%	116,995	7.00%	N/A	N/A
Waterstone Bank	341,866	20.46%	75,200	4.50%	116,978	7.00%	108,623	6.50%
Tier I Capital (to average assets)								
Consolidated Waterstone Financial, Inc.	389,342	19.45%	80,080	4.00%	N/A	N/A	N/A	N/A
Waterstone Bank	341,866	17.08%	80,080	4.00%	N/A	N/A	100,100	5.00%
State of Wisconsin (to total assets)								
Waterstone Bank	341,866	16.87%	121,624	6.00%	N/A	N/A	N/A	N/A
December 31, 2021								
(Dollars In Thousands)								
Total Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	448,818	29.01%	123,766	8.00%	162,443	10.50%	N/A	N/A
Waterstone Bank	394,540	25.52%	123,695	8.00%	162,350	10.50%	154,619	10.00%
Tier I Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	433,040	27.99%	92,825	6.00%	131,502	8.50%	N/A	N/A
Waterstone Bank	378,762	24.50%	92,771	6.00%	131,426	8.50%	123,695	8.00%
Common Equity Tier 1 Capital (to risk-weighted assets)								
Consolidated Waterstone Financial, Inc.	433,040	27.99%	69,619	4.50%	108,296	7.00%	N/A	N/A
Waterstone Bank	378,762	24.50%	69,579	4.50%	108,233	7.00%	100,502	6.50%
Tier I Capital (to average assets)								
Consolidated Waterstone Financial, Inc.	433,040	19.29%	89,774	4.00%	N/A	N/A	N/A	N/A
Waterstone Bank	378,762	16.88%	89,774	4.00%	N/A	N/A	112,218	5.00%
State of Wisconsin (to total assets)								
Waterstone Bank	378,762	17.14%	132,572	6.00%	N/A	N/A	N/A	N/A

10) Stock Based Compensation

Stock-Based Compensation Plan

In 2020, the 2020 Omnibus Incentive Plan was approved. All stock awards granted under this plan are required to be settled in shares of the Company's common stock. The exercise price for all stock options granted was equal to the quoted NASDAQ market closing price on the date that the awards were granted and the stock options expire ten years after the grant date, if not exercised. All restricted stock grants are issued from previously unissued shares.

A total of 750,000 stock options and 500,000 restricted shares were approved for award. A total of 669,000 stock options and 453,613 restricted stock were available to be issued as of December 31, 2022.

Accounting for Stock-Based Compensation Plan

The fair value of stock options granted is estimated on the grant date using a Black-Scholes pricing model. The fair value of restricted shares is equal to the quoted NASDAQ market closing price on the date of grant. The fair value of stock grants is recognized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense is included in compensation, payroll taxes and other employee benefits in the consolidated statements of income.

Assumptions are used in estimating the fair value of stock options granted. The weighted average expected life of the stock options represents the period of time that the options are expected to be outstanding and is based on the historical results from the previous awards. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on the actual volatility of Waterstone Financial, Inc. stock for the weighted average life time period prior to issuance date. The following assumptions were used in estimating the fair value of options granted in the years ended December 31, 2022 and 2021.

	2022		2021	
	Minimum	Maximum	Minimum	Maximum
Dividend Yield	4.07%	4.82%	3.64%	4.37%
Risk-free interest rate	1.80%	3.92%	0.41%	1.27%
Expected volatility	23.14%	23.97%	22.83%	23.84%
Weighted average expected life	5.5	5.6	5.1	5.7
Weighted average per share value of options	2.48	2.84	1.92	2.97

The Company's policy is to adjust compensation expense at the time of actual stock grant forfeiture.

A summary of the Company's stock option activity for the years ended December 31, 2022, 2021 and 2020 is presented below.

Stock Options	Shares	Weighted Average Exercise Price	Weighted Average Years Remaining in Contractual Term	Aggregate Intrinsic Value (000's)
Outstanding December 31, 2019	1,025,771	\$ 13.29	5.56	\$ 5,887
Options exercisable at December 31, 2019	546,770	12.93	5.31	\$ 3,335
Granted	35,000	16.06		\$ 97
Exercised	(291,944)	12.66		1,799
Forfeited	(17,000)	17.17		28
Outstanding December 31, 2020	751,827	13.57	4.82	\$ 3,945
Options exercisable at December 31, 2020	433,827	13.31	4.45	\$ 2,392
Granted	45,000	20.44		\$ 39
Exercised	(179,517)	12.85		1,496
Forfeited	(23,000)	16.50		108
Outstanding December 31, 2021	594,310	14.20	4.33	\$ 4,158
Options exercisable at December 31, 2021	352,310	13.70	3.78	\$ 2,636
Granted	35,000	18.38		\$ 2
Exercised	(44,690)	12.62		198
Forfeited	(29,001)	18.82		1
Outstanding December 31, 2022	555,619	14.35	3.41	\$ 1,708
Options exercisable at December 31, 2022	409,119	13.76	2.59	\$ 1,408

The following table summarizes information about the Company's stock options outstanding at December 31, 2022.

	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Life (Years)</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Life (Years)</u>
Range of Exercise Prices:						
\$0.01 - \$10.00	-	\$ -	-	-	\$ -	-
\$10.01 - \$15.00	409,619	\$ 12.88	2.14	338,119	\$ 12.88	2.00
\$15.01 - \$20.00	120,000	\$ 17.93	6.63	65,000	\$ 17.65	5.21
Over \$20.01	26,000	\$ 20.97	8.39	6,000	\$ 20.88	7.29
Total	<u>555,619</u>	\$ 14.35	3.41	<u>409,119</u>	\$ 13.76	2.59

The following table summarizes information about the Company's nonvested stock option activity for the years ended December 31, 2022 and 2021:

Stock Options	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at December 31, 2020	318,000	\$ 3.16
Granted	45,000	2.48
Vested	(103,000)	3.26
Forfeited	(18,000)	2.23
Nonvested at December 31, 2021	<u>242,000</u>	3.06
Nonvested at December 31, 2021	242,000	3.06
Granted	35,000	2.63
Vested	(113,500)	2.66
Forfeited	(17,000)	2.52
Nonvested at December 31, 2022	<u>146,500</u>	2.90

The Company amortizes the expense related to stock options as compensation expense over the vesting period. Expense for the stock options granted of \$342,000, \$329,000 and \$398,000 was recognized during the years ended December 31, 2022, 2021 and 2020, respectively. At December 31, 2022, the Company had \$205,000 in estimated unrecognized compensation costs related to outstanding stock options that is expected to be recognized over a weighted average period of 37 months.

The following table summarizes information about the Company's restricted stock shares activity for the years ended December 31, 2022 and 2021:

Restricted Stock	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at December 31, 2020	46,000	\$ 12.75
Granted	28,722	20.09
Vested	(23,000)	12.75
Forfeited	-	-
Nonvested at December 31, 2021	<u>51,722</u>	16.82
Nonvested at December 31, 2021	51,722	16.82
Granted	17,665	19.43
Vested	(24,288)	13.12
Forfeited	-	-
Nonvested at December 31, 2022	<u>45,099</u>	19.84

The Company amortizes the expense related to restricted stock awards as compensation expense over the vesting period. Expense for the restricted stock awards of \$242,000, \$416,000 and \$318,000 was recorded for the years ended December 31, 2022, 2021 and 2020, respectively. At December 31, 2022, the Company had \$596,000 of unrecognized compensation expense related to restricted stock shares that is expected to be recognized over a weighted average period of 20 months.

11) Employee Benefit Plans

The Company has two 401(k) profit sharing plans and trusts covering substantially all employees. WaterStone Bank employees over 18 years of age are immediately eligible to participate in the Bank's plan. Waterstone Mortgage employees over 18 years of age are eligible to participate in its plan as of the first of the month following their date of employment. Participating employees may annually contribute pretax compensation in accordance with IRS limits. The Company made matching contributions of \$1.3 million, \$1.6 million and \$1.4 million to the plans during the years ended December 31, 2022, 2021 and 2020, respectively.

12) Employee Stock Ownership Plan

All WaterStone Bank employees are eligible to participate in the WaterStone Bank Employee Stock Ownership Plan (the "Plan") after they attain 21 years of age and complete 12 consecutive months of service in which they work at least 1,000 hours of service. The Plan debt is secured by shares of the Company. The Company has committed to make annual contributions to the Plan necessary to repay the loan, including interest.

During the year ended December 31, 2005, the Plan borrowed \$8.5 million from the Company and purchased 835,610 shares of common stock of the Company in the open market. During the year ended December 31, 2014, the Plan borrowed an additional \$23.8 million from the Company, refinanced the remaining 83,561 shares (related to the 2005 Plan purchase), and purchased an additional 2,024,000 shares of common stock of the Company in the open market. While the shares are not released and allocated to Plan participants until the loan payment is made, the shares are deemed to be earned and are therefore, committed to be released throughout the service period. As such, one-twentieth of the total 2,107,561 shares are scheduled to be released annually as shares are earned over a period of 20 years, beginning with the period ended December 31, 2014. As the debt is repaid, shares are released from collateral and allocated to active participant accounts. The shares pledged as collateral are reported as "Unearned ESOP shares" in the consolidated statement of financial condition. As shares are committed to be released from collateral, the Company reports compensation expense equal to the average fair market price of the shares, and the shares become outstanding for earnings per share computations. Compensation expense attributed to the ESOP was \$1.9 million, \$2.3 million and \$1.8 million, respectively, for the years ended December 31, 2022, 2021 and 2020.

The aggregate activity in the number of unearned ESOP shares, considering the allocation of those shares committed to be released as of December 31, 2022 and 2021 is as follows:

	2022	2021
Beginning ESOP shares	1,264,537	1,369,915
Shares committed to be released	(105,378)	(105,378)
Unreleased shares	1,159,159	1,264,537
Fair value of unreleased shares (in millions)	\$ 20.0	\$ 29.9

13) Income Taxes

The provision for income taxes for the year ended December 31, 2022, 2021 and 2020 consists of the following:

	Years ended December 31,		
	2022	2021	2020
	(In Thousands)		
Current:			
Federal	\$ 4,731	\$ 17,387	\$ 22,272
State	745	2,550	7,319
	5,476	19,937	29,591
Deferred:			
Federal	(460)	900	(2,171)
State	(24)	478	(449)
	(484)	1,378	(2,620)
Total	\$ 4,992	\$ 21,315	\$ 26,971

The income tax provisions differ from that computed at the Federal statutory corporate tax rate for the years ended December 31, 2022, 2021 and 2020 as follows:

	Years ended December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Income (loss) before income taxes	\$ 24,479	\$ 92,106	\$ 108,116
Tax at Federal statutory rate (21%)	5,141	19,342	22,704
Add (deduct) effect of:			
State income taxes net of Federal income tax benefit (expense)	570	2,392	5,428
Cash surrender value of life insurance	(365)	(339)	(400)
Non-deductible ESOP and stock option expense	167	216	133
Tax-exempt interest income	(159)	(208)	(222)
Non-deductible compensation	37	103	96
Death benefit on bank owned life insurance	(71)	-	(306)
Stock compensation	(69)	(251)	(387)
ESOP dividends	(273)	(245)	(365)
Other	14	305	290
Income tax provision (benefit)	\$ 4,992	\$ 21,315	\$ 26,971
Effective tax rate	20.4%	23.1%	24.9%

The significant components of the Company's net deferred tax assets (liabilities) included in prepaid expenses and other assets are as follows at December 31, 2022 and 2021:

	December 31,	
	2022	2021
	(In Thousands)	
Gross deferred tax assets:		
Depreciation	\$ 959	\$ 886
Restricted stock and stock options	326	307
Allowance for credit losses	4,263	3,805
Allowance for unfunded commitments	321	-
Repurchase reserve for loans sold	512	540
Interest recognized for tax but not books	209	185
Real estate owned	9	8
Unrealized loss on impaired securities	-	23
Lease liability	1,148	1,498
Unrealized loss on securities available for sale, net	7,104	236
Other	186	109
Total gross deferred tax assets	15,037	7,597
Gross deferred tax liabilities:		
Depreciation	-	-
Mortgage servicing rights	(870)	(390)
FHLB stock dividends	(24)	(46)
Lease Asset	(1,138)	(1,469)
Deferred loan fees	(333)	(372)
Deferred liabilities	(2,365)	(2,277)
Net deferred tax assets	\$ 12,672	\$ 5,320

The Company had a Wisconsin net operating loss carry forward of \$17,000 at December 31, 2022 which will begin to expire in 2028. The Company has no capital loss carryforwards as of December 31, 2022.

Under the Internal Revenue Code and Wisconsin Statutes, the Company was permitted to deduct, for tax years beginning before 1988, an annual addition to a reserve for bad debts. This amount differs from the provision for loan losses recorded for financial accounting purposes. Under prior law, bad debt deductions for income tax purposes were included in taxable income of later years only if the bad debt reserves were used for purposes other than to absorb bad debt losses. Because the Company did not intend to use the reserve for purposes other than to absorb losses, no deferred income taxes were provided. Retained earnings at December 31, 2022 include approximately \$16.7 million for which no deferred Federal or state income taxes were provided. Deferred income taxes have been provided on certain additions to the tax reserve for bad debts.

The Company and its subsidiaries file consolidated federal and combined state tax returns. One subsidiary also files separate state income tax returns in certain states. The Company is no longer subject to federal tax examinations for the years before 2019. The years open to examination by state and local government authorities varies by jurisdiction.

14) Commitments, Off-Balance Sheet Arrangements, and Contingent Liabilities

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

	December 31,	
	2022	2021
	(In Thousands)	
Financial instruments whose contract amounts represent potential credit risk:		
Commitments to extend credit under first mortgage loans (1)	\$ 61,223	48,626
Commitments to extend credit under home equity lines of credit	9,550	11,990
Unused portion of construction loans	48,530	50,303
Unused portion of business lines of credit	17,356	17,916
Standby letters of credit	1,516	1,379

(1) Excludes commitments to originate loans held for sale, which are discussed in Footnote 15 - Derivative Financial Instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements of the Company. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral obtained generally consists of mortgages on the underlying real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds mortgages on the underlying real estate as collateral supporting those commitments for which collateral is deemed necessary.

The Company has determined that there are no probable losses related to commitments to extend credit or the standby letters of credit as of December 31, 2022 and 2021. Please see Note 3 - Loans Receivable for discussion on the allowance for credit losses - unfunded commitments.

Residential mortgage loans sold to others are predominantly conventional residential first lien mortgages. The Company's agreements to sell residential mortgage loans in the normal course of business usually require certain representations and warranties on the underlying loans sold related to credit information, loan documentation and collateral, which if subsequently are untrue or breached, could require the Company to repurchase certain loans affected. The Company has only been required to make insignificant repurchases as a result of breaches of these representations and warranties. The Company's agreements to sell residential mortgage loans also contain limited recourse provisions. The recourse provisions are limited in that the recourse provision ends after certain payment criteria have been met. With respect to these loans, repurchase could be required if defined delinquency issues arose during the limited recourse period. Given that the underlying loans delivered to buyers are predominantly conventional first lien mortgages, historical experience has resulted in insignificant losses and repurchase activity. The Company's reserve for losses related to these recourse provisions that is reported as a component of other liabilities on the Company's consolidated statement of financial condition totaled \$2.0 million and \$2.1 million as of December 31, 2022 and December 31, 2021, respectively.

In the normal course of business, the Company, or its subsidiaries are involved in various legal proceedings. In the opinion of management, any liability resulting from pending proceedings would not be expected to have a material adverse effect on the Company's consolidated financial statements.

15) Derivative Financial Instruments

Mortgage Banking Derivatives

In connection with its mortgage banking activities, the Company enters into derivative financial instruments as part of its strategy to manage its exposure to changes in interest rates. Mortgage banking derivatives include interest rate lock commitments provided to customers to fund mortgage loans to be sold in the secondary market and forward commitments for the future delivery of such loans. It is the Company's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of future changes in interest rates on its commitments to fund the loans as well as on its portfolio of mortgage loans held-for-sale. The Company's mortgage banking derivatives have not been designated as being a hedge relationship. These instruments are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of ASC 815. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The Company does not use derivatives for speculative purposes.

Derivative Loan Commitments

Mortgage loan commitments qualify as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of a rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

Forward Loan Sale Commitments

The Company utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the number of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments.

Interest Rate Swaps

The Company may offer derivative contracts to its customers in connection with their risk management needs. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer through back-to-back swaps. These derivatives generally work together as an economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability are recorded as either a charge or credit to current earnings during the period in which the changes occurred. The fair value of the swaps is recorded as both an asset and a liability, in other assets and other liabilities on the Company's consolidated statement of financial condition, respectively, in equal amounts for these transactions.

The following tables presents the outstanding notional balances and fair values of outstanding derivative instruments:

December 31, 2022		Assets		Liabilities	
Derivatives not designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in millions)				
Forward commitments	\$ 296.0	Prepaid expenses and Other assets	\$ 1.9	Other liabilities	\$ 3.6
Interest rate locks	203.1	Prepaid expenses and Other assets	0.7	Other liabilities	-
Interest rate swaps	90.5	Prepaid expenses and Other assets	14.2	Other liabilities	14.2

December 31, 2021		Assets		Liabilities	
Derivatives not designated as Hedging Instruments	Notional Amount	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in millions)				
Forward commitments	\$ 571.5	Prepaid expenses and Other assets	\$ 1.3	Other liabilities	\$ -
Interest rate locks	345.2	Prepaid expenses and Other assets	3.1	Other liabilities	-
Interest rate swaps	105.2	Prepaid expenses and Other assets	1.6	Other liabilities	1.6

In determining the fair value of its derivative loan commitments, the Company considers the value that would be generated when the loan arising from exercise of the loan commitment is sold in the secondary mortgage market. That value includes the price that the loan is expected to be sold for in the secondary mortgage market. The fair value of these commitments is recorded on the consolidated statements of financial condition with the changes in fair value recorded as a component of mortgage banking income.

The significant unobservable input used in the fair value measurement of the Company's mortgage banking derivatives, including interest rate lock commitments, is the loan pull through rate. This represents the percentage of loans currently in a lock position which the Company estimates will ultimately close. Generally, the fair value of an interest rate lock commitment will be positively (negatively) impacted when the prevailing interest rate is lower (higher) than the interest rate lock commitment. Generally, an increase in the pull through rate will result in the fair value of the interest rate lock increasing when in a gain position, or decreasing when in a loss position. The pull through rate is largely dependent on the loan processing stage that a loan is currently in and the change in prevailing interest rates from the time of the rate lock. The pull through rate is computed using historical data and the ratio is periodically reviewed by the Company.

The back-to-back swaps mature in December 2029 to June 2037. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. As of December 31, 2022 and December 31, 2021, no back-to-back swaps were in default. The Company pays fixed rates and receives floating rates based upon LIBOR on the swaps with dealer counterparties. Dealer counterparty swaps are subject to master netting agreements among the contracts within our Bank. No right of offset existed with dealer counterparty swaps as of December 31, 2022 and December 31, 2021. All changes in the fair value of these instruments are recorded in other non-interest income. The Company pledged no cash at December 31, 2022 and \$1.9 million in cash at December 31, 2021.

16) Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This accounting standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. The standard also emphasizes that fair value (i.e., the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date), among other things, is based on exit price versus entry price, should include assumptions about risk such as nonperformance risk in liability fair values, and is a market-based measurement, not an entity-specific measurement. When considering the assumptions that market participants would use in pricing the asset or liability, this accounting standard establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy prioritizes inputs used to measure fair value into three broad levels.

Level 1 inputs - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs - Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs - Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following table presents information about our assets and liabilities recorded in our consolidated statement of financial position at their fair value on a recurring basis as of December 31, 2022 and December 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	December 31, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(In Thousands)				
Assets				
Available for sale securities				
Mortgage-backed securities	\$ 13,314	\$ -	\$ 13,314	\$ -
Collateralized mortgage obligations				
Government sponsored enterprise issued	124,765	-	124,765	-
Private-label issued	8,106	-	8,106	-
Government sponsored enterprise bonds	2,256	-	2,256	-
Municipal securities	36,934	-	36,934	-
Other debt securities	11,162	-	11,162	-
Other securities	51	-	51	-
Loans held for sale	131,188	-	131,188	-
Mortgage banking derivative assets	2,619	-	-	2,619
Interest rate swap assets	14,226	-	14,226	-
Liabilities				
Mortgage banking derivative liabilities	3,613	-	-	3,613
Interest rate swap liabilities	14,226	-	14,226	-

	December 31, 2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(In Thousands)				
Assets				
Available for sale securities				
Mortgage-backed securities	\$ 19,488	\$ -	\$ 19,488	\$ -
Collateralized mortgage obligations				
Government sponsored enterprise issued	99,302	-	99,302	-
Private-label issued	2,943	-	2,943	-
Government sponsored enterprise bonds	2,448	-	2,448	-
Municipal securities	43,494	-	43,494	-
Other debt securities	11,341	-	11,341	-
Loans held for sale	312,738	-	312,738	-
Mortgage banking derivative assets	4,369	-	-	4,369
Interest rate swap assets	1,578	-	1,578	-
Liabilities				
Mortgage banking derivative liabilities	-	-	-	-
Interest rate swap liabilities	1,578	-	1,578	-

The following summarizes the valuation techniques for assets and liabilities recorded in our consolidated statements of financial condition at their fair value on a recurring basis:

Available for sale securities – The Company's investment securities classified as available for sale include: mortgage-backed securities, collateralized mortgage obligations, government sponsored enterprise bonds, municipal securities and other debt securities. The fair values of mortgage-backed securities, collateralized mortgage obligations and government sponsored enterprise bonds are determined by a third party valuation source using observable market data utilizing a matrix or multi-dimensional relational pricing model. Standard inputs to these models include observable market data such as benchmark yields, reported trades, broker quotes, issuer spreads, benchmark securities, prepayment models and bid/offer market data. For securities with an early redemption feature, an option adjusted spread model is utilized to adjust the issuer spread. These model and matrix measurements are classified as Level 2 in the fair value hierarchy. The fair values of municipal and other debt securities are determined by a third party valuation source using observable market data utilizing a multi-dimensional relational pricing model. Standard inputs to this model include observable market data such as benchmark yields, reported trades, broker quotes, rating updates and issuer spreads. These model measurements are classified as Level 2 in the fair value hierarchy. The change in fair value is recorded through an adjustment to the statement of comprehensive income.

Loans held for sale – The Company carries loans held for sale at fair value under the fair value option model. Fair value is generally determined by estimating a gross premium or discount, which is derived from pricing currently observable in the secondary market, principally from observable prices for forward sale commitments. Loans held-for-sale are considered to be Level 2 in the fair value hierarchy of valuation techniques. The change in fair value is recorded through an adjustment to the statement of income.

Mortgage banking derivatives - Mortgage banking derivatives include interest rate lock commitments to originate residential loans held for sale to individual customers and forward commitments to sell residential mortgage loans to various investors. The Company utilizes a valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale, which includes applying a pull through rate based upon historical experience and the current interest rate environment and then multiplying by quoted investor prices. The Company also utilizes a valuation model to estimate the fair value of its forward commitments to sell residential loans, which includes matching specific terms and maturities of the forward commitments against applicable investor pricing available. While there are Level 2 and 3 inputs used in the valuation models, the Company has determined that one or more of the inputs significant in the valuation of both of the mortgage banking derivatives fall within Level 3 of the fair value hierarchy. The change in fair value is recorded through an adjustment to the statement of operations, within mortgage banking income.

Interest rate swap assets/liabilities - The Company offers loan level swaps to its customers and offsets its exposure from such contracts by entering into mirror image swaps with a financial institution / swap counterparty. The fair values of derivatives are based on valuation models using observable market data as of the measurement date. Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Interest rate swap assets and liabilities are considered to be Level 2 in the fair value hierarchy of valuation techniques. The change in fair value is recorded through an adjustment to the statement of operations, within other income and other expense.

The table below presents reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2022 and 2021.

	Mortgage banking derivatives, net
	(In Thousands)
Balance at December 31, 2020	\$ 5,917
Mortgage derivative loss, net	(1,548)
Balance at December 31, 2021	4,369
Mortgage derivative loss, net	(5,363)
Mortgage derivative, net balance at the end of the period	\$ (994)

There were no transfers in or out of Level 1, 2 or 3 measurements during the periods.

Assets Recorded at Fair Value on a Non-recurring Basis

The following table presents information about our assets recorded in our consolidated statement of financial position at their fair value on a non-recurring basis as of December 31, 2022 and December 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	December 31, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
		(In Thousands)		
Real estate owned	\$ 145	\$ -	\$ -	\$ 145

	December 31, 2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
		(In Thousands)		
Real estate owned	\$ 148	\$ -	\$ -	\$ 148
Impaired mortgage servicing rights	-	-	-	-

(1) Represents collateral-dependent impaired loans, net, which are included in loans.

Real estate owned – On a non-recurring basis, real estate owned is recorded in our consolidated statements of financial condition at the lower of cost or fair value. Fair value is determined based on third party appraisals and, if less than the carrying value of the foreclosed loan, the carrying value of the real estate owned is adjusted to the fair value. Appraised values are adjusted to consider disposition costs and also to take into consideration the age of the most recent appraisal. Given the significance of the adjustments made to appraised values necessary to estimate the fair value of the properties, real estate owned is considered to be Level 3 in the fair value hierarchy of valuation techniques.

Mortgage servicing rights - The Company utilizes an independent valuation from a third party which uses a discounted cash flow model to estimate the fair value of mortgage servicing rights. The model utilizes prepayment assumptions to project cash flows related to the mortgage servicing rights based upon the current interest rate environment, which is then discounted to estimate an expected fair value of the mortgage servicing rights. The model considers characteristics specific to the underlying mortgage portfolio, such as: contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges and costs to service. Given the significance of the unobservable inputs utilized in the estimation process, mortgage servicing rights are classified as Level 3 within the fair value hierarchy. The Company records the mortgage servicing rights at the lower of amortized cost or fair value.

For Level 3 assets and liabilities measured at fair value on a recurring and non-recurring basis, the significant unobservable inputs used in the fair value measurements were as follows:

	<u>Fair Value at</u> <u>December 31,</u> <u>2022</u>	<u>Valuation</u> <u>Technique</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u>	<u>Significant Unobservable Input Value</u>		
				<u>Minimum</u> <u>Value</u>	<u>Maximum</u> <u>Value</u>	<u>Weighted</u> <u>Average</u>
(Dollars in Thousands)						
Mortgage banking derivatives	\$ (994)	Pricing models	Pull through rate	20.6%	100.0%	89.2%
Real estate owned	145	Market approach	Discount rates applied to appraisals	34.8%	34.8%	34.8%
December 31,						
2021						
Mortgage banking derivatives	4,369	Pricing models	Pull through rate	26.0%	99.8%	88.2%
Real estate owned	148	Market approach	Discount rates applied to appraisals	34.8%	34.8%	34.8%
Mortgage servicing rights	-	Pricing models	Prepayment rate	9.8%	43.4%	11.8%
			Discount rate	0.0%	12.0%	10.2%
			Cost to service	\$ 84.06	\$ 839.53	108.37

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Fair value information about financial instruments follows, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain financial instruments and all nonfinancial instruments are excluded from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The carrying amounts and fair values of the Company's financial instruments consist of the following at December 31, 2022 and December 31, 2021:

	<u>December 31, 2022</u>					<u>December 31, 2021</u>				
	<u>Carrying</u> <u>amount</u>	<u>Fair Value</u>				<u>Carrying</u> <u>amount</u>	<u>Fair Value</u>			
		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
(In Thousands)										
Financial Assets										
Cash and cash equivalents	\$ 46,642	\$ 46,642	\$ 46,642	\$ -	\$ -	\$ 376,722	\$ 376,722	\$ 376,722	\$ -	\$ -
Loans receivable	1,510,178	1,403,429	-	-	1,403,429	1,205,785	1,210,854	-	-	1,210,854
FHLB stock	17,357	17,357	17,357	-	-	24,438	24,438	-	24,438	-
Accrued interest receivable	5,725	5,725	5,725	-	-	4,013	4,013	4,013	-	-
Mortgage servicing rights	3,444	5,001	-	-	5,001	1,555	1,808	-	-	1,808
Financial Liabilities										
Deposits	1,199,012	1,194,559	556,741	637,818	-	1,233,386	1,233,478	606,723	626,755	-
Advance payments by borrowers for taxes	5,334	5,334	5,334	-	-	4,094	4,094	4,094	-	-
Borrowings	386,784	377,275	-	377,275	-	477,127	499,120	-	499,120	-
Accrued interest payable	1,358	1,358	1,358	-	-	959	959	959	-	-

The following methods and assumptions were used by the Company in determining its fair value disclosures for financial instruments.

Cash and Cash Equivalents

The carrying amount reported in the consolidated statements of financial condition for cash and cash equivalents is a reasonable estimate of fair value. The commercial paper instruments with a maturity of less than 90 days also approximates its fair value with its carrying value.

Securities

The fair value of securities is determined by a third party valuation source using observable market data utilizing a matrix or multi-dimensional relational pricing model. Standard inputs to these models include observable market data such as benchmark yields, reported trades, broker quotes, issuer spreads, benchmark securities and bid/offer market data. For securities with an early redemption feature, an option adjusted spread model is utilized to adjust the issuer spread. Prepayment models are used for mortgage related securities with prepayment features.

Loans Held for Sale

Fair value is estimated using the prices of the Company's existing commitments to sell such loans and/or the quoted market price for commitments to sell similar loans.

Loans Receivable

The fair value estimation process for the loan portfolio uses an exit price concept and reflects discounts the Company believes are consistent with discounts in the market place. Fair values are estimated for portfolios of loans with similar characteristics. Loans are segregated by type such as one- to four-family, multi-family, home equity, construction and land, commercial real estate, commercial, and other consumer. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar maturities. The fair value analysis also includes other assumptions to estimate fair value, intended to approximate those a market participant would use in an orderly transaction, with adjustments for discount rates, interest rates, liquidity, and credit spreads, as appropriate.

FHLB Stock

For FHLB stock, the carrying amount is the amount at which shares can be redeemed with the FHLB and is a reasonable estimate of fair value.

Deposits and Advance Payments by Borrowers for Taxes

The fair values for interest-bearing and noninterest-bearing negotiable order of withdrawal accounts, savings accounts, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of similar remaining maturities to a schedule of aggregated expected monthly maturities of the outstanding certificates of deposit. The advance payments by borrowers for taxes are equal to their carrying amounts at the reporting date.

Borrowings

Fair values for borrowings are estimated using a discounted cash flow calculation that applies current interest rates to estimated future cash flows of the borrowings.

Accrued Interest Payable and Accrued Interest Receivable

For accrued interest payable and accrued interest receivable, the carrying amount is a reasonable estimate of fair value.

Commitments to Extend Credit and Standby Letters of Credit

Commitments to extend credit and standby letters of credit are generally not marketable. Furthermore, interest rates on any amounts drawn under such commitments would be generally established at market rates at the time of the draw. Fair values for the Company's commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the counterparty's credit standing, and discounted cash flow analyses. The fair value of the Company's commitments to extend credit was not material at December 31, 2022 and December 31, 2021.

Mortgage Banking Derivative Assets and Liabilities

Mortgage banking derivatives include interest rate lock commitments to originate residential loans held for sale to individual customers and forward commitments to sell residential mortgage loans to various investors. The Company relies on a valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale, which includes applying a pull through rate based upon historical experience and the current interest rate environment, and then multiplying by quoted investor prices. The Company also relies on a valuation model to estimate the fair value of its forward commitments to sell residential loans, which includes matching specific terms and maturities of the forward commitments against applicable investor pricing available. On the Company's Consolidated Statements of Condition, instruments that have a positive fair value are included in prepaid expenses and other assets, and those instruments that have a negative fair value are included in other liabilities.

Interest Rate Swap Assets and Liabilities

The carrying value and fair value of existing derivative financial instruments are based upon independent valuation models, which use widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative contract. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

17) Earnings Per Share

Earnings per share are computed using the two-class method. Basic earnings per share is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of all potential common shares.

There were 128,000, 70,000, and 125,000 antidilutive shares of common stock (where the exercise price exceeds the average price of common stock for the period) for the years ended December 31, 2022, 2021, and 2020, respectively.

Presented below are the calculations for basic and diluted earnings per share:

	For the year ended December 31,		
	2022	2021	2020
	(In Thousands, except for per share amounts)		
Net income	\$ 19,487	\$ 70,791	\$ 81,145
Weighted average shares outstanding	21,884	23,741	24,464
Effect of dilutive potential common shares	126	190	143
Diluted weighted average shares outstanding	<u>\$ 22,010</u>	<u>\$ 23,931</u>	<u>\$ 24,607</u>
Basic income per share	<u>\$ 0.89</u>	<u>\$ 2.98</u>	<u>\$ 3.32</u>
Diluted income per share	<u>\$ 0.89</u>	<u>\$ 2.96</u>	<u>\$ 3.30</u>

18) Condensed Parent Company Only Statements

Statements of Financial Condition

	December 31,	
	2022	2021
	(In Thousands)	
Assets		
Cash and cash equivalents	\$ 51,767	\$ 71,158
Investment in subsidiaries	323,010	378,247
Other assets	238	892
Total Assets	\$ 375,015	\$ 450,297
Liabilities and shareholders' equity		
Liabilities:		
Other liabilities	4,529	17,524
Shareholders' equity		
Preferred Stock (par value \$.01 per share), Authorized - 50,000,000 shares in 2022 and 2021, no shares issued	-	-
Common stock (par value \$.01 per share) Authorized - 100,000,000 shares at December 31, 2022 and at December 31, 2021, Issued and Outstanding - 22,174,225 at December 31, 2022 and 24,795,124 at December 31, 2021	222	248
Additional paid-in-capital	128,550	174,505
Retained earnings	274,246	273,398
Unearned ESOP shares	(13,056)	(14,243)
Accumulated other comprehensive loss, net of taxes	(19,476)	(1,135)
Total shareholders' equity	370,486	432,773
Total liabilities and shareholders' equity	\$ 375,015	\$ 450,297

Statements of Operations

	For the year ended December 31,		
	2022	2021	2020
	(In Thousands)		
Interest income	\$ 607	\$ 549	\$ 688
Equity in income of subsidiaries	19,507	70,862	81,122
Total income	20,114	71,411	81,810
Professional fees	\$ 30	38	47
Other expense	603	604	610
Total expense	633	642	657
Income (loss) before income tax expense	19,481	70,769	81,153
Income tax (benefit) expense	(6)	(22)	8
Net income	\$ 19,487	\$ 70,791	\$ 81,145

Statements of Cash Flows

For the year ended December 31,

	For the year ended December 31,		
	2022	2021	2020
	(In Thousands)		
Cash flows from operating activities			
Net income (loss)	\$ 19,487	\$ 70,791	\$ 81,145
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Amortization of unearned ESOP	1,889	2,129	1,676
Stock based compensation	583	745	716
Deferred income taxes	-	1	-
Equity in (earnings) loss of subsidiaries	(19,507)	(70,862)	(81,122)
Change in other assets and liabilities	89	(1,339)	(853)
Net cash provided by operating activities	<u>2,541</u>	<u>1,465</u>	<u>1,562</u>
Net cash used in investing activities			
Dividends received from subsidiary	55,594	63,564	52,152
Cash Dividends on Common Stock	(30,260)	(30,388)	(31,520)
Proceeds from stock option exercises	564	2,307	3,704
Purchase of common stock returned to authorized but unissued	(47,830)	(10,176)	(36,242)
Net cash provided by (used in) financing activities	<u>(21,932)</u>	<u>25,307</u>	<u>(11,906)</u>
Net increase (decrease) in cash	(19,391)	26,772	(10,344)
Cash and cash equivalents at beginning of year	71,158	44,386	54,730
Cash and cash equivalents at end of year	<u>\$ 51,767</u>	<u>\$ 71,158</u>	<u>\$ 44,386</u>

19) Segment Reporting

Selected financial and descriptive information is required to be provided about reportable operating segments, considering a "management approach" concept as the basis for identifying reportable segments. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions, allocating resources, and assessing performance. Consequently, the segments are evident from the structure of the enterprise's internal organization, focusing on financial information that an enterprise's chief operating decision-makers use to make decisions about the enterprise's operating matters.

The Company has determined that it has two reportable segments: community banking and mortgage banking. The Company's operating segments are presented based on its management structure and management accounting practices. The structure and practices are specific to the Company and therefore, the financial results of the Company's business segments are not necessarily comparable with similar information for other financial institutions.

Community Banking

The Community Banking segment provides consumer and business banking products and services to customers primarily within Southeastern Wisconsin. Within this segment, the following products and services are provided: (1) lending solutions such as residential mortgages, home equity loans and lines of credit, personal and installment loans, real estate financing, business loans, and business lines of credit; (2) deposit and transactional solutions such as checking, credit, debit and pre-paid cards, online banking and bill pay, and money transfer services; (3) investable funds solutions such as savings, money market deposit accounts, IRA accounts, certificates of deposit, and (4) fixed and variable annuities, insurance as well as trust and investment management accounts.

Consumer products include loan and deposit products: mortgage, home equity loans and lines, personal term loans, demand deposit accounts, interest bearing transaction accounts and time deposits. Consumer products also include personal investment services. Business banking products include secured and unsecured lines and term loans for working capital, inventory and general corporate use, commercial real estate construction loans, demand deposit accounts, interest bearing transaction accounts and time deposits.

Mortgage Banking

The Mortgage Banking segment provides residential mortgage loans for the primary purpose of sale in the secondary market. Mortgage banking products and services are provided by offices in 26 states with the ability to lend in 48 states.

As of or for the Year ended December 31, 2022

	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	\$ 56,606	\$ 157	\$ 191	\$ 56,954
Provision for credit losses (1)	677	291	-	968
Net interest income after provision for credit losses	55,929	(134)	191	55,986
Noninterest income	5,221	104,101	(3,767)	105,555
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	19,013	81,010	(458)	99,565
Occupancy, office furniture and equipment	3,645	5,061	-	8,706
Advertising	887	3,089	-	3,976
Data processing	2,229	2,234	7	4,470
Communications	357	832	-	1,189
Professional fees	508	1,278	29	1,815
Real estate owned	19	-	-	19
Loan processing expense	-	4,744	-	4,744
Other	5,551	10,197	(3,170)	12,578
Total noninterest expenses	32,209	108,445	(3,592)	137,062
Income (loss) before income taxes (benefit)	28,941	(4,478)	16	24,479
Income taxes (benefit)	6,116	(1,117)	(7)	4,992
Net income (loss)	\$ 22,825	\$ (3,361)	\$ 23	\$ 19,487
Total Assets	\$ 2,009,727	\$ 198,625	\$ (176,680)	\$ 2,031,672

(1) The Company adopted ASU 2016-13 as of January 1, 2022. The prior year amounts presented are calculated under the prior accounting standard.

As of or for the Year ended December 31, 2021

	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	\$ 56,051	\$ (652)	\$ 116	\$ 55,515
Provision (credit) for loan losses	(4,100)	110	-	(3,990)
Net interest income after provision (credit) for loan losses	60,151	(762)	116	59,505
Noninterest income	6,058	197,573	(436)	203,195
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	20,294	115,279	(458)	135,115
Occupancy, office furniture and equipment	3,781	5,831	-	9,612
Advertising	980	2,548	-	3,528
Data processing	2,039	1,889	22	3,950
Communications	427	882	-	1,309
Professional fees	673	564	38	1,275
Real estate owned	3	-	-	3
Loan processing expense	-	4,610	-	4,610
Other	1,974	9,074	144	11,192
Total noninterest expenses	30,171	140,677	(254)	170,594
Income before income taxes (benefit)	36,038	56,134	(66)	92,106
Income taxes (benefit)	7,696	13,641	(22)	21,315
Net income	\$ 28,342	\$ 42,493	\$ (44)	\$ 70,791
Total Assets	\$ 2,162,360	\$ 365,590	\$ (312,092)	\$ 2,215,858

As of or for the Year ended December 31, 2020

	Community Banking	Mortgage Banking	Holding Company and Other	Consolidated
	(In Thousands)			
Net interest income	\$ 54,616	\$ (1,171)	\$ 55	\$ 53,500
Provision for loan losses	6,075	265	-	6,340
Net interest income after provision for loan losses	48,541	(1,436)	55	47,160
Noninterest income	8,723	236,659	(1,365)	244,017
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	20,233	119,432	(619)	139,046
Occupancy, office furniture and equipment	3,688	6,535	-	10,223
Advertising	1,041	2,650	-	3,691
Data processing	2,284	1,636	21	3,941
Communications	411	918	-	1,329
Professional fees	695	7,376	47	8,118
Real estate owned	(8)	-	-	(8)
Loan processing expense	-	4,646	-	4,646
Other	2,507	10,345	(777)	12,075
Total noninterest expenses	30,851	153,538	(1,328)	183,061
Income before income taxes	26,413	81,685	18	108,116
Income taxes	5,219	21,744	8	26,971
Net income	\$ 21,194	\$ 59,941	\$ 10	\$ 81,145
Total Assets	\$ 2,116,560	\$ 456,076	\$ (388,049)	\$ 2,184,587

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

As of December 31, 2022, management assessed the effectiveness of the Company's internal control over financial reporting based on criteria for effective internal control over financial reporting established in "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO) in 2013. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2022 is effective.

CliftonLarsonAllen LLP the Company's registered public accounting firm, has audited the Company's internal control over financial reporting as of December 31, 2022. The audit report by CliftonLarsonAllen LLP is located in Item 8 of this report.

There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a - 15(f) under the Exchange Act) that occurred during the year ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation or material weaknesses in such internal controls requiring corrective actions.

Item 9B. Other Information

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information in the Company's definitive Proxy Statement, prepared for the 2022 Annual Meeting of Shareholders, which contains information concerning directors of the Company under the caption "Proposal 1 - Election of Directors" and compliance with Section 16 reporting requirements under the caption "Delinquent Section 16(a) Reports" and information concerning corporate governance under the caption "Other Board and Corporate Governance Matters" and "Board Meetings and Committees," is incorporated herein by reference.

Executive Officers of the Registrant

The table below sets forth certain information regarding the persons who have been determined, by our board of directors, to be executive officers of the Company. The executive officers of the Company are elected annually and hold office until their respective successors have been elected or until death, resignation, retirement or removal by the Board of directors.

Name and Age	Offices and Positions with Waterstone Financial and Subsidiaries*	Executive Officer Since
Douglas S. Gordon, 65	Chief Executive Officer and President of Waterstone Financial and of WaterStone Bank	2005
William F. Bruss, 53	General Counsel, Executive Vice President and Secretary of Waterstone Financial and of WaterStone Bank	2005
Mark R. Gerke, 48	Chief Financial Officer and Executive Vice President of Waterstone Financial and of WaterStone Bank	2016
Jeff McGuinness, 57	Chief Executive Officer and President of Waterstone Mortgage Corporation	2020
Julie A. Glynn, 59	Senior Vice President and Director of Retail Banking of WaterStone Bank	2018

* Excluding directorships and excluding positions with Bank subsidiary that do not constitute a substantial part of the officers' duties.

Item 11. Executive Compensation

The information in the Company's definitive Proxy Statement, prepared for the 2022 Annual Meeting of Shareholders, which contains information concerning this item under the captions "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," and "Compensation Committee Report," is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in the Company's definitive Proxy Statement, prepared for the 2022 Annual Meeting of Shareholders, which contains information concerning this item under the caption "Beneficial Ownership of Common Stock," is incorporated herein by reference.

Compensation Plans

Set forth below is information as of December 31, 2022 regarding equity compensation plans that have been approved by shareholders. The Company has no equity based benefit plans, other than its employee stock ownership plan, that were not approved by shareholders.

Plan	Number of shares to be issued upon exercise of outstanding options and rights	Weighted average option exercise price	Number of securities remaining available for issuance under plan
2020 Omnibus Incentive Plan	126,099 ⁽¹⁾	\$ 12.72	1,122,613

(1) Consists of 81,000 shares reserved for grants of stock options and 45,099 shares reserved for grants of restricted stock. On December 31, 2022, 81,000 options were outstanding with a weighted average exercise price of \$19.80 of which 13,000 were exercisable as of that date.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information in the Company's definitive Proxy Statement, prepared for the 2023 Annual Meeting of Shareholders, which contains information concerning this item under the captions "Transactions with Certain Related Parties," and "Board Meetings and Committees," is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information in the Company's definitive Proxy Statement, prepared for the 2023 Annual Meeting of Shareholders, which contains information concerning this item under the caption "Ratification of the Appointment of Our Independent Registered Public Accounting Firm," is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

- (a) Documents filed as part of the Report:
1. and 2. Financial Statements and Financial Statement Schedules.

The following consolidated financial statements of Waterstone Financial, Inc. and subsidiaries are filed as part of this report under Item 8, "Financial Statements and Supplementary Data":

Report of CliftonLarsonAllen LLP, Independent Registered Public Accounting Firm, on consolidated financial statements. (PCAOB ID 655)

Report of RSM US LLP, Independent Registered Public Accounting Firm, on consolidated financial statements. (PCAOB ID 49)

Consolidated Statements of Financial Condition – December 31, 2022 and 2021.

Consolidated Statements of Operations – Years ended December 31, 2022, 2021 and 2020.

Consolidated Statements of Comprehensive Income – Years ended December 31, 2022, 2021 and 2020.

Consolidated Statements of Changes in Shareholders' Equity – Years ended December 31, 2022, 2021 and 2020.

Consolidated Statements of Cash Flows – Years ended December 31, 2022, 2021 and 2020.

Notes to Consolidated Financial Statements.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

- (b) Exhibits. See Exhibit Index following the signature page of this report, which is incorporated herein by reference. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this report is identified in the Exhibit Index by an asterisk following its exhibit number.

Item 16. Form 10-K Summary

Not applicable.

WATERSTONE FINANCIAL, INC
(“Waterstone Financial” or the “Company”)
Commission File No. 000-51507

EXHIBIT INDEX
TO
2022 REPORT ON FORM 10-K

The following exhibits are filed with, or incorporated by reference in, this Annual Report on Form 10-K for the year ended December 31, 2022:

Exhibit	Description	Filed Herewith
3.1	<u>Articles of Incorporation of the Company (2)</u>	
3.2	<u>Bylaws of the Company (2)</u>	
4.1	<u>Common Stock Certificate (1)</u>	
4.2	<u>Description of Registrant Securities (5)</u>	
10.1	<u>Waterstone Financial, Inc. 2020 Omnibus Incentive Plan †(7)</u>	
10.2	<u>Employment Agreement By and Between WaterStone Bank SSB and Douglas S. Gordon †(3)</u>	
10.3	<u>Waterstone Financial, Inc. Incentive Plan †(4)</u>	
10.4	<u>Employment Agreement By and Between Waterstone Mortgage Corporation and Jeff McGuiness †(8)</u>	
21.1	<u>List of Subsidiaries (6)</u>	X
23.1	<u>Consent of Independent Registered Public Accounting Firm</u>	X
23.2	<u>Consent of Independent Registered Public Accounting Firm</u>	X
24.1	<u>Powers of Attorney</u>	
31.1	<u>Sarbanes-Oxley Act Section 302 Certification signed by the Chief Executive Officer of Waterstone Financial</u>	X
31.2	<u>Sarbanes-Oxley Act Section 302 Certification signed by the Chief Financial Officer of Waterstone Financial</u>	X
32.1	<u>Certification pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the Chief Executive Officer of Waterstone Financial</u>	X
32.2	<u>Certification pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by the Chief Financial Officer of Waterstone Financial</u>	X
XML	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X
EX-101.SCH	<u>Inline XBRL Taxonomy Extension Schema</u>	X
EX-101.CAL	<u>Inline XBRL Taxonomy Extension Calculation Linkbase</u>	X
EX-101.DEF	<u>Inline XBRL Taxonomy Extension Definition Linkbase</u>	X
EX-101.LAB	<u>Inline XBRL Taxonomy Label Linkbase</u>	X
EX-101.PRE	<u>Inline XBRL Taxonomy Extension Presentation Linkbase</u>	X
EX-104	<u>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)</u>	X

† Management compensation contract or agreement

- (1) Incorporated by reference to the registration Statement on Form S-1 filed by Wauwatosa Holdings, Inc. (the predecessor corporation to Waterstone Financial, Inc., a federal corporation) (Commission file no. 333-125715), filed with the U.S. Securities and Exchange Commission on June 10, 2005.
- (2) Incorporated by reference to the registration Statement on Form S-1 (Registration No. 333-189160), initially filed with the U.S. Securities and Exchange Commission on June 7, 2013.
- (3) Incorporated by reference to Exhibit 10.1 to Report on Form 8-K filed with the U.S. Securities and Exchange Commission on October 24, 2014 (File No. 001-36271).
- (4) Incorporated by reference to Exhibit 10.1 to Report on Form 8-K filed with the U.S. Securities and Exchange Commission on March 25, 2019 (File No. 001-36271).
- (5) Incorporated by reference to Exhibit 4.2 to Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 13, 2020 (File No. 001-36271).
- (6) Incorporated by reference to Exhibit 21.1 to Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 13, 2020 (File No. 001-36271).
- (7) Incorporated by reference to Appendix A to the Definitive Proxy Statement for the 2020 Annual Meeting of Shareholders filed by Waterstone Financial, Inc. (Commission file no. 001-36271), filed with the U.S. Securities and Exchange Commission on April 9, 2020.
- (8) Incorporated by reference to Exhibit 10.1 to Report on Form 8-K filed with the U.S. Securities and Exchange Commission on November 3, 2020 (File No. 001-36271).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 28, 2023

WATERSTONE FINANCIAL, INC.

By: /s/ Douglas S. Gordon
Douglas S. Gordon
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes Douglas S. Gordon or Mark R. Gerke, or any of them, as attorneys-in-fact with full power of substitution, to execute in the name and on behalf of such person, individually, and in each capacity stated below or otherwise, and to file, any and all amendments to this report.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.*

Signature and Title

/s/ Douglas S. Gordon
Douglas S. Gordon,
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Mark R. Gerke
Mark R. Gerke
Chief Financial Officer
(Principal Financial & Accounting Officer)

/s/ Patrick S. Lawton
Patrick S. Lawton, *Chairman and Director*

/s/ Ellen S. Bartel
Ellen S. Bartel, *Director*

/s/ Michael L. Hansen
Michael L. Hansen, *Director*

/s/ Kristine A. Rappé
Kristine A. Rappé, *Director*

/s/ Stephen J. Schmidt
Stephen J. Schmidt, *Director*

/s/ Derek L. Tyus
Derek L. Tyus, *Director*

*Each of the above signatures is affixed as of February 28, 2023.

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Waterstone Financial, Inc. Directors

PATRICK LAWTON

Chairman of the Board

DOUGLAS GORDON

ELLEN BARTEL

MICHAEL HANSEN

KRISTINE RAPPÉ

STEPHEN SCHMIDT

DEREK TYUS

Waterstone Financial, Inc. Officers

DOUGLAS GORDON

Chief Executive Officer

WILLIAM BRUSS

President

MARK GERKE

Chief Financial Officer & Executive Vice President

Waterstone Mortgage Corporation Officers

JEFF MCGUINNESS

Chief Executive Officer & President

KEVIN ALLEN

Senior Vice President, Sales

PAUL GARRIGUES

Chief Financial Officer

RICH HARKWELL

Senior Vice President, Chief Sales Officer

BOB SELINGO

Senior Vice President, Secondary Marketing

ELIZABETH SPRAGG

Senior Vice President, Human Resources

RICH TUCKER

Chief Operating Officer

STEPHANIE ZIEBELL

Senior Vice President, General Counsel

WaterStone Bank Officers

DOUGLAS GORDON

Chief Executive Officer

WILLIAM BRUSS

President

MARK GERKE

Executive Vice President
Chief Financial Officer

JULIE GLYNN

Executive Vice President
Chief Retail Officer

RYAN GORDON

Executive Vice President
Chief Credit Officer

DON BRAY

Senior Vice President
Chief Information Officer

MARLENE MOLTER

Senior Vice President
Director of Human Resources

ANDREW BOARIO

Vice President
Director of Business Banking

JAMES CROWLEY

Vice President
Business Banking

MICHAEL DANIELSON

Vice President
Business Banking

JEFF JARECKI

Vice President
Business Banking

KEVIN STELZER

Vice President
Business Banking

JOSEPH MUDLAFF

Vice President
Director of Commercial Real Estate

SCOTT DEJONG

Vice President
Commercial Real Estate

JULIE FAY-KRIVITZ

Vice President
Commercial Real Estate

JACK KAHL

Vice President
Commercial Real Estate

KENNETH SNYDER

Vice President
Commercial Real Estate

NICOLE DEANGELIS

Vice President
Director of Loan Servicing

MARGARET HAAGENSEN

Vice President
Mortgage Operations

KYLE HAGER

Vice President
Compliance Officer

TARA LAGERMAN

Vice President
Director of Marketing

SHAE MACLIN

Vice President
Director of Retail Banking

KYLE MERTZ

Vice President
Controller

THERESE PEKAR

Vice President
Customer Support Center

WENDY RICE

Vice President
Retail Support

KELLI GLATCZAK

Assistant Vice President
Deposit Servicing

JOHN HEIMSOTH

Assistant Vice President
Internal Audit

ERIN MCCARTHY

Assistant Vice President
Regional Manager

MEGAN WEIGAND

Assistant Vice President
Regional Manager

LAURA PINSON

Assistant Vice President
Loan Servicing

JODI STEPHENS

Assistant Vice President
Employee Benefits

MARY BRUEGGEMAN

Treasury Officer

LYNDA GREEN

Collections Officer

JENNIFER HELLENDRUNG

Information Services Officer

BILL KOTNAROWSKI

Credit Officer

DENISE MIHALJEVIC

Legal Services Officer

CAROL PATRICK

Assistant Compliance Officer

AL SCHEINPFLUG

Facilities Officer

LINDA ULRICH

Sr. Loan Underwriter Lead Officer

SHANDA CAVENEY

Community President
Oak Creek/Howell Ave

LAURA CHRISTENSON

Community President
Pewaukee

HEATHER FLETCHER

Community President
Oconomowoc

AIMEE GOOD

Community President
Germantown

BRYAN KRAJEWSKI

Community President
Milwaukee

LYNN KUESTER

Community President
Fox Point

JENNIFER LITKOWIEC

Community President
Oak Creek/27th St

REBECCA MCCARTNEY

Community President
Greenfield

LAURA MERCHLE

Community President
Waukesha

JENNIFER PERIC

Community President
Franklin

CALEB QUAKKELAAR

Community President
Brookfield

BRIANNE WATKINS

Community President
West Allis/National Ave

DIA WESNER

Community President
Wauwatosa

PAM ZORKO

Community President
West Allis/Greenfield Ave



As of March 2023



Securities and advisory services are offered through LPL Financial (LPL), a registered investment advisor and broker/dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. WaterStone Bank and WaterStone Investment Services are not registered as a broker/dealer or investment advisor. Registered representatives of LPL offer products and services using WaterStone Investment Services, and may also be employees of WaterStone Bank. These products and services are being offered through LPL or its affiliates, which are separate entities from and not affiliates of WaterStone Bank or WaterStone Investment Services. Securities and insurance offered through LPL or its affiliates are:

Not Insured by FDIC or Any Other Government Agency	Not Bank Guaranteed	Not Bank Deposits or Obligations	May Lose Value
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WaterStone Bank

Corporate Headquarters
11200 West Plank Court, Wauwatosa, WI, 53226

Phone
(414) 761-1000

Website
www.wsbonline.com

Toll Free
(888) 686-7272

Email
corporate@wsbonline.com