



CORPORATE CENTER 11200 West Plank Court Wauwatosa WI 53226

WAUWATOSA HOLDINGS, INC.



LOCATIONS

WAUWATOSA 75th & State St	FRANKLIN Hwy 100 & Speedway Dr
GERMANTOWN Appleton Ave & Maple Rd	OAK CREEK 27th & College Ave
OCONOMOWOC Hwy 67 & I-94	PEWAUKEE Hwy 16 & Capitol Dr
WAUKESHA Hwy 18 & I-94	WEST ALLIS I-894 & Greenfield Ave



ANNIVERSARY



LETTER TO SHAREHOLDERS
ANNUAL REPORT 2006

With the close of 2006, Wauwatosa Savings Bank not only said farewell to its 85th Anniversary milestone but also bid a fond farewell to Donald J. Stephens, Chief Executive Officer since 1997. Don retired after 37 years of commitment to the bank. Don was an asset to the bank and to the community, setting the wheels in motion for the advances that will take place in the years to come.

While celebrating 85 years as a savings bank, much of 2006 was spent laying the framework to transition into a full-service financial institution in 2007. With the acquisition of Waterstone Mortgage Corp. in February 2006, we now offer a complete line of residential mortgage products.

In the fall of 2006, we opened two new branches to serve the communities of Franklin/Hales Corners and Germantown/Menomonee Falls. In addition we are currently building a full-service branch in West Allis set to open in March, 2007. This expansion affords more convenience for existing customers, as well as, the opportunity to grow our customer base.

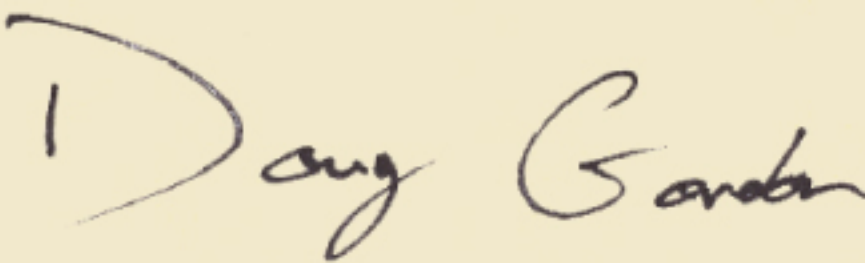
Also in the fall, our Residential Lending area moved into the second floor of what will soon be the full-service West Allis branch. With a new streamlined and centralized loan origination process, our loan origination capability is well positioned for future growth.

Retail and Marketing efforts are focused on making a big impact on our markets to substantially grow our deposit and consumer lending base. The addition of our new checking account line, introduced in July, will help with the growth in our new, as well as our existing, markets.

Jon McGlocklin, former National Basketball Association (NBA) player, television sports commentator and co-founder and president of the MACC Fund has signed an agreement to be the spokesperson for Wauwatosa Savings Bank for three years. Jonny Mac, as he is affectionately known to his fans, will do radio, TV and print ads, appearances and other advertising on behalf of Wauwatosa Savings. McGlocklin's support will help us make a big impact in reaching out to customers in new and existing markets.

Finally, after many months of hard work and dedication, our current in-house core processing technology was upgraded in February, 2007 with services provided by Metavante Corporation. We now have the ability to introduce many new product lines that fit our customers' financial needs, as well as make our current operations faster and more efficient to provide the best customer service available in the marketplace.

2006 was a big year for change at Wauwatosa Savings, and transition continues through the first half of 2007. We will then be an institution positioned to grow in all areas. Our capital and access to capital markets offers us the ability to grow from our current asset size of \$1.6 Billion. The foundation we are laying now will lead to future opportunity for employees, customers and shareholders. Service, convenience and satisfaction - It's all here for you!



Douglas S. Gordon
President & CEO

WAUWATOSA HOLDINGS
-DIRECTORS

PATRICK S. LAWTON
Chairman of the Board

BARBARA J. COUTLEY

THOMAS E. DALUM

DOUGLAS S. GORDON

MICHAEL L. HANSEN

STEPHEN J. SCHMIDT

WAUWATOSA HOLDINGS
-OFFICERS

DOUGLAS S. GORDON
Chief Executive Officer & President

WILLIAM F. BRUSS
General Counsel & Senior Vice President

BARBARA J. COUTLEY
Senior Vice President & Secretary

RICHARD C. LARSON
Chief Financial Officer & Treasurer

AS OF FEBRUARY 2007



WAUWATOSA SAVINGS BANK
-OFFICERS

DOUGLAS S. GORDON
Chief Executive Officer & President

WILLIAM F. BRUSS
General Counsel & Senior Vice President

BARBARA J. COUTLEY
Senior Vice President & Secretary

LYLE W. LARCHEID
Senior Vice President

RICHARD C. LARSON
Chief Financial Officer & Treasurer

REBECCA M. ARNDT
Vice President

MARK J. BAHR
Vice President

TODD M. CRUCIANI
Vice President

DAVID C. HOERIG
Vice President

MICHAEL T. JONES
Vice President

ROBERT J. SCHROEDER
Vice President

KENNETH A. SNYDER
Vice President

BRIAN DELORENZO
Assistant Vice President

HOLLY L. FLEMMING
Assistant Vice President

JUDY L. GEBHARD
Assistant Vice President

MARK R. GERKE
Corporate Controller

JODI L. JOHNSON
Assistant Vice President

COLLETTE M. KENDZIERSKI
Assistant Vice President

MEGAN LIEBMANN
Assistant Vice President

SALLY MCFADDEN
Assistant Vice President

BRYAN J. OLEN
Assistant Vice President

THERESE M. PEKAR
Assistant Vice President

TERESSA J. ROWLEY
Assistant Vice President

JUDY M. WAGNER
Assistant Controller

KPMG, LLP
Auditors

LUSE GORMAN
POMERENK & SCHICK, P.C.
Special Counsel



March 28, 2007

Dear Fellow Shareholder,

We invite you to attend the Wauwatosa Holdings, Inc. Annual Meeting of Shareholders, which will be held at the Country Springs Hotel, 2810 Golf Road, Pewaukee, Wisconsin at 10:30 a.m., Central Time, on Wednesday, May 16, 2007.

The Wauwatosa Holdings, Inc. Notice of Annual Meeting of Shareholders and Proxy Statement, which are enclosed, describe the business to be conducted at the annual meeting. If you plan to attend the annual meeting, please check the box on the proxy form so that we can make the appropriate arrangements.

Also attached is a copy of the Wauwatosa Holdings, Inc. Annual Report on Form 10-K for the year ended December 31, 2006. The annual report contains detailed information concerning our activities and operating performance.

On behalf of the Board of Directors, please take a moment now to cast your vote via the internet or by telephone as described on the enclosed proxy card, or alternatively, complete, sign, date and return the proxy card in the postage-paid envelope provided. Voting in advance of the Annual Meeting will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the Annual Meeting.

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

WAUWATOSA HOLDINGS, INC.

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

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 16, 2007**

To the Shareholders of Wauwatosa Holdings, Inc.:

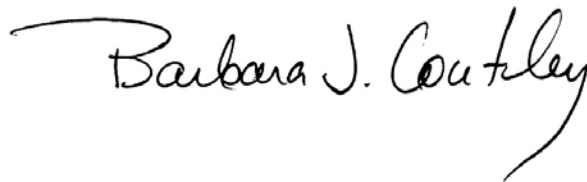
The 2007 annual meeting of shareholders of Wauwatosa Holdings, Inc. will be held on Wednesday, May 16, 2007, at 10:30 a.m., Central Time, at the Country Springs Hotel, 2810 Golf Road, Pewaukee, Wisconsin for the following purposes:

- (1) Electing two directors to serve for terms expiring in 2010;
- (2) Ratifying the selection of KPMG LLP as Wauwatosa Holdings, Inc.'s independent registered public accounting firm;
- (3) Transacting such other business as may properly come before the annual meeting or any adjournment thereof.

The board of directors has fixed the close of business on March 19, 2007 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. Lamplighter Financial, MHC, our mutual holding company, owns 69.41% of our outstanding shares and intends to vote its shares in favor of the proposals described in this proxy statement.

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



Barbara J. Coutley
Senior Vice President and Secretary

Wauwatosa, Wisconsin
March 28, 2007

PROXY STATEMENT

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

SOLICITATION AND VOTING

This proxy statement and accompanying proxy are furnished to the shareholders of Wauwatosa Holdings, Inc. ("Wauwatosa Holdings") in connection with the solicitation of proxies by the Wauwatosa Holdings board of directors for use at the annual meeting of Wauwatosa Holdings shareholders on Wednesday, May 16, 2007, and at any adjournment of the meeting. The 2006 Annual Report on Form 10-K is attached to the proxy statement and contains financial information concerning us. We are mailing the proxy materials to shareholders beginning on or about March 28, 2007.

Wauwatosa Holdings was established as part of the reorganization of Wauwatosa Savings Bank into the mutual holding company form of ownership, which was completed on October 4, 2005. As part of the reorganization, Wauwatosa Holdings was formed as a mid-tier stock holding company of Wauwatosa Savings Bank and Lamplighter Financial, MHC was formed as a mutual holding company of Wauwatosa Holdings. In connection with the reorganization, Wauwatosa Holdings sold approximately 30% of its common stock in a subscription offering, contributed approximately 1.65% of its common stock to the Waukesha County Community Foundation, Inc., and issued the remaining approximately 68.35% to Lamplighter Financial, MHC.

Record Date and Meeting Information. The board of directors has fixed the close of business on March 19, 2007 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 voting stock of Wauwatosa Holdings outstanding, 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. At the record date, there were 33,211,085 shares of common stock validly issued and outstanding. Of this amount, 609,213 shares were held in trust as unallocated Employee Stock Ownership Plan shares.

The board of directors of Wauwatosa Holdings 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 at the annual meeting may vote either in person or by a properly executed proxy. Shares represented by properly executed proxies received by Wauwatosa Holdings will be voted at the annual meeting, or any adjournment thereof, in accordance with the terms of such proxies, unless revoked. If no voting instructions are given on a properly executed proxy, the shares will be voted FOR the election of management's director nominees and FOR the ratification of KPMG LLP as our independent registered public accounting firm.

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 or by voting in person at the annual meeting. Attendance at the annual meeting will not in itself constitute revocation of a proxy. If you are a shareholder whose shares are not registered in your name, you will need appropriate documentation from your record holder in order to vote in person at the annual meeting.

Shares in Employee Plans Any shareholder who owns shares through an allocation to that person's account under the Wauwatosa Savings Bank Employee Stock Ownership Plan (the "ESOP") will receive a separate green proxy card to instruct the ESOP's Trustee how to vote those shares. The ESOP Trustee, Marshall & Ilsley Trust Company NA, will vote shares allocated to those employees' ESOP accounts in accordance with the participant's

voting instructions on the proxies. The ESOP administrator may vote, in its discretion, unallocated ESOP shares and any allocated ESOP shares which are not voted by the individuals to whom they are allocated. It is expected that those shares will be voted for all nominees and proposals.

Shares Held by Charitable Foundation. Under FDIC regulations and the terms of the Plan of Reorganization pursuant to which Wauwatosa Savings Bank converted into mutual holding company form, the Waukesha County Community Foundation, Inc. must vote all shares of Wauwatosa Holdings common stock held by it in the same ratio as all other shares of Wauwatosa Holdings voted on each proposal by Wauwatosa Holdings' shareholders. On the record date, the Waukesha County Community Foundation held 31,442 shares of Wauwatosa Holdings common stock.

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.

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.

The affirmative vote of a majority of shareholders present at the annual meeting in person or by proxy is required to approve KPMG, LLP as our independent registered public accountants for the year ended December 31, 2007, without regard to broker non-votes or proxies marked "Abstain".

Expenses and Solicitation. We will pay expenses 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.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below sets forth information regarding the beneficial ownership of Wauwatosa Holdings common stock on the record date by each director and nominee for director, by each executive officer named in the Summary Compensation Table below and by all of our directors and executive officers as a group. None of our directors or executive officers has options that are exercisable within 60 days of the record date.

<u>Name of Beneficial Owner</u>	<u>Number of Shares and Nature of Beneficial Ownership (1)(2)</u>	<u>Percent of Class</u>
Lamplighter Financial, MHC	23,050,183	69.41%
Rebecca M. Arndt	10,513	*
William F. Bruss	18,701	*

Barbara J. Coutley	14,527	*
Thomas E. Dalum.....	38,351	*
Douglas S. Gordon	140,129	*
Michael L. Hansen.	165,844	*
Richard C. Larson.	32,781	*
Patrick S. Lawton.	143,275	*
Stephen J. Schmidt	26,500	*
All directors and executive officers as a group (9 persons) ⁽²⁾	1,798,535	5.42%

* Less than 1.0%

- (1) Unless otherwise noted, the specified persons have sole voting and dispositive power as to the shares. Number of shares identified as indirect, beneficial ownership: Mr. Bruss – 5,201; Ms. Coutley – 14,527; Mr. Dalum – 13,351; Mr. Hansen – 145,000; Mr. Larson – 5,281; Mr. Lawton – 19,600; group – 812,173. See also note (2) below.
- (2) The total for the group (but not any individual) includes 609,213 unallocated shares held in the ESOP, as to which voting and dispositive power is shared. As administrator, Wauwatosa Savings (through its board) may vote, in its discretion, shares which have not yet been allocated to participants. Employees may vote the shares allocated to their accounts; the administrator will vote unvoted shares in its discretion. Allocated shares are included only if allocated to named executive officers, in which case they are included in those individuals' (and the group's) beneficial ownership.

The above beneficial ownership information is based on data furnished by the specified persons and is determined in accordance with Rule 13d-3 under the Securities Exchange Act, as required for purposes of this proxy statement. It is not necessarily to be construed as an admission of beneficial ownership for other purposes.

PROPOSAL I – THE ELECTION OF DIRECTORS

The bylaws provide that the number of directors of Wauwatosa Holdings shall be between five and ten, as determined by the board of directors. At each annual meeting the term of office of one class of directors expires and a class of directors is elected to serve for a term of three years or until their successors are elected and qualified. The board has set the number of directors at six. Mr. Dalum and Ms. Coutley, the directors whose terms expire at the annual meeting, are being nominated for re-election as directors for terms expiring in 2010. Shares represented by proxies will be voted FOR the election of the nominees unless otherwise specified by the executing shareholder. If any nominee declines or is unable to act as a director, which we do not foresee, proxies may be voted with discretionary authority for a substitute nominee designated by the board.

Mr. Donald Stephens retired and resigned from his positions with us and with Wauwatosa Savings Bank effective December 31, 2006, including his directorships. The Board of Directors, pursuant to authority in our Bylaws, reduced the size of the board of directors from seven directors to six.

Information regarding the nominees and the directors whose terms continue is set forth in the following table. 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 (1)</u>	<u>Director Since (2)</u>
<i>Nominees for Terms expiring in 2010</i>		
Thomas E. Dalum, 66 (4)(5)(6)	Chairman of UELC, an equipment leasing company and President of DUECO, an equipment manufacturer	1979

<u>Name and Age</u>	<u>Principal Occupation and Business Experience (1)</u>	<u>Director Since (2)</u>
	and distributor	
Barbara J. Coutley, 55	Senior Vice President and Secretary of Wauwatosa Savings Bank and of Wauwatosa Holdings since 2005	2001
<i>Continuing Directors—Terms expire in 2009</i>		
Douglas S. Gordon, 49	Chief Executive Officer and President since January 2007; Chief Operating Officer since January 2006; President and Chief Operating Officer of Wauwatosa Savings Bank since 2005; Personal real estate investor	2005
Patrick S. Lawton, 50 (3)(4)(5)(6)	Managing Director of Fixed Income Capital Markets for Robert W. Baird & Co., Incorporated	2000
<i>Continuing Directors – Terms expire in 2008</i>		
Michael L. Hansen, 55 (4)(5)(6)	Active business investor; current significant ownership in Eagle Metal Finishing LLC and Mid-States Contracting, Inc.	2003
Stephen J. Schmidt, 45 (4)(5)(6)	President Schmidt and Bartelt Funeral and Cremation Services	2002

(1) Unless otherwise noted, all directors have been employed in their respective principal occupations listed for at least the past five years.

(2) Indicates the date when director was first elected to the board of Wauwatosa Savings Bank. Each of these persons became a director of the Company in 2005.

(3) Chairman of the Board and of Wauwatosa Savings Bank, effective January 1, 2007.

(4) Member of the Compensation Committee, of which Mr. Lawton is Chairman.

(5) Member of the Nominating Committee, of which Mr. Schmidt is Chairman.

(6) Member of the Audit Committee, of which Mr. Hansen is Chairman.

Information regarding named executive officers who are not directors of the Company is set forth in the following table.

<u>Name and Age</u>	<u>Offices and Positions with Wauwatosa Holdings and Wauwatosa Savings Bank</u>	<u>Executive Officer Since</u>
Richard C. Larson, 49	Chief Financial Officer and Senior Vice President of Wauwatosa Holdings and of Wauwatosa Savings Bank	1990
William F. Bruss, 37	General Counsel of Wauwatosa Holdings and General Counsel, Senior Vice President and Compliance Officer of Wauwatosa Savings Bank	2005
Rebecca M. Arndt, 39	Vice President – Retail Operations of Wauwatosa Savings Bank previously First Vice President, Retail Banking at Ozaukee Bank	2006

Board Meetings and Committees

The Wauwatosa Holdings board of directors met six times during the year ended December 31, 2006. 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 has determined that Messrs. Dalum, Hansen, Lawton and Schmidt are “independent” directors within the meaning of such standards. Therefore, all members of the Audit, Compensation and Nominating Committees are “independent.” As part of these meetings, independent directors regularly met without management or non-independent directors present. Each director attended all meetings of the board and meetings of the committees of the board on which such director served during the year.

The Audit Committee met nine times during the year ended December 31, 2006. 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 Marketplace Rules, but also by the Securities and Exchange Commission and the Internal Revenue Service. On behalf of the Audit Committee, Mr. Hansen, its chair, also regularly consulted with the Company’s independent auditors about the Company’s periodic public financial disclosures. The board believes that all of the members of the Audit Committee have sufficient experience, knowledge and other personal qualities to be “financially literate” and 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 and is “independent” as that term is used in Rule 14a-101 under the Exchange Act. See also “Report of the Audit Committee” and “Independent Auditors” for other information pertaining to the Audit Committee.

The Compensation Committee, chaired by Mr. Lawton, held three meetings during the year ended December 31, 2006. 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.

The Nominating and Corporate Governance Committee, chaired by Mr. Schmidt, held two meetings during the year ended December 2006. Each member of the nominating committee is considered “independent” as defined in the NASDAQ corporate governance listing standards. Our Board of Directors has adopted a written charter for the nominating committee. A copy of the nominating committee charter is also available at our website at <http://www.wsbonline.com> under the link “Investor Relations – Wauwatosa Holdings – Corporate Governance.”

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 a new perspective. 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, or if the size of the Board of Directors is increased, the nominating committee would solicit suggestions for director candidates from all board members. The nominating committee would seek to identify a candidate who at a minimum satisfies the following criteria:

- has personal and professional ethics and integrity and whose values are compatible with ours;
- has had experiences and achievements that have given him or her the ability to exercise and develop good business judgment;
- is willing to devote the necessary time to the work of the Board of Directors and its committees, which includes being available for board and committee meetings;
- is familiar with the communities in which we operate and/or is actively engaged in community activities;
- is involved in other activities or interests that do not create a conflict with his or her responsibilities to us and our shareholders; and
- has the capacity and desire to represent the balanced, best interests of our shareholders as a group, and not primarily a special interest group or constituency.

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 and Corporate Governance 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 West Plank Road, Wauwatosa, Wisconsin 53226. The Corporate Secretary must receive a submission not more than 110 days and not less than 80 days prior to the date of our next annual meeting. 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 SEC 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 by the shareholder at an annual meeting of shareholders will also need to comply with any additional procedural and informational requirements we may adopt in the future.

Wauwatosa Holdings has adopted charters for the Audit, Compensation and Nominating and Corporate Governance Committees. We will continue to respond to and comply with SEC and Nasdaq Stock Market requirements relating to board committees. Copies of the charters for our Audit, Compensation and Nominating and Corporate Governance Committees (including director selection criteria) and other corporate governance documents can be found on our website, at www.wsbonline.com, under the link “Investor Relations-Wauwatosa Holdings-Corporate Governance.” 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

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 West Plank Road, 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. Wauwatosa Holdings expects all of its directors to attend the annual meeting of shareholders. A board meeting is also held immediately prior to the annual shareholders' meeting to facilitate directors' attendance at both. Last year, all directors attended our annual meeting of shareholders.

Code of Ethics. Wauwatosa Holdings has adopted a code of ethics that reflects current circumstances and SEC and Nasdaq definitions for such codes. We have adopted a code of business conduct and ethics for ourselves, the 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 Wauwatosa Holdings and subsidiaries. We have posted a copy of its code of business conduct and ethics on our corporate website, at www.wsbonline.com, under the link "Investor Relations-Wauwatosa Holdings-Corporate Governance." 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.

Section 16(a) Compliance. Directors, certain of our officers and the holders of 10% or more of our common stock are required to file reports regarding their beneficial ownership and transactions in our common stock. During the year ended December 31, 2006, all such reports were filed with the Securities and Exchange Commission on a timely basis with the following exception. Forms 3, Initial Statement of Beneficial Ownership of Securities, for Mr. Bruss and for Ms. Arndt were filed on February 21, 2007. They should have been filed on November 30, 2005 and on November 22, 2006 when Mr. Bruss and Ms. Arndt respectively first became subject to section 14(a) compliance requirements.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy. The primary objectives of our executive compensation programs are to attract and retain highly-qualified executives, encourage extraordinary management effort through well-designed incentive opportunities and contribute to the short- and long-term interests of our shareholders. Long-term executive compensation programs focus on base salary, discretionary bonus and equity incentive awards. The programs are intended to reward the accomplishment of strategic plan goals and objectives as evaluated by members of the Committee. They are further intended to reward enhanced shareholder value as measured by share price. In 2005, the Compensation Committee engaged Hewitt Associates, LLC, a global human resources outsourcing and consulting firm, to assess the compensation program in light of these objectives and to make suggestions for

improvement. The Hewitt assessment was presented to the Compensation Committee in December 2005 and considered by the Compensation Committee in making its decisions regarding executive compensation.

Base Salary. In determining the base salary of executive officers, the Committee reviewed, among other things, the Hewitt report mentioned above, third party surveys of peer institutions, the historical compensation of those officers under review and performance measures of Wauwatosa Holdings and its subsidiaries. In evaluating performance in 2005 for calendar 2006 compensation, the Committee also noted that stock-based incentives were provided through the Wauwatosa Savings Bank Employee Stock Ownership Plan beginning in 2005 and are expected to provide an additional source of compensation for a period of 10 years. As a result of the Committee's detailed review and analysis, 2006 base salaries remained unchanged from calendar 2005. The Committee concluded that the level of base salary did not need to be raised in order to accomplish the objectives noted above.

Bonus. Actual bonus amounts have historically been determined on a discretionary basis following a review of our performance and that of the executive in question. They have ranged from 20% of base compensation to 100% of base compensation. In reevaluating our long-term executive compensation objectives and related programs, the Committee has targeted executive bonuses at 25% of base salary beginning in 2007. This is still a significant portion of total compensation and continues to allow discretion before the year-end bonus is paid. This element of overall compensation is meant to defer a portion of cash compensation to the end of the period. It allows the Committee one final opportunity to evaluate individual performance prior to the payout. It also serves as a means of retaining executives at least through the payout date. All bonuses are earned over a calendar year and are paid out in January following the end of the calendar year.

Equity Incentives. The Committee believes that equity-based compensation can provide an important incentive to executive officers while also aligning their interests with those of shareholders, since the value of the compensation will depend upon stock price performance. The ESOP, initially established in 2005, and the 2006 Equity Incentive Plan, approved by shareholders in May 2006, provide certain equity-based incentive compensation. Both restricted stock awards and option awards were granted to directors and executive officers in January 2007 and will be reported as a component of their total compensation for 2007. The Committee targeted long-term equity incentives at approximately one-third of total annual compensation for executive management. With regard to the Chief Executive Officer, the Committee targeted long-term equity incentives at more than half of total annual compensation. The allocation between the restricted stock awards and the option awards was generally an equal split. This is especially true for newly employed executives. For those executives that remain with us throughout the vesting period and who are fully vested in our other benefit plans, the allocation between restricted stock awards and option awards was more heavily weighted to the restricted stock awards. Dividends declared on our stock are paid to the holders of both vested and unvested restricted stock awards.

The initial grants of restricted stock awards and option awards under the 2006 Equity Incentive Plan were made on January 5, 2007. That date was before fourth quarter operating information was available and was more than a month prior to our fourth quarter earnings release. The grant price and the exercise price of the option awards granted were equal to the closing market price for our shares of common stock on the grant date. The equity incentive elements of total compensation very clearly tie to the Committee's objectives of executive retention due to the vesting schedules and to enhanced shareholder value due to the tie to our share value.

In the event of a change in control, the unvested equity incentive awards held by each recipient will vest automatically. Vested awards may be immediately cancelled and paid out in cash or stock based upon the highest fair market value per share of the stock during the 60-day period immediately preceding cancellation. A second-step conversion of our mutual holding company to stock form will not be considered a change in control.

The ESOP is a qualified plan that benefits all eligible employees proportionately. The ESOP was intended to replace our defined benefit pension plan and is not separately considered in the review and evaluation of annual executive compensation. ESOP allocations are made annually as of December 31, 2006 to all eligible employees. An employee must have completed a full year of service by July 1 of the calendar year and be employed by us on December 31, 2006 in order to receive an annual allocation each year. In the event of plan termination, all allocated benefits become fully vested immediately. Dividends paid with respect to shares of our stock allocated to participant accounts shall be used to repay any ESOP loan or credited proportionately to participant accounts.

Our current Chief Executive Officer, Douglas S. Gordon, had an active role in working with the Compensation Committee to develop overall, long-term compensation programs. All final decisions were made exclusively by the Compensation Committee.

Chief Executive Officer Compensation. Base salary and bonus paid to Donald J. Stephens, Chief Executive Officer, for the year ended December 31, 2006 remained unchanged from the prior year. Mr. Stephens' 2006 base salary of \$550,000 was originally set by the Board of Directors in December 2004 and was reaffirmed by the Compensation Committee in December 2005. Mr. Stephens' bonus compensation earned in 2006 and paid in 2007 was \$550,000. This amount was set by the Compensation Committee in December 2006 and was equal to his bonus earned in each of the prior two years.

On March 22, 2006, the Bank entered into an Early Retirement, Resignation and Release Agreement with Mr. Stephens pursuant to which the Bank and Mr. Stephens set forth the terms and conditions upon which Mr. Stephens agreed to retire from the Bank on December 31, 2006. Under the terms of the Resignation Agreement, Mr. Stephens agreed to resign from all positions held with the Bank, Wauwatosa Holdings and their affiliates, including directorships, as of December 31, 2006. The agreement also provides that Mr. Stephens will receive a lump sum payment which, after the payment of all taxes on such payment, will provide him with an amount equal to the value of the automobile that the Bank provided for his use during his employment. Mr. Stephens bought the automobile from the Bank in January 2007 for a price equal to its estimated fair market value. This payment will be made by the Bank in July 2007.

In recognition of Mr. Stephens' long-standing commitment and service to the Bank, it will pay Mr. Stephens a benefit of \$170,000 per year, for ten years following his resignation under the Supplemental Retirement Benefit Plan described below. No payments will be made to Mr. Stephens prior to six months following his resignation, as required by Section 409A of the Internal Revenue Code.

Wauwatosa Savings entered into an employment agreement with Douglas S. Gordon on October 25, 2005, as amended December 19, 2006. The employment agreement is intended to ensure that Mr. Gordon will serve as the President and Chief Executive Officer of Wauwatosa Holdings, of Lamplighter Financial, MHC and of the Bank through the period ended December 31, 2007, subject to further extensions by the Board. Under the employment agreement, Mr. Gordon is entitled to a 2007 base salary of \$360,000 per year, plus the eligibility to receive a bonus for calendar year 2007 payable in cash and/or stock options and/or restricted stock, as determined by the Compensation Committee of the Board of Directors. In the event of Mr. Gordon's resignation or termination by us for cause, payments of compensation and benefits to Mr. Gordon will cease.

Report of the Compensation Committee on Executive Compensation. 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 of the company that the "Compensation Discussion and Analysis" be included in this proxy statement.

This report has been provided by the compensation committee:

Patrick S. Lawton, Chairman
Thomas E. Dalum
Michael L. Hansen
Stephen J. Schmidt

The following table shows the compensation of Donald J. Stephens, our principal executive officer in 2006, Richard C. Larson, our principal financial officer and four other executive officers who received total compensation of more than \$100,000 during the past fiscal year.

SUMMARY COMPENSATION TABLE⁽¹⁾⁽²⁾⁽³⁾

Name and Principal Position	Year	Salary (\$)⁽⁵⁾	Bonus (\$)⁽⁶⁾	All Other Compensation (\$)⁽⁴⁾	Total (\$)
Donald J. Stephens President and Chief Executive Officer of the Company; Chief Executive Officer of the Bank	2006	550,000	550,000	484,128	1,584,128
Douglas S. Gordon Chief Operating Officer of the Company; President and Chief Operating Officer of the Bank	2006	250,000	250,000	14,951	514,951
Richard C. Larson Chief Financial Officer and Treasurer of the Company and of the Bank	2006	177,000	130,000	67,255	374,255
William F. Bruss General Counsel of the Company and Vice President, General Counsel of the Bank	2006	175,000	60,000	62,467	297,467
Barbara J. Coutley Senior Vice President and Secretary of the Company and of the Bank	2006	150,000	30,000	59,453	239,453
Rebecca M. Arndt Bank Vice President, Retail Operations	2006	132,197	35,000	8,706	175,904

- (1) There were neither stock awards nor option awards issued or outstanding in 2006 nor was there any executive non-equity incentive plan compensation.
- (2) The Bank's defined benefit compensation plan was frozen in December 2005. All future benefits ceased to accrue as of that date. No additional contributions have been made. Vested plan benefits are expected to be distributed in 2007.
- (3) There were no above-market or preferential earnings on non-qualified deferred compensation plans.
- (4) All other compensation includes ESOP shares valued at \$17.82 per share and allocated on December 31. Other compensation attributable to the ESOP for Mr. Stephens, Mr. Larson, Mr. Bruss and Ms. Coutley was \$48,963 each. Mr. Gordon and Ms. Arndt were not eligible to participate in the ESOP in 2006. All other compensation also includes club membership dues. Mr. Stephens' membership dues were \$4,030; Mr. Gordon's membership dues were \$9,755; Mr. Larson's membership dues were \$15,094; and Ms. Arndt's dues were \$1,104. All other compensation includes personal use of company-owned vehicles. The value of such use amounted to \$18,440 for Mr. Stephens, \$5,196 for Mr. Gordon, \$3,198 for Mr. Larson, \$13,504 for Mr. Bruss, \$10,490 for Ms. Coutley, and \$7,602 for Ms. Arndt. All other compensation includes \$85,304 related to the value of an automobile to be paid to Mr. Stephens in July 2007 and a \$5,000 retirement gift presented to Mr. Stephens in December 2006. All other compensation includes \$322,391 in deferred compensation related to Mr. Stephens' supplemental retirement benefit plan which is fully funded by the Bank.
- (5) Salary includes amounts contributed by participants in the Wauwatosa Savings Bank 401(k) Plan and deferred by participants in the Wauwatosa Savings Bank Executive Deferred Compensation Plan. Salary includes \$18,190 contributed to the 401(k) by Mr. Stephens, \$15,000 contributed to the 401(k) and \$61,538 deferred by Mr. Gordon, \$11,080 contributed to the 401(k) and \$9,803 deferred by Mr. Larson, \$13,190 contributed to the 401(k) by Mr. Bruss, \$12,519 contributed to the 401(k) and \$5,538 deferred by Ms. Coutley and \$6,231 contributed to the 401(k) by Ms. Arndt. Amounts deferred are also reported in the Nonqualified Deferred Compensation table which follows.

- (6) Bonus includes \$250,000 deferred by Mr. Gordon and \$27,000 deferred by Ms. Coutley as participants in the Wauwatosa Savings Bank Executive Deferred Compensation Plan. These amounts are also reported in the Nonqualified Deferred Compensation table which follows.

The following table sets forth information with respect to pension benefits at and for the year ended December 31, 2006 for the named executive officers.

PENSION BENEFITS

Name⁽¹⁾	Plan Name	Number of Years Credited Service (#)⁽³⁾	Present Value of Accumulated Benefit (\$) ⁽⁴⁾	Payments During Last Fiscal Year (\$) ⁽²⁾
Donald J. Stephens CEO	Wisconsin Financial Institutions Employees' Defined Benefit Pension Plan	36	1,006,309	-
Richard C. Larson CFO	Wisconsin Financial Institutions Employees' Defined Benefit Pension Plan	15	238,027	-
William F. Bruss General Counsel	Wisconsin Financial Institutions Employees' Defined Benefit Pension Plan	7	60,010	-
Barbara J. Coutley Secretary	Wisconsin Financial Institutions Employees' Defined Benefit Pension Plan	31	383,766	-

- (1) Neither Mr. Gordon nor Ms. Arndt was eligible to participate in the named plan.
- (2) The Board of Directors authorized the freezing of benefits and termination of the named plan at its December Board meeting in 2005. As such, contributions were immediately discontinued.
- (3) Years of credited service are as of the 2005 plan year end due to the authorized plan termination.
- (4) Due to the authorized termination of the plan, vested benefits no longer accrue. All participants are fully vested in their accrued benefits under this plan. Vested benefits do continue to earn interest through the date of distribution. The present value of the benefit disclosed is determined as of December 31, 2006. Interest credited to the vested benefit in 2006 was determined by the insurance company that manages the underlying plan assets and totaled \$94,076 for Mr. Stephens, \$17,468 for Mr. Larson, \$5,494 for Mr. Bruss and \$18,194 for Ms. Coutley.

Wauwatosa Savings Bank sponsored a non-contributory defined benefit pension plan intended to satisfy the qualification requirements of Section 401(a) of the Internal Revenue Code. Employees of Wauwatosa Savings Bank became eligible to participate in the Plan once they reached age 21 and completed 1,000 hours of service in a consecutive 12-month period. Participants became fully vested in their accrued benefits under the Plan upon the completion of six years of vesting service. Participants were credited with one year of vesting service for each plan year in which they completed 1,000 hours of service.

At its December 20, 2005 meeting, the Board of Directors of the Bank authorized the freezing and termination of the plan. The final distributions under the pension plan are expected in 2007 and are dependent upon receipt of all appropriate IRS and Pension Benefit Guarantee Corporation approvals. The final vested benefit will be calculated by Northwestern Mutual Life Insurance Company, which is the manager of pension plan assets.

The following table sets forth information with respect to our deferred compensation plan at and for the year ended December 31, 2006.

NONQUALIFIED DEFERRED COMPENSATION⁽¹⁾

Name⁽²⁾	Executive Contributions in Last Fiscal Year (\$)⁽³⁾	Registrant Contributions in Last Fiscal Year (\$)⁽⁴⁾	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Balance at Last Fiscal Year End (\$)
Donald J. Stephens CEO	-	322,391	-	1,370,871 ⁽⁵⁾
Douglas S. Gordon COO	311,538	-	541	312,080
Richard C. Larson CFO	9,803	-	86	9,889
Barbara J. Coutley Secretary	32,538	-	49	32,587

(1) There were no aggregate withdrawals/distributions in 2006.

(2) Mr. Bruss and Ms. Arndt did not defer compensation in 2006.

(3) These amounts are included in the Salary or Bonus column of the Summary Compensation Table as detailed in notes 5 and 6 for that table.

(4) This amount is included in the All Other Compensation column of the Summary Compensation Table.

(5) This amount was not previously reported in a summary compensation table. Mr. Stephens' deferred compensation relates to a supplemental retirement benefit described below.

The Bank entered into a Supplemental Retirement Benefit Plan with Donald Stephens on July 13, 1999, for the purposes of assuring Mr. Stephens' continued availability to provide services to the Bank and providing Mr. Stephens with supplemental retirement benefits in recognition of his service to the Bank. Pursuant to the plan, the Bank will pay Mr. Stephens \$170,000 per year for a period of 10 years following Mr. Stephens's termination of employment as of December 31, 2006. The present value of that payment stream, which will commence as of July 1, 2007, is reflected in the aggregate balance column above.

The Bank established the Wauwatosa Savings Bank Executive Deferred Compensation Plan effective as of September 1, 2006. Under this plan, selected senior management and highly compensated employees are permitted to defer, until a future designated date, a portion of the compensation which may otherwise be payable to them at an earlier date. By allowing key management employees to participate in this plan, the Bank expects the plan to benefit it by attracting and retaining the most capable individuals to fill its executive positions.

A participant may defer (i) up to 80% of salary or commissions and/or (ii) up to 100% of bonus or incentive pay; provided, however, that (A) the participant may not defer less than \$5,000 in a plan year and (B) the participant's deferral election for a plan year shall relate to compensation earned by him during such plan year, whether or not paid during that plan year. The investment options available to each participant are (i) the Moody's A long-term corporate bond rate, adjusted as of the first day of each plan year to equal the average yield for the month of September of the previous plan year (5.50% for 2006), and (ii) the total return of the Standard & Poor's 500 Index for the applicable calendar quarter (3.73%, -1.91%, 5.17%, and 6.17% per quarter in 2006). Participant account balances can be allocated between the two investment options in increments of 10% of balances. The participant can change the election option allocation selected effective January 1 or July 1 by submitting a new election form at least 15 days in advance of the effective date.

Each participant shall elect, at the time the participant makes his compensation deferral election, the calendar year in which such deferrals are to be distributed to him. The year of distribution may be any year

subsequent to the year of deferral, including any year prior to or following the participant's termination of employment. A participant may change the date as of which any portion of his account is to be distributed to him, provided that (i) the election shall not take effect until at least 12 months after the date on which the election is made and (ii) the first payment with respect to which such election is made is deferred for at least five years from the date such payment would otherwise have been made.

Payments Upon Termination. Under our existing plans and arrangements, if our named executive officers had been terminated as of December 31, 2006 they would have received the following benefits not generally available to all employees. Donald J. Stephens, who retired as of December 31, 2006, will receive \$1,456,175, \$1,370,871 under his supplemental executive retirement plan and \$85,304 related to the value of an automobile. Douglas S. Gordon, Richard C. Larson and Barbara J. Coutley would have received \$312,080, \$9,889 and \$32,587, respectively under our executive deferred compensation plan.

Other Benefit Plans

Employee Stock Ownership Plan and Trust. The Wauwatosa Savings Bank Employee Stock Ownership Plan became effective on October 4, 2005. Employees who are at least 21 years old and who have completed at least one year of service are eligible to participate. The employee stock ownership plan trust borrowed funds from Wauwatosa Holdings for the purchase of up to 8% of the total Wauwatosa Holdings shares sold in the initial public offering and those contributed to the charitable foundation. As of December 31, 2005, the employee stock ownership plan trust had purchased 761,515 shares in the open market, which represents 7.5% of the total Wauwatosa Holdings shares sold in the initial public offering and those contributed to the charitable foundation. The trust does not anticipate purchasing any additional shares at this time.

The common stock purchased by the employee stock ownership plan serves as collateral for the loan. The loan is being repaid principally from Bank discretionary contributions to the employee stock ownership plan over a period of up to 10 years. The loan documents provide that the loan may be repaid over a shorter period, without penalty for prepayments. The interest rate for the loan is fixed at 5.0% per annum. Shares purchased by the employee stock ownership plan are held in a suspense account for allocation among participants as the loan is repaid.

Contributions to the employee stock ownership plan and shares released from the suspense account in an amount proportional to the repayment of the employee stock ownership plan loan are allocated among employee stock ownership plan participants on the basis of their compensation in the year of allocation. Benefits under the plan vest in accordance with a graded vesting schedule providing full vesting after the completion of six years of credited service. A participant's interest in his account under the plan fully vests in the event of termination of service due to a participant's normal retirement, death, or disability. Vested benefits are payable in the form of common stock and/or cash and benefits are generally distributable upon a participant's separation from service.

Wauwatosa Savings' contributions to the employee stock ownership plan are discretionary, subject to the loan terms and tax law limits. In any plan year, Wauwatosa Savings may make additional discretionary contributions (beyond those necessary to satisfy the loan obligation) to the employee stock ownership plan for the benefit of plan participants in either cash or shares of common stock, which may be acquired through the purchase of outstanding shares in the market or from individual shareholders or which constitute authorized but unissued shares or shares held in treasury by Wauwatosa Holdings. The timing, amount and manner of discretionary contributions will be affected by several factors, including applicable regulatory policies, the requirements of applicable laws and regulations and market conditions. Wauwatosa Savings' contributions to the employee stock ownership plan are not fixed; therefore, benefits payable under the employee stock ownership plan cannot be estimated. Pursuant to SOP 93-6, we are required to record compensation expense each year in an amount equal to the fair market value of the shares committed to be released. During the year ended December 31, 2006, 76,152 shares were allocated to participants in the employee stock ownership plan, which resulted in compensation expense of \$1,176,000 to Wauwatosa Savings for the period.

Plan participants are entitled to direct the plan trustee on how to vote common stock credited to their accounts. The trustee votes all allocated shares held in the employee stock ownership plan as instructed by the plan

participants and unallocated shares and allocated shares for which no instructions are received will be voted by the trustee, subject to the fiduciary responsibilities of the trustee.

The employee stock ownership plan must meet certain requirements of the Internal Revenue Code and the Employee Retirement Income Security Act. Wauwatosa Savings intends to request a favorable determination letter from the Internal Revenue Service regarding the tax-qualified status of the employee stock ownership plan. Wauwatosa Savings expects to receive a favorable determination letter, but cannot guarantee that it will.

401(k) Plan. The Wauwatosa Savings Bank 401(k) Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code with a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code. Employees become eligible to make salary reduction contributions to the 401(k) Plan and to receive any matching or discretionary contributions made to the 401(k) Plan by Wauwatosa Savings Bank on the first January 1, April 1, July 1 or September 1 coinciding with or next following the date that the employee has attained 18 years of age and completed at least three months of service with Wauwatosa Savings Bank.

Participants may elect to annually contribute up to the lesser of 90% of eligible compensation or \$15,000 in calendar year 2006. Wauwatosa Savings Bank may make discretionary profit sharing contributions to the 401(k) Plan but has never done so. Plan participants direct the investment of their accounts in several types of investment funds. Participants are always 100% vested in their elective deferrals and related earnings. Participants become vested in any discretionary profit sharing contributions and related earnings in 20% increments, beginning with the completion of two years of service and ending with the completion of six years of service. Participants are permitted to receive a distribution from the 401(k) Plan only in the form of a lump sum payment.

Set forth below is summary compensation for each of our non-employee directors for the year ended December 31, 2006.

DIRECTOR COMPENSATION

Director	Fees Earned or Paid in Cash (\$)	Total (\$)
Patrick S. Lawton Chairman of the Board as of January 1, 2007; Compensation Committee Chairman	59,500	59,500
Michael L. Hansen Audit Committee Chairman	62,000	62,000
Stephen J. Schmidt Nominating Committee Chairman	59,500	59,500
Thomas E. Dalum Director	57,000	57,000

In 2006, we paid each non-officer director an annual retainer of \$30,000. In addition, annual fees paid to the Chairman of the Audit Committee totaled \$10,000 while the Chairmen of the Compensation Committee and the Nominating and Corporate Governance Committee each received \$7,500. Finally, each regular non-chairperson member of each of the three committees previously mentioned received an annual fee of \$5,000. In addition, an annual retainer of \$12,000 for each non-employee director was paid by the Bank.

Wauwatosa Holdings directors are eligible to participate in the 2006 Incentive Plan as approved by shareholders at the 2006 annual meeting. Awards were granted under that plan in January 2007 and will be reported

as 2007 compensation. Directors earned no stock awards, no option awards, no non-equity incentive compensation, no pension, no deferred compensation nor any other compensation in 2006.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the federal securities laws, Wauwatosa Holdings' directors, its executive 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 SEC. 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 these filing requirements were satisfied on a timely basis for the year ended December 31, 2006.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the members of the Compensation Committee was an officer or employee of Wauwatosa Holdings, Wauwatosa Savings or a Bank subsidiary, nor did any of them have any other reportable interlock.

CERTAIN TRANSACTIONS WITH WAUWATOSA HOLDINGS

Wauwatosa Savings 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. The Bank's historical policy has been that transactions with its directors and executive officers be on terms that are no more beneficial to the director or executive officer than the Bank 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 the Bank; the deposits are made on the same terms and conditions which are offered to other depositors.

In the ordinary course of business, Wauwatosa Savings makes loans available to its directors, officers and employees. After six months of continuous employment, full-time employees of Wauwatosa Savings are entitled to receive a mortgage loan at a reduced interest rate, consistent with applicable laws and regulations. In December 2005, the Board discontinued the employee loan program for employee loans originated after March 31, 2006. Employee loans at reduced interest rates originated on or before March 31, 2006 will continue on their same terms.

The chart below lists the named executive officers who participated in the employee mortgage loan program as of December 31, 2006 and the terms of the mortgage loans as of that date. No directors or other executive officers of Wauwatosa Holdings, Wauwatosa Savings or any Bank subsidiary participated in the employee mortgage loan program during the year ended December 31, 2006.

Named Executive Officer	Maximum Balance During 2006	Balance as of December 31, 2006	Employee Interest Rate	Non-employee Interest Rate
Barbara J. Coutley	\$257,742	\$250,591	3.59%	6.25%
Richard C. Larson	\$332,299	\$324,888	3.59%	5.75%
William F. Bruss	\$325,167	\$318,592	3.59%	5.50%

At the time of termination of employment with Wauwatosa Savings, the interest rate will be adjusted to the non-employee interest rate as set forth in the mortgage note.

In evaluating the independence of our independent directors, there were 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.

Management believes that these loans neither involve more than the normal risk of collection nor present other unfavorable features. Federal regulations permit executive officers and directors to participate in loan programs that are available to other employees, as long as the director or executive officer is not given preferential treatment compared to other participating employees. Loans made to directors or executive officers, including any modification of such loans, must be approved by a majority of disinterested members of the Board of Directors. The interest rate on loans to directors and officers is the same as that offered to other employees.

Other than described above, since January 1, 2006, 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.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Wauwatosa Holdings Board of Directors was created in accordance with Section 3(a)(58)(a) of 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 the our financial accounting and reporting. No member of the Audit Committee is employed by or has any other material relationship with us. The members are "independent" as defined in Rule 4200(a)(15) of the NASD listing standards for the Nasdaq Stock Market. The board of directors has adopted a written charter for the Audit Committee which can be found on the Company's website.

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

- reviewed and discussed the audited financial statements for the year ended December 31, 2006 with management;
- discussed with KPMG LLP, the Company's independent registered public accounting firm, those matters which are required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU §380); and
- received the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with KPMG LLP its independence.

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, 2006.

In addition, the Audit Committee also considered the fees paid to KPMG LLP for services provided by KPMG during year ended December 31, 2006. See "Independent Registered Public Accounting Firm" below. The Committee believes that the provision of the non-audit services is compatible with maintaining KPMG independence.

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

The firm of KPMG LLP has audited the books and records of Wauwatosa Holdings as of and for the year ended December 31, 2006; and has served as the Bank's principal independent accountant since March 12, 2004.

Representatives of KPMG LLP are expected to be present at the annual meeting to respond to appropriate questions and to make a statement if they so desire.

The Audit Committee of the Board of Directors has selected KPMG LLP as our independent registered public accountants for the fiscal year ending December 31, 2007. We are submitting the selection of independent registered public accountants for shareholder ratification at the annual meeting.

Our organizational documents do not require that shareholders ratify the selection of KPMG LLP as our independent registered public accountants. We are doing so because we believe that ratification is a matter of good corporate practice. If our shareholders do not ratify the selection, the Audit Committee will reconsider whether to retain KPMG LLP, but may still retain them. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

The following table presents the aggregate fees for professional services by KPMG LLP for the year ended December 31, 2006, the six months ended December 31, 2005 and the 12 months ended June 30, 2005.

	Year Ended December 31, 2006	Six Months Ended December 31, 2005	Twelve Months Ended June 30, 2005
Audit Fees ⁽¹⁾	\$ 202,750	\$ 99,800	\$ 169,000
Audit Related Fees ⁽²⁾	-	10,000	8,000
Tax Fees ⁽³⁾	53,800	-	13,590
Total	<u>\$ 256,550</u>	<u>\$ 109,800</u>	<u>\$ 190,590</u>

- (1) Audit fees consist of professional services rendered by KPMG LLP for the audit of our financial statements. In addition, the audit fees include professional services rendered by KPMG LLP of \$10,000 in the six months ended December 31, 2005 and \$110,000 for the 12 months ended June 30, 2005 related to the filing of the form S-1 Registration Statement with the SEC.
- (2) Audit related fees consist of services rendered by KPMG LLP for Federal Home Loan Bank collateral verification and audit work related to Lamplighter Financial, MHC, our mutual holding company.
- (3) Tax fees in 2006 include \$38,500 for the 2005 tax returns and related filings and \$15,300 for assistance with an IRS audit of the federal income tax returns for 2003 and 2004. Fees billed in 2005 were paid to KPMG LLP for preparation of 2004 federal and state income tax returns.

The Audit Committee approves all engagements of the independent auditor in advance, including approval of the related fees.

The Board of Directors recommends a vote "FOR" the ratification of KPMG LLP as our independent registered public accounting firm.

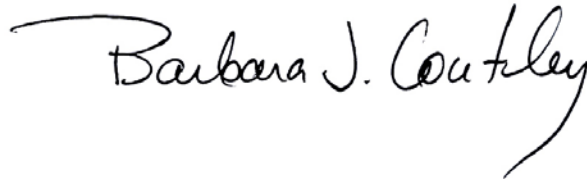
SHAREHOLDER PROPOSALS AND NOTICES

Shareholder proposals must be received by the Secretary of Wauwatosa Holdings, Barbara J. Coutley, no later than November 26, 2007 in order to be considered for inclusion in next year's annual meeting proxy materials pursuant to SEC Rule 14a-8.

Under SEC 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 Wauwatosa Holdings 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 11, 2008 in the case of the 2008 annual meeting of shareholders. The Company is not aware of any such proposals for the 2007 annual meeting.

Our bylaws also require that any nomination of a director or submission of a matter for consideration of the meeting must be presented, with specified accompanying information, to the Wauwatosa Holdings Corporate Secretary at least 80, but not more than 110, days before the scheduled date for the next annual meeting of shareholders. No such submissions have been received by us for the 2007 annual meeting. Assuming that the 2008 annual meeting is held as scheduled on May 15, 2008, the period in which materials must be received is between January 25, 2008 and February 24, 2008 for the 2008 annual meeting.

By Order of the Board of Directors

A handwritten signature in black ink that reads "Barbara J. Coutley". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Barbara J. Coutley
Senior Vice President and Secretary

Wauwatosa, Wisconsin
March 28, 2007

A copy (without exhibits) of the Wauwatosa Holdings Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2006 is attached to this proxy statement. The Company will provide an additional copy of the 10-K (without exhibits) without charge to any record or beneficial owner of Company common stock on the written request of that person directed to: Richard C. Larson, Chief Financial Officer, Wauwatosa Holdings, 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 SEC's website at www.sec.gov.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission file number: 000-51507

WAUWATOSA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-0691250

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

11200 W Plank Ct, Wauwatosa, WI

(Address of principal executive offices)

53226

(Zip Code)

Registrant's telephone number, including area code: (414) 761-1000

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

Common Stock, \$0.01 Par Value

(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Exchange Act).

Yes ☐ No ☒

As of February 28, 2007, 33,265,483 shares of Common Stock were validly issued and outstanding. The aggregate market value of the Common Stock (based upon the \$17.06 last sale price quotation on The Nasdaq Global Select Market[®] on June 30, 2006, the end of our second fiscal quarter) held by non-affiliates (excluding shares reported as beneficially owned by directors and executive officers and unallocated shares of the Employee Stock Ownership Plan; does not constitute an admission as to affiliate status) was approximately \$564.3 million.

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, 2007	Part III

WAUWATOSA HOLDINGS, INC.

**FORM 10-K ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2006**

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Part 1

Wauwatosa Holdings, Inc. and its subsidiaries, including Wauwatosa Savings Bank, are referred to herein as the “Company,” “Wauwatosa Holdings,” or “we.”

Item 1. Business

Introduction

Wauwatosa Holdings, Inc. is a corporation organized under the laws of the State of Wisconsin. The Company was formed as part of the reorganization of Wauwatosa Savings Bank into mutual holding company form in October 2005. As part of the reorganization, Wauwatosa Holdings was formed as a mid-tier stock holding company, Lamplighter Financial, MHC was formed as a Wisconsin mutual holding company and Wauwatosa Savings Bank was converted from a mutual to a stock savings bank. In connection with the reorganization, Wauwatosa Holdings sold approximately 30% of its stock in a subscription offering, contributed approximately 1.65% of its common stock to a charitable foundation, and issued the remaining approximately 68.35% to Lamplighter Financial, MHC. As a result of the reorganization, Wauwatosa Holdings owns all of the stock of Wauwatosa Savings and, in turn, is majority owned by Lamplighter Financial, MHC. In this report, we refer to Wauwatosa Savings Bank, both before and after the reorganization, as “Wauwatosa Savings” or the “Bank.”

On February 21, 2007, the Company announced that its board of directors had approved a plan of charter conversion to change the Company charter to that of a federal corporation regulated exclusively by the Office of Thrift Supervision (OTS). Similarly, the board of directors of the Company’s mutual holding company parent, Lamplighter Financial, MHC also approved a plan of conversion to convert its charter to a federal corporation. The Company charter conversion is subject to approval by the OTS and the Company’s shareholders.

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, and amendments to those reports, 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.

Cautionary Factors

This Form 10-K contains or incorporates by reference various forward-looking statements concerning the Company's prospects that are based on the current expectations and beliefs of management. Forward-looking statements may also be made by the Company from time to time in other reports and documents as well as in oral presentations. When used in written documents or oral statements, the words "anticipate," "believe," "estimate," "expect," "objective" and similar expressions and verbs in the future tense, are intended to identify forward-looking statements. The statements contained herein and such future statements involve or may involve certain assumptions, risks and uncertainties, many of which are beyond the Company's control, that

could cause the Company's actual results and performance to differ materially from what is expected. In addition to the assumptions and other factors referenced specifically in connection with such statements, the following factors could impact the business and financial prospects of the Company:

- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- legislative or regulatory changes that adversely affect our business;
- changes in our organization, compensation and benefit plans;
- our ability to enter new markets successfully and take advantage of growth opportunities;
- general economic conditions, either nationally or in our market area, that are worse than expected;
- significantly increased competition among depository and other financial institutions;
- adverse changes in the securities markets;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and
- changes in consumer spending, borrowing and savings habits.

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.

BUSINESS OF WAUWATOSA SAVINGS BANK

General

Our principal business consists of attracting deposits from the general public in the areas surrounding our main office location in Wauwatosa, Wisconsin, a suburb of Milwaukee, and our seven other banking offices and our nine automated teller machines ("ATM"), including stand-alone ATM facilities, located in Milwaukee, Washington and Waukesha Counties, Wisconsin.

We invest those deposits, together with funds generated from operations, primarily in residential real estate mortgage loans. At December 31, 2006, residential real estate mortgage loans comprised 82.5% of our total loans receivable. On that same date, our residential real estate mortgage loan portfolio was comprised of loans secured by single family homes (32.7%), two-to four-family homes (17.3%), and over four-family buildings (32.4%). The remainder of loans receivable consists of construction mortgages, commercial mortgages and mortgages on land.

Our revenues are derived principally from interest on loans and securities. Our primary sources of funds are deposits and principal and interest payments on loans and securities. We also borrow from the Federal Home Loan Bank of Chicago.

Business Strategy

Our business strategy is to operate a well-capitalized and profitable community bank dedicated to providing quality customer service. Our principal business activity historically has been the origination of one- to four-family residential mortgage loans. More recently, we have increased our efforts to originate loans secured by commercial real estate, including over four-family properties. There can be no assurances that we will successfully implement our business strategy.

Highlights of our business strategy are as follows:

- *Remaining a Community-Oriented Institution.* We were established in Wauwatosa, Wisconsin, a suburb of Milwaukee, in 1921, and have been operating continuously since that time. We have been, and continue to be, committed to meeting the financial needs of the communities we serve, and we are dedicated to providing quality personal service to our customers. Our focus will be to retain our mutual holding company form of organization consistent with our historical, community-oriented focus.
- *Continuing Emphasis on Residential Real Estate Lending.* We intend to continue our emphasis on the origination of residential real estate loans, especially over four-family loans. Current loans-to-one borrower limitations cap the amount of credit that we can extend to a single or affiliated group of investors/developers at 15% of Wauwatosa Savings' capital. Following our stock offering, we have been able to serve over four-family borrowers with larger lending needs and to originate larger commercial real estate loans than we had in the past. We provide long-term, fixed-rate loans and indexed, adjustable mortgage loan products to our owner-occupied residential mortgage customers.
- *Expansion within Our Market Area.* Wauwatosa Savings' growth in recent years has been achieved through the origination of real estate mortgages funded primarily by fixed-term deposits. We currently operate seven banking offices. In 2006, we opened two new full service branches, one in the city of Franklin, Wisconsin and the other in the village of Germantown, Wisconsin. We plan to expand our branch network in the near future by adding one to two branches each year within our existing market area defined as Milwaukee and Waukesha counties and each of the other six contiguous counties. The first new branch office that we expect to open in calendar 2007 will be located in the City of West Allis, Wisconsin.
- *Maintaining High Asset Quality.* We have emphasized maintaining strong asset quality by following conservative underwriting criteria. This goal was emphasized in 2006 by establishing a loan approval committee, by adding a credit underwriting function and by adding a credit review function.
- *Expansion of Product Offerings.* We intend to broaden the line of both retail and commercial product offerings in the upcoming years. In 2006, we purchased Waterstone Mortgage Corporation, a mortgage broker with offices located in Wisconsin and Michigan. This acquisition expands both the types of mortgage loan products offered and the geographical coverage for those products. In addition, we began originating commercial loans in 2006. A commercial lending department is being formally added to the Bank in March 2007.

Competition

We face competition within our market area both in making real estate loans and attracting deposits. Milwaukee and Waukesha Counties have a high concentration of financial institutions including large commercial banks, community banks and credit unions. As of June 30, 2006, based on the FDIC's annual Summary of Deposits Report, our market share of deposits represented 3.2% of deposits in Milwaukee County, the 5th largest market share in that county, and 2.7% of deposits in Waukesha County, the 13th largest market share in that county.

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. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Market Area

The Bank's market area is broadly defined as the Milwaukee, Wisconsin metropolitan market geographically located in the southeast corner of the state. More specifically, our current target market is based in Milwaukee and Waukesha Counties and includes each of the five surrounding counties, Ozaukee, Washington, Jefferson, Walworth and Racine. The Bank has three branch offices in Milwaukee County, three branch offices in Waukesha County and one branch office in Washington County. At June 30, 2006, 43.0% of total bank deposits in the state of Wisconsin were located in the seven county metropolitan Milwaukee market.

Our primary market area for deposits includes the communities in which we maintain our banking office locations. Our primary lending area is broader than our primary deposit market area and includes all of the target market noted above but extends further west to the Madison, Wisconsin market and further north to the Appleton and Green Bay, Wisconsin markets. In addition, our mortgage banking operation has offices in Pewaukee, Lake Geneva, Madison and Delafield, Wisconsin and Livonia, Michigan.

Lending Activities

The scope of the discussion included under the "Lending Activities" heading is limited to lending operations at the Bank. A discussion related to lending activities at Waterstone Mortgage Corporation is included under the heading "Mortgage Banking Activities."

Historically, our principal lending activity has been the origination of mortgage loans for the purchase or refinancing of residential real estate. Generally, we retain all loans that the Bank originates. Single family residential real estate loans represented \$472.9 million, or 32.7%, of our total loan portfolio at December 31, 2006. Two- to four-family residential real estate mortgage loans represented \$250.6 million, or 17.3%, of our total loan portfolio at December 31, 2006. Over four-family residential real estate mortgage loans represented \$468.8 million, or 32.4%, of our total loan portfolio at December 31, 2006. We also offer construction loans, commercial real estate loans, commercial loans and land loans. At December 31, 2006, construction loans, commercial real estate, commercial and land loans totaled \$175.2 million, \$46.6 million, \$2.7 million and \$28.0 million or 12.1%, 3.2%, 0.2% and 1.9% respectively, of our total loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in dollar amounts and in percentage of the total portfolio at the dates indicated.

	At December 31,				At June 30,							
	2006		2005		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans:	(Dollars in Thousands)											
Residential ⁽¹⁾												
Single family	472,852	32.74%	\$469,395	33.69%	\$430,333	33.11%	\$391,864	34.60%	\$357,212	36.63%	\$371,754	40.21%
Two- to four-family	250,571	17.34%	256,270	18.40%	251,268	19.33%	224,765	19.85%	203,655	20.88%	185,218	20.04%
Over four-family	468,750	32.44%	443,528	31.84%	407,601	31.36%	340,753	30.09%	287,589	29.49%	262,310	28.38%
Construction	175,165	12.12%	165,516	11.88%	149,540	11.50%	110,495	9.76%	75,535	7.74%	66,918	7.24%
Commercial	46,610	3.23%	34,543	2.48%	36,586	2.81%	46,138	4.07%	43,895	4.50%	28,552	3.09%
Land	27,951	1.93%	23,685	1.70%	24,282	1.87%	18,307	1.62%	7,195	0.74%	9,434	1.02%
Commercial	2,657	0.18%	-	-	-	-	-	-	-	-	-	-
Other loans	227	0.02%	159	0.01%	202	0.02%	186	0.01%	214	0.02%	214	0.02%
Total loans	1,444,783	100.00%	1,393,096	100.00%	1,299,812	100.00%	1,132,508	100.00%	975,295	100.00%	924,400	100.00%
Undisbursed loan proceeds	(67,390)		(82,712)		(77,484)		(61,904)		(29,173)		(23,947)	
Net deferred loan fees and premiums	(4,486)		(4,366)		(4,161)		(3,631)		(3,099)		(2,576)	
losses	(7,195)		(5,250)		(4,606)		(3,378)		(2,970)		(2,479)	
Loans, net	<u>\$1,365,712</u>		<u>\$1,300,768</u>		<u>\$1,213,561</u>		<u>\$1,063,594</u>		<u>\$940,053</u>		<u>\$895,398</u>	

(1) Residential mortgage loans include home equity loans and home equity lines of credit.

Loan Portfolio Maturities and Yields. The following table summarizes the final maturities of our loan portfolio at December 31, 2006. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. Maturities are based upon the final contractual payment dates and do not reflect the impact of prepayments and scheduled monthly payments that will occur.

Residential ⁽¹⁾												
<u>Maturity Date</u>	<u>Single Family</u>		<u>Two- to four-family</u>		<u>Over four-family</u>		<u>Construction</u>		<u>Commercial Real Estate</u>		<u>Land</u>	
	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
(Dollars in Thousands)												
Jan 1, 2007 – Dec 31, 2007	15,406	6.80%	26,505	6.42%	48,081	6.09%	78,082	6.43%	426	6.85%	8,658	6.47%
Jan 1, 2008 – Dec 31, 2008	25,995	6.37%	50,803	6.36%	110,914	6.12%	22,315	6.73%	6,741	6.03%	2,744	6.47%
Jan 1, 2009 – Dec 31, 2009	24,070	6.94%	65,681	6.90%	93,281	6.57%	11,497	6.51%	16,925	6.71%	4,188	6.53%
Jan 1, 2010 – Dec 31, 2010	2,171	8.00%	2,535	6.92%	13,498	6.25%	9,497	6.36%	1,220	7.10%	-	-
Jan 1, 2011 – Dec 31, 2011	16,904	8.00%	1,616	6.89%	10,284	6.72%	-	-	1,964	6.74%	-	-
Jan 1, 2012 and thereafter	388,306	5.92%	103,431	6.12%	192,692	6.46%	53,774	5.94%	19,334	6.09%	12,361	7.10%
Total	<u>\$472,852</u>	6.11%	<u>\$250,571</u>	6.42%	<u>\$468,750</u>	6.36%	<u>\$175,165</u>	6.32%	<u>\$46,610</u>	6.37%	<u>\$27,951</u>	6.76%

<u>Maturity Date</u>	<u>Commercial Business</u>		<u>Consumer</u>		<u>Total Loans</u>	
	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Thousands)						
Jan 1, 2007 – Dec 31, 2007	-	-	\$227	7.00%	\$177,385	6.36%
Jan 1, 2008 – Dec 31, 2008	1,290	9.25%	-	-	220,802	6.28
Jan 1, 2009 – Dec 31, 2009	-	-	-	-	215,642	6.72
Jan 1, 2010 – Dec 31, 2010	-	-	-	-	28,921	6.51
Jan 1, 2011 – Dec 31, 2011	-	-	-	-	30,768	7.43
Jan 1, 2012 and thereafter	1,367	7.38%	-	-	771,265	6.11
Total	<u>\$2,657</u>	8.29%	<u>\$227</u>	7.00%	<u>\$1,444,783</u>	6.30%

⁽¹⁾ Residential mortgage loans include home equity loans and home equity lines of credit.

The following table sets forth the scheduled repayments of fixed and adjustable rate loans at December 31, 2006 that are contractually due after December 31, 2007.

	Due After December 31, 2007		
	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
	(In Thousands)		
Real estate loans:			
Residential ⁽¹⁾			
Single family	\$58,831	\$398,615	\$457,446
Two- to four-family	121,605	102,461	224,066
Over four-family	223,490	197,179	420,669
Construction	39,618	57,465	97,083
Commercial	23,900	22,284	46,184
Land	6,391	12,902	19,293
Commerical	967	1,690	2,657
 Total loans	 \$474,802	 \$792,596	 \$1,267,398

⁽¹⁾Residential mortgage loans include home equity loans and home equity lines of credit.

One- to Four-Family Residential Mortgage Loans. Wauwatosa Savings' primary lending activity consists of the origination of residential mortgage loans secured by properties located in Milwaukee and surrounding counties. We originated \$69.0 million and \$53.7 million of single family and two- to four-family residential loans, respectively, during the year ended December 31, 2006. Our variable-rate mortgage loans generally provide for maximum rate adjustments of 100 basis points per adjustment, with a lifetime maximum adjustment up to 3%, regardless of the initial rate. Our variable-rate mortgage loans typically amortize over terms of up to 30 years.

Variable rate mortgage loans can decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the underlying 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 variable rate mortgage loans to decrease the risk associated with changes in interest rates may be limited during periods of rapidly rising interest rates.

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 disposes of 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. At December 31, 2006, our largest single family owner-occupied residential mortgage loan had a principal balance of \$2.0 million and our largest single family non-owner-occupied residential mortgage loan had a principal balance of \$1.5 million. The average single family first mortgage loan balance was \$144,000 on December

31, 2006. This compares with an average balance of \$135,000 for two- to four-family mortgage loans on December 31, 2006. At December 31, 2006, our largest two- to four-family loan had a principal balance of \$1.7 million.

Wauwatosa Savings offered employees special terms applicable to home mortgage loans granted on their principal residence. Effective April 1, 2006, this program was discontinued for new loan origination. Under the terms of the discontinued program, mortgage loans were underwritten and granted under normal terms and conditions applicable to any Wauwatosa Savings borrower. For loans that were granted prior to April 1, 2006 the employee interest rate is predicated upon Wauwatosa Savings' cost of funds on December 31 of the immediately preceding year and is adjusted annually. The employee rate is not permitted to exceed the contract rate plus or minus increases or decreases to the contract rate directed by the Wauwatosa Savings Board of Directors to be made to all residential mortgage loans originated at the same contract rate, subject to any limitations, or the lender's right to increase or decrease interest rates contained in the mortgage note. The employee rate is applicable to all mortgage loans that qualified under the employee loan policy statement that are scheduled for automatic payment. Mortgage loans that are not scheduled for automatic payment as of the last business day preceding a monthly installment payment due date revert back to the contract rate for the following month. At December 31, 2006, the rate of interest on an employee rate mortgage loan was 3.59%, compared to the weighted average rate of 6.30% on all single family mortgage loans. This rate increases to 4.35% effective March 1, 2007. Employee rate mortgage loans totaled \$10.8 million, or 0.9% of our residential mortgage loan portfolio on December 31, 2006.

We also offer home equity loans and home equity lines of credit, both of which are secured by owner-occupied one- to four-family residences. At December 31, 2006, home equity loans and equity lines of credit totaled \$43.1 million, or 3.0% of total loans. Additionally, at December 31, 2006, the unadvanced amounts of home equity lines of credit totaled \$34.7 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 10 years. The loan-to-value ratio for our home equity loans and our lines of credit is generally limited to 90%. The largest home equity loan outstanding on December 31, 2006 totaled \$998,000 on a property with an appraised value of \$1.7 million. Our home equity lines of credit have ten-year terms and adjustable rates of interest 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 largest home equity line of credit outstanding on December 31, 2006 totaled \$397,000 on a commitment of \$400,000, and is secured by a property with an appraised value of \$1.0 million. The Bank also holds a first mortgage on this property with an outstanding balance of \$234,000 as of December 31, 2006.

Over Four-family Real Estate Loans. We originate over four-family real estate loans as a significant portion of total annual loan production. Over four-family loans originated during the year ended December 31, 2006 totaled \$99.9 million or 31.3% of all mortgage loans originated. These loans are generally located in our primary market area. Our over four-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. Over four-family real estate loans may be made with terms of up to 30 years and are offered with interest rates that are fixed up to five years or are variable and adjust at our discretion. In reaching a decision on whether to make an over four-family real estate loan, we consider gross revenues and the net operating income of the property, the borrower's expertise, business cash flow and credit history, 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. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, 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, over four-family loans made to corporations, partnerships and other business entities require personal guarantees by the principals and owners of 20% or more of the entity.

An over four-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 million to provide annually updated financial statements and federal tax returns. These requirements also apply to all 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 largest over four-family real estate loan in our portfolio at December 31, 2006 was an \$8.6 million loan for a 112 unit, 14 building apartment complex located in Walworth County, Wisconsin with an appraised value of \$9.9 million. At December 31, 2006, our largest exposure to a related group of borrowers was \$20.0 million, represented by 23 separate loans, primarily on residential properties with over four units located throughout the Milwaukee area. These loans were all performing according to their terms. The average outstanding over four-family mortgage loan balance totaled \$514,000 on December 31, 2006.

Loans secured by over four-family real estate generally involve larger principal amounts and a greater degree of risk than one- to four-family residential mortgage loans. Because payments on loans secured by over four-family properties are often dependent on 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.

Residential Construction Loans. We originate construction loans to individuals and contractors for the construction and acquisition of personal and multi-family residences. At December 31, 2006, construction mortgage loans totaled \$175.2 million, or 12.1%, of total loans. At December 31, 2006, the unadvanced portion of these construction loans totaled \$67.4 million.

Our construction mortgage loans generally provide for the payment of interest only during the construction phase, which is typically up to nine months although our policy is to consider construction periods as long as 12 months or more. At the end of the construction phase, the construction loan converts to a longer term mortgage loan. Construction loans can be made with a maximum loan-to-value ratio of 90%, provided that the borrower obtains private mortgage insurance on the loan if the loan balance exceeds 80% of the lesser of the appraised value or sales price of the secured property. At December 31, 2006, our largest single family residential

construction mortgage loan commitment was for \$3.3 million, \$1.5 million of which had been disbursed. This loan was performing according to its terms. The average outstanding construction loan balance totaled \$608,000 on December 31, 2006. The longer term portions of construction loans to individuals are generally made on the same terms as our one- to four-family residential mortgage loans.

Before making a commitment to fund a residential 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 the percentage of completion method.

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 payment.

Wauwatosa Savings also extends loans to residential subdivision developers for the purpose of land acquisition, the development of infrastructure and the construction of homes. Advances are determined as a percentage of cost or appraised value (whichever is less) and the project is physically inspected prior to each advance. As of December 31, 2006 the single largest commitment on a single residential subdivision totaled \$8.0 million and had an outstanding balance of \$7.0 million. This loan was performing according to its terms.

Commercial Real Estate Loans. To a lesser extent we originate commercial real estate loans. Commercial real estate loans originated during the year ended December 31, 2006 totaled \$19.9 million, or 6.2% of all mortgage loans originated. Commercial real estate loans totaled \$46.6 million at December 31, 2006, or 3.2% of total loans, and are made up of loans secured by office and retail buildings, churches, restaurants, other retail properties and mixed use properties. These loans are generally 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 may be made with terms of up to 30 years and are offered with interest rates that are fixed up to five years or are variable and adjust at our discretion. In reaching a decision on whether to make a commercial real estate loan, we consider gross revenues and the net operating income of the property, the borrower's expertise, business cash flow and credit history, 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. We generally require that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before interest, 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 owners of 20% or more of the entity.

A commercial 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 million to provide annually 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 largest commercial real estate loan in our portfolio at December 31, 2006 was a \$2.8 million loan for a mixed use commercial and residential building with an appraised value of \$4.0 million located in Milwaukee County, Wisconsin. This loan is performing in accordance with all loan terms. Wauwatosa Savings' combined loan to value ratio for this mortgage loan is 70.7%.

The following table shows loan origination, purchasing and principal repayment activity during the periods indicated.

	Year Ended December 31, 2006	Six Months Ended December 31, 2005	Years Ended June 30, 20052004	
	(In Thousands)			
Total loans at beginning of year	\$1,393,096	\$1,299,812	\$1,132,507	\$975,296
Real estate loans originated for investment:				
Residential ⁽¹⁾				
Single family	69,004	81,397	139,878	146,712
Two- to four-family	53,699	52,030	96,560	98,223
Over four-family	99,949	95,734	148,964	129,187
Construction	63,434	43,865	80,221	49,898
Commercial	19,867	2,658	11,733	8,651
Land	10,670	10,451	19,775	26,930
Total real estate loans originated for investment	316,623	286,135	497,131	459,601
Commercial loans originated for investment	2,867	-	-	-
Total loans originated for investment	319,490	286,135	497,131	459,601
Other loans – net activity	67	(43)	16	(29)
Loans purchased	-	-	-	1,398
Principal repayments	(267,870)	(192,808)	(329,842)	(303,759)
Net activity in loans held for investment	51,687	93,284	167,305	157,211
Loans originated for sale	84,603	-	-	-
Loans sold	(79,216)	-	-	-
Net activity in loans held for sale	5,387	-	-	-
Total loans receivable and held for sale at end of period	\$1,450,170	\$1,393,096	\$1,299,812	\$1,132,507

⁽¹⁾ Residential mortgage loans include home equity loans and home equity lines of credit.

Origination, Purchasing and Servicing of Loans. All loans originated by us are underwritten pursuant to internally developed policies and procedures. While we generally underwrite loans to Freddie Mac and Fannie Mae standards, due to several unique characteristics, a majority of our loans do not conform to the secondary market standards. The unique features of our loans include: interest payments in advance, discretionary rate adjustments, pre-payment penalties, and the historically lower periodic and lifetime caps on rate adjustments.

Irrespective of our mortgage banking operations, we generally retain in our portfolio all loans that we originate. However, we periodically sell mortgage loans when a loans-to-one-borrower limit is being approached. At December 31, 2006, Wauwatosa Savings was servicing loans sold in the amount of \$7.9 million. 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. Wauwatosa Savings' lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by Wauwatosa Savings' 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 are authorized to approve and close any loan that qualifies under Wauwatosa Savings Bank underwriting guidelines within the following lending limits:

- Any secured 1-4 family mortgage loan up to \$500,000 for a borrower with total outstanding loans receivable of less than \$2,000,000 that is independently underwritten can be approved and closed by any loan officer.
- Any loan up to \$500,000 for a borrower with total outstanding loans receivable of less than \$2,000,000 can be approved and closed by a commercial loan officer.
- Any secured mortgage loan ranging from \$500,001 to \$2,999,999 or any new loan to a borrower with outstanding loans receivable exceeding \$2,000,000 must be approved by the Officer Loan Committee. If approved, any loan officer may close the loan.
- Any loan for \$3,000,000 or greater must be approved by the Officer Loan Committee and Board of Directors prior to closing. If approved, any loan officer may close the loan.

All loans are approved or ratified by the Board of Directors.

Non-Performing and Problem Assets

A system-generated delinquency notice is mailed monthly to all delinquent borrowers, advising them of the amount of their delinquency. When a loan becomes more than 30 days delinquent, Wauwatosa Savings sends a letter advising the borrower of the delinquency. The borrower is given 30 days to pay the delinquent payments or to contact Wauwatosa Savings to

make arrangements to bring the loan current over a longer period of time. If the borrower fails to bring the loan current within 90 days from the original due date 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. We may consider forbearance in select cases where a temporary loss of income might result, if a reasonable plan is presented by the borrower to cure the delinquency in a reasonable period of time after his or her income resumes.

All mortgage loans are reviewed on a regular basis, and such loans are placed on non-accrual status when they become more than 90 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.

Non-Performing Assets. Non-performing assets consist of non-accrual loans and other real estate owned. Loans are generally placed on non-accrual status either when reasonable doubt exists as to the full, timely collection of interest or principal, or when a loan becomes contractually past due more than 90 days 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 collectibility of the total contractual principal and interest is no longer in doubt.

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

	<u>At December 31,</u>		<u>At June 30,</u>			
	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in Thousands)					
Non-accrual loans:						
Residential ⁽¹⁾						
Single family	7,903	\$5,654	\$3,842	\$3,425	\$4,764	\$4,970
Two- to four-family	4,581	3,386	1,390	603	1,387	709
Over four-family	8,384	6,703	5,877	4,776	5,268	6,137
Construction	2,443	760	830	-	220	-
Commercial real estate	357	962	1,137	1,139	2,528	141
Commercial loans	-	-	-	-	-	-
Land	5,220	600	-	2,072	1,421	983
Total non-performing loans	28,888	18,065	13,076	12,015	15,588	12,940
Real estate owned	520	215	475	770	-	998
Total non-performing assets	<u>\$29,408</u>	<u>\$18,280</u>	<u>\$13,551</u>	<u>\$12,785</u>	<u>\$15,588</u>	<u>\$13,938</u>
 Total non-performing loans to total loans, net	2.10%	1.39%	1.07%	1.13%	1.65%	1.44%
Total non-performing loans to total assets	1.75%	1.20%	0.94%	0.97%	1.41%	1.29%

⁽¹⁾Residential mortgage loans include home equity loans and home equity lines of credit.

Non-performing loans at December 31, 2006, were \$28.9 million, compared to \$18.1 million at December 31, 2005 and \$13.1 million at June 30, 2005. The ratio of non-performing loans to total loans at December 31, 2006 was 2.10%, as compared to 1.39% and 1.07% at December 31, 2005 and June 30, 2005. All categories of loans had an increase in non-performing loans. Of the \$10.8 million increase in non-performing loans between December 31, 2005 and 2006, \$4.6 million related to loans secured by land. This \$4.6 million increase was attributable to four loans related to one borrower. One of the four loans within this borrower relationship has an estimated collateral shortfall of approximately \$100,000. A specific reserve has been established for this loan. The remaining three loans are adequately capitalized. Substantially all of the \$1.7 million increase in non-performing loans secured by construction properties was related to two borrowers, each with two loans secured by homes built on a speculative basis. We believe that the collateral securing these loans is adequate to protect us from any potential losses. The \$1.2 million increase in non-performing two- to four-family mortgages relates to the addition of a \$2.6 million loan secured by a number of two- to four-family properties. This loan has an estimated collateral shortfall of approximately \$300,000. A specific reserve has been established for this loan. The \$2.2 million increase in non-performing single family loans relates to the addition of multiple loans. All of the loans within the single family category are adequately collateralized.

For the years ended December 31, 2006 and 2005 and the years ended June 30, 2005 and 2004, the amount of interest income that would have been recognized on non-accrual loans if such loans had continued to perform in accordance with their contractual terms was \$1,724,000, \$1,200,000, \$967,000 and \$1.2 million, respectively. For the years ended December 31, 2006 and 2005 and the years ended June 30, 2005 and 2004, the amount of interest income that was recognized on non-accrual loans was \$1,475,000, \$1,001,000, \$732,000 and \$575,000, respectively.

There were no accruing loans past due 90 days or more for any period reported. The amount of income that was contractually due but not recognized on non-accrual loans totaled \$723,000, \$558,000, \$407,000, \$490,000, \$430,000 and \$377,000 as of December 31, 2006 and 2005, June 30, 2005, 2004, 2003, and 2002. There were no troubled debt restructurings.

Classified Assets. Under our internal risk rating system, we currently classify loans and other assets considered to be of lesser quality as "substandard," "doubtful" or "loss" assets. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

An institution insured by the Federal Deposit Insurance Corporation is required to establish general allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated

with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

The loan portfolio is reviewed on a regular basis to determine whether any loans require risk classification. At December 31, 2006, management classified 152 loans totaling \$51.5 million as substandard. At December 31, 2005, there were 63 loans totaling \$23.8 million classified as substandard. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Wauwatosa Savings establishes valuation allowances on multi-family and commercial real estate loans considered impaired. A loan is considered impaired when, based on current information and events it is probable that Wauwatosa Savings will not be able to collect all amounts due according to the contractual terms of the loan agreement. A valuation allowance is established for an amount equal to the impairment when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral.

Wauwatosa Savings also establishes valuation allowances based on an evaluation of the various risk components that are inherent in the loan portfolio. The risk components that are evaluated include past loan loss experience; the level of nonperforming and classified assets; current economic conditions; volume, growth, and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; peer group comparisons; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and recoveries of previously charged-off loans and reduced by charge-offs. The adequacy of the allowance for loan losses is reviewed and approved quarterly by the Wauwatosa Savings board of directors. The allowance reflects management's best estimate of the amount needed to provide for the probable loss on impaired loans and other inherent losses in the loan portfolio, and is based on a risk model developed and implemented by management and approved by the Wauwatosa Savings 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. In addition, the Federal Deposit Insurance Corporation and the Wisconsin Department of Financial Institutions, as an integral part of their examination process, periodically review Wauwatosa Savings' allowance for loan losses. Such regulators have the authority to require Wauwatosa Savings to recognize additions to the allowance based on their judgments of information available to them at the time of their review or examination.

Any loan that is 90 or more days delinquent is placed on non-accrual and classified as a non-performing asset. A loan is classified as impaired when it is probable that Wauwatosa Savings will be unable to collect all amounts due in accordance with the terms of the loan agreement. Non-performing assets are then evaluated and accounted for in accordance with generally accepted accounting principles.

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

	At or for the Year Ended December 31,		At or for the Six Month Period Ended December 31,		At or for the Year Ended June 30,			
	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in Thousands)							
Balance at beginning of period	\$ 5,250	\$ 3,737	\$4,606	\$3,378	\$3,378	\$2,970	\$2,479	\$1,973
Provision for loan losses	2,201	1,909	1,035	363	1,238	860	520	1,336
Charge-offs:								
Residential ⁽¹⁾								
Single family	271	37	37	-	1	320	26	307
Two- to four-family	253	60	60	1	-	-	-	131
Over four-family	-	169	169	-	-	125	-	408
Commercial real estate	5	104	102	2	2	-	-	15
Land	-	-	-	-	-	-	-	3
Other loans	7	27	23	1	8	8	3	16
Total charge-offs	536	397	391	4	11	453	29	880
Recoveries:								
Residential ⁽¹⁾								
Single family	57	-	-	-	-	-	-	14
Two- to four-family	87	-	-	-	-	-	-	8
Over four-family	30	-	-	-	-	-	-	28
Commercial real estate	100	-	-	-	-	-	-	-
Other loans	6	1	-	-	1	1	-	-
Total recoveries	280	1	0	0	1	1	0	50
Net charge-offs	256	396	391	4	10	452	29	830
Allowance at end of year	\$7,195	\$5,250	\$5,250	\$3,737	\$4,606	\$3,378	\$2,970	\$2,479
Ratios:								
Allowance for loan losses to non-performing loans at end of period	24.91%	29.06%	29.06%	28.06%	35.22%	28.11%	19.05%	19.16%
Allowance for loan losses to net loans outstanding at end of period	0.52%	0.40%	0.40%	0.33%	0.38%	0.32%	0.32%	0.28%
Net charge-offs to average loans outstanding (annualized)	0.02%	0.03%	0.06%	0.00%	0.00%	0.05%	0.00%	0.09%

⁽¹⁾Real estate loans include home equity loans and home equity lines of credit.

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan 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 loan 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,						
2006			2005			
Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	
(Dollars in Thousands)						
Real Estate:						
Residential ⁽¹⁾						
Single family	\$2,198	32.74%	30.55%	\$1,777	33.69%	33.85%
Two- to four-family	1,918	17.34%	26.66%	847	18.40%	16.13%
Over four-family	2,034	32.44%	28.27%	1,716	31.84%	32.69%
Construction	167	12.12%	2.32%	234	2.48%	4.46%
Commercial Real Estate	764	3.23%	10.62%	630	11.88%	12.00%
Land	-	1.93%	-	-	1.70%	-
Commerical	-	0.18%	-	-	-	-
Other	30	0.02%	0.42%	27	0.01%	0.51%
Unallocated	84	0.00%	1.16%	19	-	0.36%
Total allowance for loan losses	\$7,195	100.00%	100.00%	\$5,250	100.00%	100.00%

At June 30,												
2005				2004			2003			2002		
	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance	Allowance for Loan Losses	% of Loans in Category to Total Loans	% of Allowance in Category to Total Allowance
(In Thousands)												
Real Estate:												
Residential ⁽¹⁾												
Single family	\$1,211	33.11%	26.29%	\$766	34.60%	22.68%	\$517	36.63%	17.41%	\$163	40.21%	6.58%
Two- to four-family	392	19.33%	8.51%	352	19.85%	10.42%	327	20.88%	11.01%	302	20.04%	12.18%
Over four-family	1,646	31.36%	35.74%	1,831	30.09%	54.20%	1,852	29.49%	62.36%	1,582	28.38%	63.82%
Construction	712	2.81%	15.46%	100	4.07%	2.96%	-	4.50%	-	-	3.09%	-
Commercial Real Estate	450	11.50%	9.77%	309	9.76%	9.15%	259	7.74%	8.72%	154	7.24%	6.21%
Land	10	1.87%	0.22%	-	1.62%	-	-	0.74%	-	-	1.02%	-
Commerical	-	-	-	-	-	-	-	-	-	-	-	-
Other	25	0.02%	0.54%	20	0.01%	0.59%	15	0.02%	0.50%	10	0.02%	0.40%
Unallocated	160	-	3.47%	-	-	-	-	-	-	268	-	10.81%
Total allowance for loan losses	\$4,606	100.00%	100.00%	\$3,378	100.00%	100.00%	\$2,970	100.00%	100.00%	\$2,479	100.00%	100.00%

⁽¹⁾Residential mortgage loans include home equity loans and home equity lines of credit.

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors some of which are not loan specific, but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectibility in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral and economic conditions in our immediate market area. All loans meeting the criteria established by management are evaluated individually, based primarily on the value of the collateral securing the loan and ability of the borrower to repay as agreed. Specific loss allowances are established as required by this analysis. All loans for which a specific loss review is not required are segregated by loan type and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers significant including trends in non-performing loan balances, impaired loan balances, classified asset balances and the current economic environment. The allowance is allocated to each category of loan based on the results of the above analysis. Differences between the allocated balances and recorded allowances are reflected as unallocated and are available to absorb losses resulting from the inherent imprecision involved in the loss analysis process.

This analysis process is both quantitative and subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at levels appropriate to absorb probable and estimable losses, additions may be necessary if future economic conditions differ substantially from the current environment.

At December 31, 2006, the allowance for loan losses was \$7.2 million, compared to \$5.3 million at December 31, 2005. As of December 31, 2006, the allowance for loan losses to total loans receivable was 0.52% and represented 24.9% of non-performing loans, compared to 0.40% and 29.1%, respectively, at December 31, 2005. The increase in the level of the allowance for loan losses as a percentage of loans receivable reflects an increase both in non-performing and classified assets during the year ended December 31, 2006. Classified mortgage loans increased to \$51.5 million at December 31, 2006 from \$20.5 million at December 31, 2005. Past due loans increased to \$80.0 million at December 31, 2006 from \$70.0 million at December 31, 2005.

Net charge-offs were \$256,000 or 0.02% of average loans for the year ended December 31, 2006, compared to \$396,000 or 0.03% of average loans for the year ended December 31, 2005. Net charge-offs for the four years ended June 30, 2005 ranged from a high of 0.09% to a low of 0.0% of average loans outstanding during the applicable period, and averaged 0.03%. The decrease in net charge-offs for the year ended December 31, 2006 versus 2005 was primarily due to strong recoveries of commercial real estate and one- to four family residential charge-offs. Charge-offs related to single family and two- to four family residential loans totaled \$271,000 and \$253,000, respectively for the year ended December 31, 2006 compared to \$37,000 and \$60,000 for the year ended December 31, 2005. The respective increases resulted primarily from charge-offs related to a single borrower with a portfolio that included fourteen single family and duplex non-owner occupied properties.

The allowance for loan losses was more heavily allocated towards two- to four-family from single family and over four-family as of December 31, 2006, as compared with December 31, 2005. The amount allocated to two- to four-family at December 31, 2006 was \$1.9 million,

an increase of \$1.1 million over the prior year end. The allocation to two- to four-family real estate loans represents 26.7% of the December 31, 2006 allowance for loan losses compared with 16.1% at December 31, 2005. The increased allocation to two- to four-family was made due to the increase in two- to four-family loans in classified loans, higher net charge-offs in that category and the establishment of \$726,000 in specific reserves related to a number of classified loans. The decreased allocation to single family was made due to a decrease in single family loans in classified loans. This decrease outweighed the increase in net charge-offs. The decreased allocation to over four-family was made due to a decrease in net charge-offs.

Mortgage Banking Activity

The Bank purchased Waterstone Mortgage Corporation in February 2006. Waterstone is a mortgage broker that originates, sells and brokers one- to four-family loans. From the date of acquisition through December 31, 2006, Waterstone originated approximately \$200.0 million in loans. Of that total, approximately \$84.6 million were funded by Waterstone. The remaining loans were table funded meaning that the buyer of the loan actually funded the loan at closing. The \$84.6 million, comprised of 465 loans, were funded using a warehouse line of credit supplied by Wauwatosa Savings Bank. As of December 31, 2006, 440 of those loans had been sold to third parties with proceeds totaling \$80.3 million. These sales generated approximately \$1.1 million in gains that are included in mortgage banking fee income. The remaining \$1.0 million in mortgage banking income for the year ended December 31, 2006 relates to brokerage fees earned on table funded loans.

Waterstone originated a smaller portion of bridge loans for its portfolio during the period from acquisition through December 31, 2006. Waterstone originated \$1.8 million in bridge loans during the period. At December 31, 2006, \$475,000 of these loans remain in loans receivable. These loans are underwritten using national underwriting standards. There is no history of loan loss on these loans.

Investment Activities

Wauwatosa Savings' Treasurer and its Treasury Officer are responsible for implementing our Investment Policy and monitoring the investment activities of Wauwatosa Investments, Inc., our Nevada subsidiary. The Investment Policy is reviewed annually by management and any changes to the policy are recommended to and subject to the approval of our 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 Treasurer and Treasury Officer who may act jointly or severally. In addition, the President of the Wauwatosa Savings investment subsidiary has execution authority for securities transactions. The Treasurer 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 Treasurer, the Treasury Officer and the President of the Wauwatosa Savings investment subsidiary are authorized to execute investment transactions (purchases and sales) without the prior approval of the Board and within the scope of the established Investment Policy.

Wauwatosa Investments, Inc. is Wauwatosa Savings' investment subsidiary located in Las Vegas, Nevada. Wauwatosa Investments, Inc. manages the entire consolidated investment portfolio. At December 31, 2006, Wauwatosa Investments, Inc. also managed a net mortgage loan participation portfolio which totaled \$202.0 million, or 14.8 % of Wauwatosa Savings' consolidated net mortgage loans. This portfolio was comprised entirely of loans originated by Wauwatosa Savings.

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, all securities purchased are classified as available-for-sale. During the year ended December 31, 2006, the Company sold lower yielding debt and mortgage-related securities totaling \$12.8 million and \$13.0 million, respectively. Total losses realized on these securities sales approximated \$819,000. The proceeds from these sales were used to purchase higher yielding mortgage-related securities.

U.S. Government and Agency Bonds. At December 31, 2006, our U.S. Government and Agency securities portfolio totaled \$13.3 million, all of which were issued by government sponsored entities and were classified as available-for-sale. The weighted average yield on these securities was 3.69% and the weighted average remaining average life was 1.5 years at December 31, 2006. 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.

Mortgage-Related Securities. We purchase government sponsored enterprise mortgage-related securities issued by Fannie Mae, Freddie Mac and Ginnie Mae and corporate sponsored mortgage-related securities issued by investment banks. We invest in mortgage-related securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk.

Mortgage-related securities are created by the pooling of mortgages and the issuance of a security with an interest rate which is less than the interest rate on the underlying mortgages. Mortgage-related 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 Wauwatosa Savings, and in the case of government agency sponsored issues, guarantee the payment of principal and interest to investors. Mortgage-related securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-related securities are usually more liquid than individual mortgage loans.

At December 31, 2006, mortgage-related securities totaled \$98.9 million, or 6.0% of assets and 6.2 % of interest earning assets, all of which were classified as available-for-sale. The

mortgage-related securities portfolio had a weighted average yield of 5.04% and a weighted average remaining life of 6.1 years at December 31, 2006. The estimated fair value of our mortgage-related securities at December 31, 2006 was \$98.9 million, which is \$1.8 million less than the amortized cost of \$100.7 million. Investments in mortgage-related 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 market value of such securities may be adversely affected in a rising interest rate environment, particularly since virtually all of our mortgage-related securities have a fixed rate of interest.

Municipal Obligations. These securities consist of obligations issued by states, 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 state agency or municipal obligations be rated "A" or better by a nationally recognized rating agency. A security that is downgraded below investment grade will require additional analysis of credit worthiness and a determination will be made to hold or dispose of the investment. At December 31, 2006, Wauwatosa Savings' state agency and municipal obligations portfolio totaled \$4.4 million, all of which was classified as available-for-sale. The weighted average yield on this portfolio was 4.60% at December 31, 2006, with a weighted average remaining life of 5.2 years. All municipal securities are either issued by a Wisconsin municipality or are rated AA or better by Moody's or Standard & Poor's.

Investment Securities Portfolio.

The following table sets forth the carrying values of our mortgage-related and debt securities portfolio at the dates indicated.

	At December 31,				At June 30,			
	2006		2005		2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)							
Securities Available for Sale:								
Government agency bonds	\$13,450	\$13,257	\$26,577	\$25,950	\$26,580	\$26,387	\$17,683	\$17,462
Mortgage-related securities	100,693	98,873	93,515	91,578	54,438	53,445	80,918	77,819
Municipal obligations	4,278	4,421	4,278	4,427	3,923	4,159	4,173	4,268
Other securities	794	779	-	-	-	-	-	-
Total securities available for sale	\$119,215	\$117,330	\$124,370	\$121,955	\$84,941	\$83,991	\$102,774	\$99,549

Portfolio Maturities and Yields. The composition and maturities of the mortgage-related and debt securities portfolio at December 31, 2006 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. At December 31, 2006, mortgage-related securities with adjustable rates totaled \$235,000.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
(Dollars in Thousands)										
Securities available for sale:										
Government agency bonds	\$5,447	3.10%	\$7,810	4.10%	-	-	-	-	\$13,257	3.69%
Mortgage-related securities	-	-	50,594	4.80%	38,977	5.24%	9,302	5.50%	98,873	5.04%
Municipal obligations	-	-	2,728	5.04%	1,693	3.92%	-	-	4,421	4.60%
Other securities	529	4.29%	250	4.05%	-	-	-	-	779	4.21%
Total securities available for sale	\$5,976	3.21%	\$61,382	4.72%	\$40,670	5.18%	\$9,302	5.50%	\$117,330	4.87%

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. In addition to deposits, funds are derived 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 interest rates, market conditions and levels of competition. Borrowings from the Federal Home Loan Bank of Chicago are used to compensate for reductions in deposits and to fund loan growth.

Deposits. A majority of our depositors are persons who work or reside 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. We also accept non-local, brokered deposits. Certificates of deposit comprised 85.3% of total deposits at December 31, 2006, and had a weighted average cost of 4.63% on that date. Our high reliance on certificates of deposit results in a higher cost of funding than would otherwise be the case if demand deposits, savings and money market accounts made up a larger part of our deposit base. Expansion and development of the Wauwatosa Savings branch network is expected to result in a decreased reliance on higher cost certificates of deposit by aggressively seeking lower cost savings, checking and money market accounts.

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.

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. It is unclear whether future levels of deposits will reflect our historical experience with deposit customers. 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, 2006 and December 31, 2005, \$883.3 million and \$929.7 million, or 85.3% and 88.9%, respectively, of our deposit accounts were certificates of deposit, of which \$693.4 million and \$599.6 million, respectively, had maturities of one year or less. The percentage of our deposit accounts that are certificates of deposit is greater than most of our competitors.

Deposits obtained from brokers totaled \$36.3 million and \$96.3 million at December 31, 2006 and 2005, respectively. Brokered deposits are utilized when their relative cost compares favorably to the cost of local deposits. This is generally the case in a declining interest rate environment as local market deposit rates lag the national market. Brokered deposits are also

used when it is necessary as a result of higher than expected loan growth or other short-term liquidity needs to obtain significant additional funding over a period of weeks rather than months. Brokered deposits at December 31, 2006 were 4.8% of total deposits and have not exceeded 12.4% of total deposits during the past three years.

Total deposits declined by \$9.4 million, or 0.09%, from December 31, 2005 to December 31, 2006. This net decline was the result of a \$46.4 million, or 5.0%, decline in certificates of deposit partially offset by a \$37.0 million, or 32.0%, increase in transaction accounts during the year. Funding previously provided by brokered deposits has been replaced by local transaction accounts, local certificates of deposit and Federal Home Loan Bank advances. Brokered deposits declined by \$60.0 million, or 62.3%, between December 31, 2006 and December 31, 2005.

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

	At December 31,						At June 30,					
	2006			2005			2005			2004		
	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
(Dollars in Thousands)												
Deposit type:												
Demand deposits	\$15,087	1.46%	0.07%	\$17,667	1.69%	0.00%	\$18,816	1.67%	0.00%	\$15,923	1.54%	0.00%
NOW accounts	43,320	4.18%	0.95%	64,623	6.18%	1.41%	82,045	7.27%	1.74%	83,260	8.04%	0.98%
Regular savings	18,177	1.75%	0.40%	20,962	2.00%	0.50%	23,614	2.09%	0.50%	24,877	2.40%	0.50%
Money market and savings deposits	<u>76,295</u>	<u>7.36%</u>	4.70%	<u>12,603</u>	<u>1.21%</u>	3.03%	<u>3,503</u>	<u>0.31%</u>	1.06%	<u>3,597</u>	<u>0.35%</u>	1.03%
Total transaction accounts	152,879	14.75%	2.67%	115,855	11.08%	1.21%	127,978	11.34%	1.24%	127,657	12.33%	0.77%
Certificates of deposit	883,339	85.25%	4.63%	929,738	88.92%	3.80%	1,000,813	88.66%	3.52%	907,931	87.67%	3.28%
Total deposits	<u><u>\$1,036,218</u></u>	<u><u>100.00%</u></u>	4.34%	<u><u>\$1,045,593</u></u>	<u><u>100.00%</u></u>	3.51%	<u><u>\$1,128,791</u></u>	<u><u>100.00%</u></u>	3.26%	<u><u>\$1,035,588</u></u>	<u><u>100.00%</u></u>	2.97%

At December 31, 2006, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$207.0 million. The following table sets forth the maturity of those certificates at December 31, 2006.

	(In Thousands)
<u>Due</u>	
Three months or less	\$41,335
Over three months through six months	39,444
Over six months through 12 months	74,514
Over 12 months	51,722
Total	<u><u>\$207,015</u></u>

The following table shows the activity in our deposit flows during the periods indicated.

	Year Ended December 31, 2006	Six Months Ended December 31, 2005	Years Ended June 30,	
			2005	2004
	(In Thousands)			
Beginning balance	\$ 1,045,593	\$ 1,128,791	\$ 1,035,588	\$ 909,491
Net increase/(decrease) in deposits				
before interest credited	(46,460)	(99,191)	62,085	101,529
Interest credited	37,085	15,993	31,118	24,568
Net increase/(decrease) in deposits	<u>(9,375)</u>	<u>(83,198)</u>	<u>93,203</u>	<u>126,097</u>
Ending balance	<u>\$ 1,036,218</u>	<u>\$ 1,045,593</u>	<u>\$ 1,128,791</u>	<u>\$ 1,035,588</u>

Advances From Federal Home Loan Bank. Our borrowings at December 31, 2006 consist solely of advances from the Federal Home Loan Bank of Chicago. At December 31, 2006, we had access to additional Federal Home Loan Bank advances of up to \$178.6 million. The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances at the dates and for the periods indicated.

		At or For the Six		
	At or For the Year	Months Ended	At or For the Year	
	Ended December 31,	December 31,	Ended June 30,	
	2006	2005	2005	2004
FHLB Advances:	(Dollars in Thousands)			
Balance outstanding at end of period.....	\$ 334,003	201,212	93,162	60,000
Weighted average interest rate at the end of period....	4.31%	3.90%	3.07%	3.32%
Maximum amount of advances outstanding at any month end during the period.....	349,003	201,212	106,162	96,000
Average balance outstanding during the period.....	265,821	127,046	74,641	63,452
Weighted average interest rate during the period.....	4.32%	3.55%	3.59%	3.27%

Average Balance Sheet and Rate Yield Analysis

See item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Average Balance Sheets and Yield/Costs and – Rate/Volume Analysis.”

Cash Dividends

Wauwatosa Holdings did not pay any cash dividends on its common stock in the current reporting period.

Subsidiary Activities

Wauwatosa Holdings currently has one wholly-owned subsidiary, Wauwatosa Savings, which in turn has three wholly-owned subsidiaries. Wauwatosa Investments, Inc., which holds and manages our investment portfolio, is located and incorporated in the state of Nevada. Main Street Real Estate Holdings, LLC, a single member LLC, owned bank office facilities and held bank office facility leases and is organized in Wisconsin. Waterstone Mortgage Corporation, which was acquired in February 2006, is a mortgage broker incorporated in Wisconsin and licensed in Wisconsin, Michigan and Florida.

Wauwatosa Investments, Inc. Established in 1998, Wauwatosa Investments, Inc. operates in Nevada as Wauwatosa Savings' investment subsidiary. This wholly-owned subsidiary owns and manages the majority of the consolidated investment portfolio, including loan participations originated by Wauwatosa Savings. It has its own board of directors currently comprised of its President, the Wauwatosa Savings Chief Financial Officer, Treasury Officer and the Chairman of the Company's Board of Directors.

The Wisconsin Department of Revenue has implemented a program for the audit of Wisconsin financial institutions which have formed and contributed assets to subsidiaries located in Nevada, including Wauwatosa Investments, Inc., and presumably will seek to impose Wisconsin state income taxes on income from Wauwatosa Investments, Inc.'s operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors – Wisconsin Tax Developments Could Reduce Our Net Income" for more information.

Main Street Real Estate Holdings, LLC. Established in 2002, Main Street Real Estate Holdings, LLC was established to acquire and hold Bank office and retail facilities both owned and leased. Main Street Real Estate Holdings, LLC is currently inactive.

Waterstone Mortgage Corporation. Acquired in February 2006, Waterstone Mortgage Corporation is a mortgage broker with offices in Pewaukee, Madison, Delafield and Lake Geneva, Wisconsin and Livonia, Michigan. Waterstone Mortgage Corporation offers real estate mortgage options that the Bank currently does not offer. In addition, the Bank offers real estate mortgage options that Waterston Mortgage Corporation currently does not offer.

Personnel

As of December 31, 2006, we had 248 full-time equivalent employees. Our employees are not represented by any collective bargaining group. Management believes that we have good relations with our employees.

Supervision and Regulation

The following discussion is only a summary of the primary laws and regulations imposed upon Wauwatosa Savings, Wauwatosa Holdings, and Lamplighter Financial, MHC. It is not intended to be a comprehensive description of all laws and regulations applicable to those entities

and is qualified in its entirety by reference to the applicable laws and regulations.

Regulation of Wauwatosa Savings Bank

Wauwatosa Savings is a stock savings bank organized under the laws of the State of Wisconsin. The lending, investment, and other business operations of Wauwatosa Savings are governed by Wisconsin law and regulations, as well as applicable federal law and regulations, and Wauwatosa Savings is prohibited from engaging in any operations not specifically authorized by such laws and regulations. Wauwatosa Savings is subject to extensive regulation by the Wisconsin Department of Financial Institutions, Division of Banking (“WDFI”), by the Federal Deposit Insurance Corporation (“FDIC”), as its deposit insurer and principal federal regulator, and by the Board of Governors of the Federal Reserve System (“FRB”). Wauwatosa Savings’ deposit accounts are insured up to applicable limits by the FDIC under the Deposit Insurance Fund (“DIF”). A summary of the primary laws and regulations that govern the operations of Wauwatosa Savings are set forth below.

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 or 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. The Interstate Banking Act (the “IBA”) permits the federal banking agencies to, under certain circumstances, approve acquisition transactions between banks located in different states, regardless of whether the acquisition would be prohibited under the law of the two states. The IBA authorizes *de novo* branching into another state if the host state enacts a law expressly permitting out of state banks to establish such branches within its borders. Additionally, the IBA authorizes branching by merger, subject to certain state law limitations.

Loans and Investments

Wisconsin Law and Regulations. Under Wisconsin law and regulations, Wauwatosa Savings 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, corporate commercial or agricultural purposes, provided the total of all such loans does not exceed 10% of Wauwatosa Savings’ total assets, unless the WDFI authorizes a greater amount. Loans are subject to certain other limitations, including percentage restrictions based on Wauwatosa Savings’ 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.

Wisconsin savings banks may make loans and extensions of credit, both direct and indirect, to one borrower in amounts up to 15% of Wauwatosa Savings' capital plus an additional 10% for loans fully secured by readily marketable collateral. In addition, 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 Wauwatosa Savings' capital, subject to certain conditions. At December 31, 2006, Wauwatosa Savings did not have any loans which exceeded the "loans-to-one borrower" limitations.

Finally, under Wisconsin law, Wauwatosa Savings 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, 2006, Wauwatosa Savings maintained 98.9% of its assets in qualified thrift investments and therefore met the qualified thrift lender requirement.

Federal Law and Regulation. FDIC regulations also govern the equity investments of Wauwatosa Savings, and, notwithstanding Wisconsin law and regulations, the FDIC regulations prohibit Wauwatosa Savings from making certain equity investments and generally limit Wauwatosa Savings' equity investments to those that are permissible for national banks and their subsidiaries. Under FDIC regulations, Wauwatosa Savings must obtain prior FDIC 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 which meet applicable minimum capital requirements would be permitted to engage in certain activities that are not permissible for national banks, including guaranteeing obligations of others, activities which the FRB has found to be closely related to banking, and certain real estate and securities activities conducted through subsidiaries. The FDIC will not approve an activity that it determines presents a significant risk to the FDIC insurance fund. The activities of Wauwatosa Savings and its subsidiary are permissible under applicable federal regulations.

Loans to, and other transactions with, affiliates of Wauwatosa Savings such as Wauwatosa Holdings and Lamplighter Financial, MHC, are restricted by the Federal Reserve Act and regulations issued by the FRB thereunder. See "Transactions with Affiliates and Insiders" below.

Lending Standards

Wisconsin Law and Regulation. Wisconsin law and regulations issued by the WDFI impose upon Wisconsin savings banks certain fairness in lending requirements and prohibit savings banks from discriminating against a loan applicant based upon the applicant's physical condition, developmental disability, sex, marital status, race, color, creed, national origin, religion or ancestry.

Federal Law and Regulation. The federal banking agencies 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, including Wauwatosa Savings, 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 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 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, Wauwatosa Savings is permitted to establish deposit accounts and accept deposits. Wauwatosa Savings' board of directors determines the rate and amount of interest to be paid on or credited to deposit accounts.

Federal Law and Regulation. FDIC regulations govern the ability of Wauwatosa Savings to accept brokered deposits. Under applicable regulations, the capital position of an institution determines whether and with what limitations an institution may accept brokered deposits. A "well-capitalized" institution (one that significantly exceeds specified capital ratios) may accept brokered deposits without restriction. "Undercapitalized" institutions (those that fail to meet minimum regulatory capital requirements) may not accept brokered deposits and "adequately capitalized" institutions (those that are not "well-capitalized" or "undercapitalized") may only accept such

deposits with the consent of the FDIC. Wauwatosa Savings is a "well-capitalized" institution and therefore may accept brokered deposits without restriction. At December 31, 2006, Wauwatosa Savings had \$49.8 million in brokered deposits.

Deposit Insurance

Wisconsin Law and Regulation. Under Wisconsin law, Wauwatosa Savings is required to obtain and maintain insurance on its deposits from a deposit insurance corporation. The deposits of Wauwatosa Savings are insured up to the applicable limits by the FDIC.

Federal Law and Regulation. As permitted by law, the deposit accounts held by customers of Wauwatosa Savings are insured up to a maximum of \$100,000 for individual depositors and \$250,000 for self-directed retirement accounts. Insurance on deposits may be terminated by the FDIC if it finds that Wauwatosa Savings 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 FDIC as Wauwatosa Savings' primary regulator. The management of Wauwatosa Savings does not know of any practice, condition, or violation that might lead to termination of Wauwatosa Savings' deposit insurance.

On February 15, 2006, federal legislation to reform federal deposit insurance was enacted. The new legislation required, among other things, that the FDIC adopt regulations increasing the maximum amount of federal deposit insurance coverage per separately insured depositor beginning in 2010 (with a cost of living adjustment to become effective in five years) and modifying the deposit fund's reserve ratio for a range between 1.15% and 1.50% of estimated insured deposits.

On November 2, 2006, the FDIC adopted final regulations establishing a risk-based assessment system that will enable the FDIC to more closely tie each financial institution's premiums to the risk that it poses to the deposit insurance fund. Under the new risk-based assessment system, which becomes effective in the beginning of 2007, the FDIC will evaluate the risk of each financial institution based on three primary sources of information: (1) its supervisory rating, (2) its financial ratios, and (3) its long-term debt issuer rating, if the institution has one. The new rates for nearly all of the financial institution industry will vary between five and seven cents for every \$100 of domestic deposits. At the same time, the FDIC also adopted final regulations designating the reserve ratio for the deposit insurance fund during 2007 at 1.25% of estimated insured deposits. We expect our 2007 assessment, at an estimated seven cents per \$100 of domestic deposits, to be fully offset by our \$718,000 one-time credit as estimated by the FDIC under the final rule implementing the one-time assessment credit requirement of the deposit insurance reform legislation.

Effective March 31, 2006, the FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund into a single insurance fund called the Deposit Insurance Fund. The merger of the two separate insurance funds did not affect the authority of the Financing Corporation, a mix-ownership government corporation, to impose and collect, with approval of the FDIC, assessments for anticipated payments, insurance costs and custodial fees on bonds issued by the Financing Corporation in the 1980's to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the Financing Corporation are due to mature in 2017 through 2019. For the quarter ended December 31, 2006, the Financing Corporation assessment was equal

to 1.24 basis points for each \$100 in domestic deposits maintained at an institution.

Capitalization

Wisconsin Law and Regulation. Wisconsin savings banks are required to maintain a minimum capital to assets ratio of 6% and must maintain total capital necessary to ensure the continuation of insurance of deposit accounts by the FDIC. 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 declaration of dividends. At December 31, 2006, Wauwatosa Savings' capital to assets ratio, as calculated under Wisconsin law, was 12.26%.

Federal Law and Regulation. Under FDIC regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks"), such as Wauwatosa Savings, are required to comply with minimum leverage capital requirements. For an institution determined by the FDIC to not be anticipating or experiencing significant growth and to be, in general, a strong banking organization, rated composite 1 under the Uniform Financial Institutions Ranking System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier I capital to total assets of 3%. For all other institutions, the minimum leverage capital ratio is not less than 4%. Tier I capital is the sum of common shareholders' equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

The FDIC regulations require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of regulatory capital to regulatory risk-weighted assets is referred to as a bank's "risk-based capital ratio." Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items (including recourse obligations, direct credit substitutes and residual interests) to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk. For example, under the FDIC's risk-weighting system, cash and securities backed by the full faith and credit of the U.S. government are given a 0% risk weight, loans secured by one-to-four family residential properties generally have a 50% risk weight, and commercial loans have a risk weighting of 100%.

State non-member banks, such as Wauwatosa Savings, must maintain a minimum ratio of total capital to risk-weighted assets of at least 8%, of which at least one-half must be Tier I capital. Total capital consists of Tier I capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier I capital. Banks that engage in specified levels of trading activities are subject to adjustments in their risk based capital calculation to ensure the maintenance of sufficient capital to support market risk.

The FDIC, along with the other federal banking agencies, has adopted a regulation providing that the agencies will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances.

As a bank holding company, Wauwatosa Holdings is subject to capital adequacy guidelines for bank holding companies similar to those of the FDIC for state-chartered banks. Wauwatosa Holding's shareholders' equity exceeds these requirements as of December 31, 2006.

Safety and Soundness Standards

Each federal banking agency, including the FDIC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. 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 Action

Federal law established a system of prompt corrective action to resolve the problems of undercapitalized insured institutions. The FDIC has regulations governing the supervisory actions that may be taken against undercapitalized institutions. These regulations establish and define five capital categories, in the absence of a specific capital directive, as follows:

<u>Category</u>	Tier 1		
	<u>Total Capital to</u>	<u>Capital to</u>	<u>Tier 1 Capital</u>
	<u>Risk Weighted Assets</u>	<u>Risk Weighted Assets</u>	<u>to Total Assets</u>
Well capitalized.....	≥10%	≥6%	≥5%
Adequately capitalized.....	≥ 8%	≥4%	≥4% *
Under capitalized.....	< 8%	<4%	<4% *
Significantly undercapitalized...	< 6%	<3%	<3%
Critically undercapitalized.....	Tangible assets to capital of < 2%		

*3% if the bank receives the highest rating under the uniform system

The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank's capital decreases within the three undercapitalized categories. All savings banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. The FDIC is required to monitor closely the condition of an undercapitalized

bank and to restrict the growth of its assets. An undercapitalized savings bank is required to file a capital restoration plan within 45 days of the date the bank receives notice that it is within any of the three undercapitalized categories, and the plan must be guaranteed by any parent holding company. The aggregate liability of a parent holding company is limited to the lesser of:

- an amount equal to five percent of the bank's total assets at the time it became "undercapitalized"; and
- the amount that is necessary (or would have been necessary) to bring the bank into compliance with all capital standards applicable with respect to such bank as of the time it fails to comply with the plan.

Failure to submit an acceptable plan is treated as if the bank were "significantly undercapitalized." Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions.

The FDIC has a broad range of grounds under which it may appoint a receiver or conservator for an insured bank. If one or more grounds exist for appointing a conservator or receiver, the FDIC may require the bank to issue additional debt or stock, sell assets, be acquired by a depository bank or bank holding company or combine with another depository savings bank. Under FDICIA, the FDIC is required to appoint a receiver or a conservator for a critically undercapitalized savings bank within 90 days after the association becomes critically undercapitalized or to take such other action that would better achieve the purposes of the prompt corrective action provisions. Such alternative action can be renewed for successive 90-day periods. However, if the savings bank continues to be critically undercapitalized on average during the quarter that begins 270 days after it first became critically undercapitalized, a receiver must be appointed, unless the FDIC makes certain findings that the bank is viable.

Dividends

Under Wisconsin law and applicable regulations, a Wisconsin savings bank that meets its regulatory capital requirement may declare dividends on capital stock based upon net profits, provided that its paid-in surplus equals its capital stock. If the paid-in surplus of the savings bank does not equal its capital stock, the board of directors may not declare a dividend unless at least 10% of the net profits of the preceding half year, in the case of quarterly or semi-annual dividends, or 10% of the net profits of the preceding year, in the case of annual dividends, has been transferred to paid-in surplus. In addition, prior WDFI approval is required before dividends exceeding 50% of profits for any calendar year may be declared and before a 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.

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 saving bank's average daily balance of net withdrawable accounts plus short-term borrowings (the "Required Liquidity Ratio"). At December 31, 2006, Wauwatosa Savings' Required Liquidity Ratio was 8.0%, and Wauwatosa Savings was in compliance with this requirement. In addition, 50% of the liquid assets maintained by Wisconsin savings banks must consist of "primary liquid assets", which are defined to include securities of the United States government and United States government agencies. At December 31, 2006, Wauwatosa Savings was in compliance with this requirement.

Federal Law and Regulation. Under federal law and regulations, Wauwatosa Savings is required to maintain sufficient liquidity to ensure safe and sound banking practices. Regulation D, promulgated by the FRB, imposes reserve requirements on all depository institutions, including Wauwatosa Savings, 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. For 2006, a depository institution was required to maintain average daily reserves equal to 3% on the first \$45.8 million of transaction accounts and an initial reserve of \$1.1 million, plus 10% of that portion of total transaction accounts in excess of \$45.8 million. The first \$8.5 million of otherwise reservable balances (subject to adjustment by the FRB) are exempt from the reserve requirements. These percentages and threshold limits are subject to adjustment by the FRB. Savings institutions have authority to borrow from the Federal Reserve System "discount window," but Federal Reserve System policy generally requires savings institutions to exhaust all other sources before borrowing from the Federal Reserve System. As of December 31, 2006, Wauwatosa Savings met its Regulation D reserve requirements.

Transactions with Affiliates and Insiders

Wisconsin Law and Regulation. Under Wisconsin law, Wauwatosa Savings may not make a loan to a person owning 10% or more of its stock, an affiliated person, agent, or attorney of the savings bank, either individually or as an agent or partner of another, except as approved by the WDFI and regulations of the FDIC. In addition, unless the prior approval of the WDFI is obtained, Wauwatosa Savings 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 Wauwatosa Savings, and any of its affiliates, including Wauwatosa Holdings. 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 bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution or a "financial subsidiary" under federal law is not treated as an affiliate of the bank for the purposes of Sections 23A and 23B; however, the FDIC has the discretion to treat subsidiaries of a bank as affiliates on a case-by-case basis. Sections 23A and 23B limit the extent to which a bank or its

subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of such 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 statutory sections also require that all such transactions be on terms that are consistent with safe and sound banking practices. The term “covered transaction” includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amounts. In addition, any covered transaction by an association with an affiliate and any purchase of assets or services by an association from an affiliate must be on terms that are substantially the same, or at least as favorable, to the bank as those that would be provided to a non-affiliate.

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 FRB’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 comparable to the loans-to-one-borrower limit applicable to Wauwatosa Savings’ loans. All loans by a savings bank to all insiders and insiders’ related interests in the aggregate may not exceed the 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 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 collectibility.

An exception 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.

Transactions between Bank Customers and Affiliates

Under Wisconsin and federal laws and regulations, Wisconsin savings banks, such as Wauwatosa Savings, are subject to the prohibitions on certain tying arrangements. A savings bank is prohibited, subject to certain exceptions, 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

Wauwatosa Savings is required to file periodic reports with and is subject to periodic examinations by the WDFI and FDIC. Federal regulations require annual on-site examinations for all depository institutions except those well-capitalized institutions with assets of less than \$100 million; annual audits by independent public accountants for all insured institutions with assets in excess of \$1 billion; the formation of independent audit committees of the boards of directors of insured depository institutions for institutions with assets equal to or in excess of \$500 million; and management of depository institutions to prepare certain financial reports annually and to establish internal compliance procedures. Wauwatosa Savings is required to pay examination fees and annual assessments to fund its supervision. Wauwatosa Savings paid an aggregate of \$69,000 in assessments for the calendar year ending December 31, 2006

Customer Privacy

Under Wisconsin and federal law and regulations, savings banks, such as Wauwatosa Savings, 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 ("CRA"), any insured depository institution, including Wauwatosa Savings, 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 CRA 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. The CRA requires the FDIC, in connection with its examination of a savings association, to assess the financial institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications for additional branches and acquisitions.

Among other things, the CRA regulations contain an evaluation system that would rate an institution based on its actual performance in meeting community needs. In particular, the evaluation system focuses on three tests:

- a lending test, to evaluate the institution's record of making loans in its service areas;
- an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and
- a service test, to evaluate the institution's delivery of services through its branches, ATMs and other offices.

The CRA requires the FDIC, in the case of Wauwatosa Savings, to provide a written

evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system and requires public disclosure of an institution's CRA rating. Wauwatosa Savings received at least "satisfactory" overall ratings in its most recent CRA examinations.

Federal Home Loan Bank System

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

Wauwatosa Savings, as a member of the FHLB-Chicago, is required to acquire and hold shares of capital stock in the FHLB-Chicago in an amount equal to the greater of (i) 1% of the aggregate outstanding principal amount of residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or (ii) 0.3% of total assets. Wauwatosa Savings is in compliance with this requirement with an investment in FHLB-Chicago stock of \$17.2 million at December 31, 2006.

Among other benefits, the FHLBs provide a central credit facility primarily for member institutions. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the FHFB and the Board of Directors of the FHLB-Chicago. At December 31, 2006, Wauwatosa Savings had \$334.0 million in advances from the FHLB-Chicago.

USA PATRIOT Act

In response to the terrorist attacks of September 11, 2001, Congress adopted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"). The USA PATRIOT Act gave the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By means of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks and savings associations.

Regulation of Wauwatosa Holdings

Holding Company Regulation

Wisconsin Law and Regulation. 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. Wauwatosa Holdings is subject to regulation as a savings bank holding company under Wisconsin law. However, the WDFI has not yet issued specific regulations governing savings bank holding companies.

Federal Law and Regulation. Wauwatosa Holdings is registered and regulated as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "BHCA"). As such, Wauwatosa Holdings is subject to supervision, regulation and periodic reporting under the BHCA, as administered by the FRB. The FRB has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC for Wauwatosa Savings. Failure to meet the capital adequacy requirements may result in supervisory or enforcement action by the FRB.

Wauwatosa Holdings is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior FRB approval is also required for Wauwatosa Holdings to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company. The BHCA also prohibits the acquisition by Wauwatosa Holdings of more than 5% of the voting shares of a bank located outside the State of Wisconsin or of substantially all of the assets of such a bank, unless such an acquisition is specifically authorized by the laws of the state in which such bank is located.

FRB regulations govern a variety of bank holding company matters, including redemption of outstanding equity securities and a bank holding company engaging in non-banking activities. Pursuant to FRB policy, dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with its capital needs, asset quality and overall financial condition. The FRB policy also requires that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity. These policies could affect the ability of Wauwatosa Holdings to pay cash dividends.

Subsidiary banks of a bank holding company are subject to certain quantitative and qualitative restrictions imposed by the Federal Reserve Act on any extension of credit to, or purchase of assets from, or letter of credit on behalf of, the bank holding company or its subsidiaries, and on the investment in or acceptance of stocks or securities of such holding company or its subsidiaries as collateral for loans. In addition, provisions of the Federal Reserve Act and FRB regulations limit the amounts of, and establish required procedures and credit standards with respect to, loans and other extensions of credit to officers, directors and principal shareholders of Wauwatosa Savings, Wauwatosa Holdings, any subsidiary of Wauwatosa Holdings and related interests of such persons. See "Transactions with Affiliates and Insiders" above. Moreover, subsidiaries of bank holding companies are prohibited from engaging in certain tie-in arrangements (with Wauwatosa Holdings or any of its subsidiaries) in connection with any extension of credit, lease or sale of property or furnishing of services.

Wauwatosa Holdings and its subsidiary, Wauwatosa Savings, are affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management of Wauwatosa Holdings to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Wauwatosa Holdings.

Federal Securities Laws Regulation

Securities Exchange Act. Wauwatosa Holdings common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. The Company is therefore subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 was adopted in response to public concerns regarding corporate accountability in connection with the accounting and corporate governance scandals at several prominent companies. The stated goals of the Sarbanes-Oxley Act are to increase 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.

The Sarbanes-Oxley Act is the most far-reaching U.S. securities legislation enacted in some time. It applies to all public companies, including Wauwatosa Holdings, that file periodic reports with the SEC, under the Securities Exchange Act.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and national securities exchanges and associations to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC, and increases penalties for violation. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The Sarbanes-Oxley Act addresses, among other matters:

- audit committees and auditor independence;
- certification of financial statements by the chief executive officer and the chief financial officer;
- management reporting, and auditor attestation, of internal control over financial reporting;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities if the issuer's financial statements later require restatement;
- a prohibition on insider trading during retirement plan black-out periods;
- further disclosure of off-balance sheet transactions;
- a prohibition on many personal loans to directors and officers (with exceptions for financial institutions);

- expedited filing requirements for reporting of insiders' transactions; and
- disclosure of a code of ethics and disclosure of a change or waiver of such code.

Because some FDIC accounting and governance regulations also refer to the SEC's regulations, the Sarbanes-Oxley Act also may affect Wauwatosa Savings.

Regulation of Lamplighter Financial, MHC

Bank Holding Company Regulation

Wisconsin Law and Regulation. Because Lamplighter Financial, MHC indirectly controls more than 25% of the stock of Wauwatosa Savings, Lamplighter Financial, MHC is subject to regulation under Wisconsin law as a savings bank holding company just as Wauwatosa Holdings. For a discussion of the savings bank holding company regulations that apply to Lamplighter Financial, MHC, see "Regulation of Wauwatosa Holdings—Holding Company Regulation" above.

Federal Law and Regulation. Because Lamplighter Financial, MHC indirectly controls Wauwatosa Savings within the meaning of the BHCA, Lamplighter Financial, MHC is subject to regulation under the BHCA as a bank holding company just as Wauwatosa Holdings. For a discussion of the bank holding company regulations that apply to Lamplighter Financial, MHC, see "Regulation of Wauwatosa Holdings—Holding Company Regulation" above.

Mutual Holding Company Regulation

In addition to the savings bank holding company regulation imposed by Wisconsin law upon Lamplighter Financial, MHC, Lamplighter Financial, MHC is also subject to regulation under Wisconsin law as a mutual holding company.

Membership. A person owning a deposit account (except for negotiable certificates of deposit not in registered form) in a Wisconsin savings bank that is a subsidiary of a mutual holding company has membership rights in the mutual holding company. A member of a mutual holding company has one vote for each \$100 or fraction of \$100 of the combined withdrawal value of the member's deposit accounts in a subsidiary savings bank of the mutual holding company.

Permitted Activities. Wisconsin mutual holding companies are only permitted to engage in activities set forth in the applicable regulations or that are otherwise approved by the WDFI. Generally, a Wisconsin mutual holding company is only permitted to acquire savings banks or other bank holding companies and engage in activities that are approved by the WDFI for Wisconsin savings banks or activities approved by the FRB for bank holding companies.

Examinations and Assessments. Under the applicable regulations, Lamplighter Financial, MHC is required to register with the WDFI as a mutual holding company and is required to file periodic reports with the WDFI. In addition, Lamplighter Financial, MHC is subject to examination by the WDFI and must pay assessments.

Federal and State Taxation

Federal Taxation

General. Wauwatosa Holdings and subsidiaries and Lamplighter Financial, MHC are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Wauwatosa Holdings and subsidiaries constitute an affiliated group of corporations and, therefore, are eligible to report their income on a consolidated basis. Because Lamplighter Financial, MHC owns less than 80% of the common stock of Wauwatosa Holdings, it is not a member of that affiliated group and will report its income on a separate return. 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 Lamplighter Financial, MHC, Wauwatosa Holdings or Wauwatosa Savings.

Method of Accounting. For federal income tax purposes, Wauwatosa Holdings 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"), Wauwatosa Savings 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, Wauwatosa Savings 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, 2006, Wauwatosa Savings had no reserves subject to recapture in excess of its base year.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income if Wauwatosa Savings failed to meet certain thrift asset and definitional tests. Federal legislation has eliminated these thrift-related recapture rules. At December 31, 2006, our total federal pre-1988 base year reserve was approximately \$16.7 million. However, under current law, pre-1988 base year reserves remain subject to recapture if Wauwatosa Savings makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter.

Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended (the "Code"), imposes an alternative minimum tax ("AMT") at a rate of 20% on a base of regular taxable income plus certain tax preferences which we refer to as "alternative minimum taxable income." The AMT is payable to the extent such alternative minimum taxable income is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain AMT payments may be used as credits against regular tax liabilities in future years. Wauwatosa Savings has not been subject to the AMT and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December

31, 2006, Wauwatosa Savings had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. Wauwatosa Holdings may exclude from its income 100% of dividends received from Wauwatosa Savings as a member of the same affiliated group of corporations. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf.

State Taxation

Wisconsin State Taxation. Lamplighter Financial, MHC, Wauwatosa Holdings and Wauwatosa Savings are subject to the Wisconsin corporate franchise (income) tax. Under current law, the state of Wisconsin imposes a corporate franchise tax of 7.9% on the separate taxable incomes of the members of our consolidated income tax group except our Nevada subsidiary. Presently, the income of the Nevada subsidiary is only subject to taxation in Nevada, which currently does not impose a corporate income or franchise tax. However, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Risk Factors – Wisconsin Tax Developments Could Reduce Our Net Income” for a discussion of Wisconsin tax developments relating to these subsidiaries.

Wauwatosa Savings is currently under state tax audit for the years 1998 through 2005. Like the majority of financial institutions located in Wisconsin, Wauwatosa Savings transferred investment securities and mortgage loan participations to a wholly-owned subsidiary located in Nevada. Wauwatosa Savings’ Nevada subsidiary now holds and manages those assets. Because the subsidiary is located in the state of Nevada, income from its operations has not been subject to Wisconsin state taxation. The investment subsidiary has not filed returns with, or paid income or franchise taxes to, the State of Wisconsin. The Wisconsin Department of Revenue (the “Department”) implemented a program to audit Wisconsin financial institutions which have formed and contributed assets to subsidiaries located outside of Wisconsin, and the Department has generally indicated that it may assess franchise taxes on the income of the out-of-state investment subsidiaries of Wisconsin financial institutions. The Department has not issued an assessment to Wauwatosa Savings, but the Department has stated that it intends to do so if the matter is not settled.

Prior to the formation of the investment subsidiary, Wauwatosa Savings sought and obtained private letter rulings from the Department regarding the non-taxability of the investment subsidiary in the State of Wisconsin. Wauwatosa Savings believes that it has complied in all respects with Wisconsin law and the private rulings received from the Department. Wauwatosa Savings has accrued an estimated state liability, including interest, of \$4.9 million for the probable assessment amount on the basis of facts known at that time. A deferred Federal tax benefit of \$1.7 million has also been established as a result of this accrual. Wauwatosa Savings intends to continue accruing state income taxes on future investment subsidiary earnings consistent with the accrual previously described until such time as the dispute is resolved.

Item 1A. Risk Factors

Changing Interest Rates May Hurt Our Profits.

Interest rates were recently at historically low levels. However, from June 30, 2004 through December 31, 2006, the U.S. Federal Reserve has increased its target for the federal funds rate from 1.25% to 5.25%. If interest rates continue to rise, and if our cost of deposits and borrowings reprice upwards faster than the interest income we receive on our loans and investments, we would experience compression of our net interest margin, which would have a negative effect on our profitability. Specifically, at December 31, 2006, certificate of deposit accounts totaling \$693.4 million will mature within one year. As these deposits mature, our cost of funds will increase if market interest rates are higher, resulting in a reduction in our net interest income. Increases in market rates do not affect the Wauwatosa Savings mortgage loan portfolio as quickly as they affect certificates of deposit. In a rising interest rate environment, the average lives of mortgage loans and mortgage-related securities extend, resulting in a longer period over which the lower rate is earned, thus negatively impacting net interest income.

Furthermore, Wauwatosa Savings has historically not raised the rates on its adjustable rate mortgage loans secured by one- to four-family owner-occupied residences, even though it reserves the right to do so, thus foregoing additional net interest income.

Wisconsin Tax Developments Could Reduce Our Net Income.

Like many financial institutions located in Wisconsin, Wauwatosa Savings transferred investment securities and mortgage loan participations to a wholly-owned subsidiary located in Nevada. Because the subsidiary holds and manages those assets and is located in the state of Nevada, income from its operations has not been subject to Wisconsin taxation. The investment subsidiary has not filed returns with, or paid income or franchise taxes to, Wisconsin. The Wisconsin Department of Revenue (the "Department") implemented a program to audit Wisconsin financial institutions which have formed and contributed assets to subsidiaries located outside of Wisconsin, and the Department has generally indicated that it may assess franchise taxes on the income of the out-of-state investment subsidiaries of Wisconsin financial institutions. However, the Department has not yet asserted a claim or issued an assessment against Wauwatosa Savings. Wauwatosa Savings is currently being audited by the Department for the years 1998 through 2005.

Prior to the formation of the investment subsidiary, Wauwatosa Savings sought and obtained a private letter ruling from the Department confirming that the Nevada subsidiary's income would not be taxed in Wisconsin. Wauwatosa Savings believes that it has complied in all respects with Wisconsin law and the private rulings received from the Department. The Company has accrued an estimated state tax liability, including interest, of \$4.9 million for its estimate of the probable assessment amount on the basis of facts known at that time. A deferred tax benefit of \$1.7 million was also established as a result of this accrual. The Company intends to continue accruing state income taxes on future investment subsidiary earnings consistent with the accrual previously described until such time as the dispute is resolved.

Depending upon the terms and circumstances, an adverse resolution of these matters could result in additional Wisconsin tax obligations for prior periods and/or higher Wisconsin taxes going

forward, with a substantial negative impact on the earnings of Wauwatosa Holdings. We may also need to incur costs in the future to address any action taken against us by the Wisconsin Department of Revenue.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we analyze our loss and delinquency experience by loan categories and we consider the impact existing economic conditions. If the results of our analyses are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance which would decrease our net income. Although we are unaware of any specific problems with our loan portfolio that would require any increase in our allowance at the present time, it may need to be increased further in the future due to credit deterioration, our emphasis on loan growth and on increasing our portfolio of commercial real estate loans.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, although we are unaware of any reason for them to do so at the present time. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations and financial condition.

A Large Portion of Our Loan Portfolio Is Over Four-Family Loans, Which May Be Individually Riskier Than One- To Four-Family Loans.

We have emphasized the origination of over four-family loans in recent years. Our over four-family loan portfolio has grown to \$468.8 million at December 31, 2006 from \$262.3 million at June 30, 2002. Loans secured by over four-family real estate generally involve larger principal amounts and a greater degree of risk than one- to four-family residential mortgage loans. Because payments on loans secured by over four-family properties are often dependent on successful operation or management of the properties and the cash flow received from rents, repayment of such loans may be affected by adverse conditions in the real estate market or the economy. As the amount of our over four-family loans increases, we will also increase our allowance for loan losses. If borrowers default on their over four-family loans, our provision for loan losses may be inadequate, and such defaults may adversely affect the profitability of Wauwatosa Savings.

Our Shareholders Own a Minority of Wauwatosa Holdings' Common Stock and Are Not Able to Exercise Voting Control Over Most Matters Put to a Vote of Shareholders.

Public shareholders own a minority of the outstanding shares of Wauwatosa Holdings common stock. As a result, shareholders other than Lamplighter Financial, MHC are not able to exercise voting control over most matters put to a vote of shareholders. Lamplighter Financial, MHC owns a majority of Wauwatosa Holdings' common stock and, through its Board of Directors, is able to exercise voting control over most matters put to a vote of shareholders, including possible

acquisitions. The same directors who govern Wauwatosa Holdings and Wauwatosa Savings also govern Lamplighter Financial, MHC. The only matters as to which shareholders other than Lamplighter Financial, MHC are able to exercise voting control are those requiring a majority of disinterested or non-Lamplighter Financial, MHC shareholders.

If We Declare Dividends on Our Common Stock, Lamplighter Financial, MHC Will be Prohibited From Waiving the Receipt of Dividends by Current Federal Reserve Board Policy.

Wauwatosa Holdings' Board of Directors has the authority to declare dividends on our common stock, subject to statutory and regulatory requirements. If Wauwatosa Holdings pays dividends to its shareholders, it also is required to pay dividends to Lamplighter Financial, MHC, unless Lamplighter Financial, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board's current position is to not permit a bank holding company to waive dividends declared by its subsidiary. Accordingly, because dividends are required to be paid to Lamplighter Financial, MHC along with all other shareholders, the amount of dividends available for all other shareholders is less than if Lamplighter Financial, MHC were permitted to waive the receipt of dividends.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We conduct substantially all of our business through eight banking offices and our automated teller machines ("ATM"), including four stand-alone ATM facilities.

<u>Location</u>	<u>Owned Or Leased</u>	<u>Year Acquired Or Leased</u>	<u>Date of Lease Expiration</u>	<u>December 31, 2006 Net Book Value</u> (In Thousands)
Main Office:				
7500 West State Street Wauwatosa, Wisconsin	Own	1971	N/A	\$1,459
Branches:				
6560 South 27th Street Oak Creek, Wisconsin	Own	1986	N/A	\$1,173
21505 East Moreland Blvd Waukesha, Wisconsin	Capital Lease	2005	2009	\$5,484
1233 Corporate Center Drive Oconomowoc, Wisconsin	Own	2003	N/A	\$2,868
1230 George Towne Drive Pewaukee, Wisconsin	Own	2004	N/A	\$3,857
6555 S 108th St Franklin, Wisconsin	Own	2006	N/A	\$2,676
W188N9820 Appleton Ave Germantown, Wisconsin	Own	2006	N/A	\$2,676
10101 W Greenfield Ave ⁽¹⁾ West Allis, Wisconsin	Own	2006	N/A	\$2,910
1405 Capitol Drive ⁽²⁾ Pewaukee, Wisconsin	Lease	1999	2009	\$24
7136 W State Street ⁽³⁾ Wauwatosa, Wisconsin	Own	2000	N/A	\$591
Corporate Center:				
11200 West Plank Court ⁽⁴⁾ Wauwatosa, Wisconsin	Own	2004	N/A	\$4,932

(1) This facility currently functions as a mortgage service center. A full-service branch will open at this facility in March of 2007.

(2) Supermarket banking facility sold in January 2007.

(3) Drive-up banking facility only.

(4) Leased in 2002, purchased in 2004.

Item 3. Legal Proceedings

We are not involved in any pending legal proceedings as a defendant other than routine legal proceedings occurring in the ordinary course of business. At December 31, 2006, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Part II

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

The common stock of Wauwatosa Holdings, Inc. is traded on The Nasdaq Global Select Market® under the symbol "WAUW".

As of February 28, 2007, there were 33,265,483 of common stock outstanding and approximately 4,536 shareholders of record of the common stock. Wauwatosa Holdings, Inc became a publicly-held corporation on October 4, 2005.

The Company did not pay a cash dividend in 2006. Our Board has not currently considered a policy of paying cash dividends on the common stock. If the Board considers a cash dividend in the future, which cannot be assured, the payment of dividends will depend upon a number of factors, including capital requirements, Wauwatosa Holdings' and Wauwatosa Savings' financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions and regulatory restrictions that affect the payment of dividends by Wauwatosa Savings to Wauwatosa Holdings and the receipt from the Federal Reserve Board of a waiver of dividends to our mutual holding company. No assurances can be given that any dividends will be paid or that, if paid, they will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by applicable policy and regulation, may be paid in addition to, or in lieu of, regular cash dividends. Accordingly, it is anticipated that any cash distributions made by Wauwatosa Holdings to its shareholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes.

Dividends from Wauwatosa Holdings will depend, in part, upon receipt of dividends from Wauwatosa Savings, because Wauwatosa Holdings initially will have no source of income other than dividends from Wauwatosa Savings, earnings from the investment of proceeds from the sale of shares of common stock, and interest payments with respect to Wauwatosa Holdings' loan to the employee stock ownership plan. Wisconsin law generally will allow Wauwatosa Savings to pay dividends to Wauwatosa Holdings equal to up to 50% of Wauwatosa Savings' net profit in the current year without prior regulatory approval and above such amount, including out of retained earnings, with prior regulatory approval.

If Wauwatosa Holdings pays dividends to its shareholders, it will be required to pay dividends to Lamplighter Financial, MHC. The Federal Reserve Board's current policy prohibits the waiver of dividends by mutual holding companies. Accordingly, we do not anticipate that Lamplighter Financial, MHC will be permitted by the Federal Reserve Board to waive dividends paid by Wauwatosa Holdings.

Our common stock began trading on The Nasdaq Global Select Market® on October 5, 2005. The high and low quarterly trading prices from that date through December 31, 2006 were as follows:

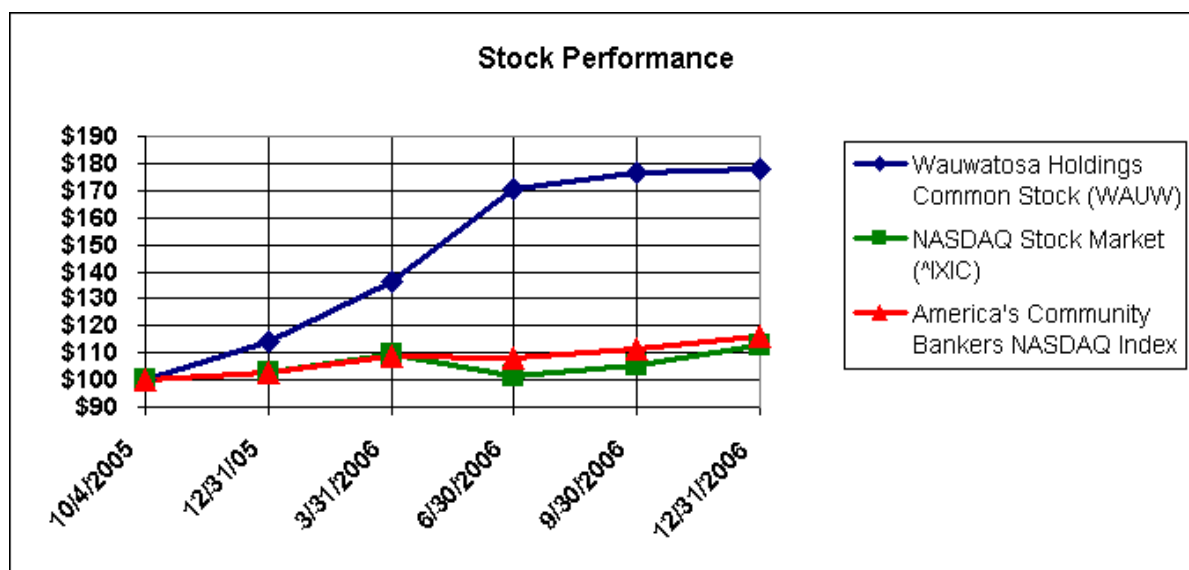
	2006	<u>High</u>	<u>Low</u>
1 st Quarter		\$13.85	\$11.44
2 nd Quarter		17.06	13.08
3 rd Quarter		18.90	15.70
4 th Quarter		18.23	17.17
	2005		
October 5, 2005 to December 31, 2005		11.95	10.35

Stock Repurchase Program

On September 5, 2006, the Board of Directors of Wauwatosa Holdings, Inc. approved the commencement of the Company's first stock repurchase program for up to 1,494,298 shares, or approximately 14% of the Company's outstanding common stock held by shareholders other than Lamplighter Financial, MHC. Repurchases will be made by the Company from time to time in open-market transactions or otherwise as, in the opinion of management, market conditions warrant. The repurchased shares will be held as treasury stock and will be available for general corporate purposes. As of December 31, 2006, the Company had not repurchased any shares.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total shareholder return on Wauwatosa Holdings 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 NASDAQ Stock Market US Index and the America's Community Bankers NASDAQ Index. The graph assumes \$100 was invested on October 5, 2005, the first date of Wauwatosa Holdings trading, in Wauwatosa Holdings common stock and each of those indices.



Stock/Index	10/4/2005	12/31/05	3/31/2006	6/30/2006	9/30/2006	12/31/2006
Wauwatosa Holdings Common Stock (WAUW)	100.00	114.40	136.00	170.60	176.50	178.20
NASDAQ Stock Market (^IXIC)	100.00	103.08	109.37	101.53	105.57	112.90
America's Community Bankers NASDAQ Index	100.00	102.75	109.05	108.42	111.51	116.49

Compensation Plans

Set forth below is information as of December 31, 2006 regarding equity compensation plans that have been approved by shareholders. The Company has no equity based benefit plans that were not approved by shareholders.

Plan	Number of shares to be issued upon exercise of outstanding options and rights	Weighted average exercise price	Number of securities remaining available for issuance under plan
2006 Equity Incentive Plan	1,494,298 ⁽¹⁾	\$- ⁽²⁾	1,494,298

(1) Consists of 1,067,356 shares reserved for issuance for future grants of stock options and 426,942 shares reserved for future grants of restricted stock.

(2) No options were granted and no restricted stock awards were made as of December 31, 2006.

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The summary financial information presented below is derived in part from the consolidated financial statements of Wauwatosa Savings Bank. The data is derived from the Company's audited financial statements (other than data at or for the year ended December 31, 2005), although the table itself is not audited. The following data should be read together with the Company's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" later in this report.

	At December 31,		At June 30,			
	2006	2005	2005	2004	2003	2002
	(In Thousands)					
Selected Financial Condition						
Total assets	\$ 1,648,470	\$1,511,209	\$1,386,132	\$1,240,084	\$1,104,893	\$1,002,435
Available for sale securities	117,330	121,955	83,991	99,549	90,453	41,733
Federal Home Loan Bank stock	17,213	14,406	14,097	13,322	8,658	8,088
Loans receivable, net	1,372,907	1,306,018	1,213,561	1,063,594	940,053	895,398
Cash and cash equivalents	73,807	16,498	20,467	19,392	28,767	38,945
Deposits	1,036,218	1,045,593	1,128,791	1,035,588	909,491	841,873
Advance payments by borrowers for taxes	190	181	15,821	14,446	13,649	13,837
Advances from the Federal Home						
Loan Bank	334,003	201,212	93,162	60,000	60,000	35,000
Total equity	241,272	231,696	133,416	122,799	114,596	103,507
Allowance for loan losses	7,195	5,250	4,606	3,378	2,970	2,479
Non-performing loans	28,888	18,065	13,076	12,015	15,588	12,940

	Years Ended December 31,		Six Months Ended December 31,		Years Ended June 30,			
	2006	2005	2005	2004	2005	2004	2003	2002
	(In Thousands, except per share amounts)							
Selected Operating Data:								
Interest income	\$ 92,228	\$ 79,736	\$ 42,036	\$ 36,580	\$ 74,207	\$ 66,088	\$ 66,451	\$ 70,125
Interest expense	53,779	39,537	20,758	17,290	36,068	32,432	34,459	41,412
Net interest income	38,449	40,199	21,278	19,290	38,139	33,656	31,933	28,712
Provision for loan losses	2,201	1,909	1,035	363	1,238	860	520	1,336
Net interest income after provision for loan losses	36,248	38,290	20,243	18,927	36,901	32,796	31,472	27,377
Noninterest income	5,202	3,526	2,272	1,985	3,311	3,035	2,993	2,141
Noninterest expense	28,698	29,646	18,331	12,262	23,576	20,384	17,618	13,863
Income before income taxes	12,752	12,170	4,184	8,650	16,636	15,447	16,847	15,655
Provision for income taxes	4,699	6,127	1,471	2,864	7,520	4,863	5,742	4,816
Net income	<u>\$ 8,053</u>	<u>\$ 6,043</u>	<u>\$ 2,713</u>	<u>\$ 5,786</u>	<u>\$ 9,116</u>	<u>\$ 10,584</u>	<u>\$ 11,105</u>	<u>\$ 10,839</u>
Income (loss) per share – basic (1)	<u>\$ 0.24</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	N/A	N/A	N/A	N/A	N/A
Income (loss) per share – diluted (1)	<u>\$ 0.24</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	N/A	N/A	N/A	N/A	N/A

(1) The 2005 loss per share is based upon net loss and weighted average shares outstanding from the date of reorganization (October 4, 2005) to December 31, 2005.

	At or For the Years		At or for the Six Months		At or For the Years Ended June 30,			
	Ended December 31,		Ended December 31,					
	2006	2005	2005	2004	2005	2004	2003	2002
Selected Financial Ratios ⁽⁴⁾ and Other Data:								
Performance Ratios:								
Return on average assets	0.50%	0.43%	0.36%	0.89%	0.70%	0.90%	1.08%	1.10%
Return on average equity	3.41	4.52	3.22	8.30	7.12	8.88	10.19	11.21
Interest rate spread ⁽¹⁾	2.00	2.56	2.43	2.89	2.74	2.70	2.84	2.50
Net interest margin ⁽²⁾	2.52	2.95	2.96	3.13	3.04	2.98	3.19	2.97
Noninterest expense to average assets	1.80	2.09	2.44	1.88	1.81	1.74	1.71	1.40
Efficiency ratio ⁽³⁾	66.19	67.80	77.84	57.64	56.88	55.55	50.36	44.93
Average interest-earning assets to average interest-bearing liabilities	114.59	113.07	118.38	108.7	110.29	109.71	110.09	110.92
Capital Ratios:								
Equity to total assets at end of period	14.64%	15.33%	15.33%	9.43%	9.63%	9.90%	10.37%	10.33%
Average equity to average assets	14.79	9.41	11.25	10.66	9.83	10.15	10.56	9.79
Total capital to risk-weighted assets	21.36	22.79	22.79	14.59	14.05	15.02	15.61	15.11
Tier I capital to risk-weighted assets	20.75	22.29	22.29	14.20	13.58	14.62	15.22	15.07
Tier I capital to average assets	14.47	14.23	14.23	10.09	9.84	10.18	10.50	10.25
Asset Quality Ratios:								
Allowance for loan losses as a percent of total loans	0.52%	0.40%	0.40%	0.33%	0.38%	0.32%	0.32%	0.28%
Allowance for loan losses as a percent of non-performing loans	24.91	29.06	29.06	28.06	35.22	28.11	19.05	19.16
Net charge-offs to average outstanding loans during the period	0.02	0.03	0.06	0	0	0.05	0	0.09
Non-performing loans as a percent of total loans	2.10	1.39	1.39	1.17	1.07	1.13	1.65	1.44
Non-performing assets as a percent of total assets	1.75	1.20	1.21	0.96	0.98	1.03	1.41	1.39
Other Data:								
Number of full service offices	7	5	5	5	5	5	4	3
Number of limited service offices	1	1	1	1	1	1	1	1

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

(4) Ratios for six-month periods have been annualized.

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

Overview

On October 4, 2005, Wauwatosa Savings Bank completed its reorganization and subsequent initial public offering of common stock of Wauwatosa Holdings, Inc. Upon completion of the reorganization, Lamplighter Financial, MHC (a Wisconsin chartered mutual holding company) owns approximately 68% of the outstanding shares of common stock of Wauwatosa Holdings, Inc. and Wauwatosa Holdings, Inc. owns 100% of the common stock of the Bank.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of residential loans, construction loans and debt and mortgage-related securities and the interest we pay on our interest-bearing liabilities, consisting primarily of time deposits and borrowings from the Federal Home Loan Bank of Chicago. Wauwatosa Savings is a mortgage lender with mortgage loans comprising 99.8% of total loans receivable on December 31, 2006. Further, 82.5% of loans receivable are residential mortgage loans and 32.1% of loans receivable are over four-family residential mortgage loans on December 31, 2006. Wauwatosa Savings funds loan production primarily with retail deposits. On December 31, 2006, 85.2% of total deposits were time deposits also known as certificates of deposit. Deposits obtained from brokers totaled \$36.3 million at December 31, 2006. Wauwatosa Savings uses borrowings from the Federal Home Loan Bank of Chicago as a secondary source of funding. Federal Home Loan Bank advances outstanding on December 31, 2006 totaled \$334.0 million or 32.2% of total deposits.

Our results of operations also are affected by our provision for loan losses, noninterest income and noninterest expense. Noninterest income currently consists primarily of service fees, income from the increase on the cash surrender value of life insurance and miscellaneous other income. Noninterest expense currently consists primarily of compensation and employee benefits, occupancy, data processing, advertising and marketing, charitable contributions and other operating expenses including consulting and other professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Critical 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 Loan Losses. Wauwatosa Savings establishes valuation allowances on over four-family and commercial real estate loans considered impaired. A loan is considered impaired when, based on current information and events, it is probable that Wauwatosa Savings will not be able to collect all amounts due according to the contractual terms of the loan agreement. A valuation allowance is established for an amount equal to the impairment when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral.

Wauwatosa Savings also establishes valuation allowances based on an evaluation of the various risk components that are inherent in the credit portfolio. The risk components that are evaluated include past loan loss experience; the level of non-performing and classified assets; current economic conditions; volume, growth, and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; peer group comparisons; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and recoveries of previously charged-off loans and reduced by charge-offs. The adequacy of the allowance for loan losses is reviewed and approved quarterly by the Wauwatosa Savings board of directors. The allowance reflects management's best estimate of the amount needed to provide for the probable loss on impaired loans and other inherent losses in the loan portfolio, and is based on a risk model developed and implemented by management and approved by the Wauwatosa Savings 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. In addition, federal regulators periodically review the Wauwatosa Savings allowance for loan losses. Such regulators have the authority to require Wauwatosa Savings to recognize additions to the allowance at the time of their examination.

If the allowance for loan losses is too low we may incur higher provisions for loan losses in the future resulting in lower net income. If an estimate of the allowance for loan losses is too high, we may experience lower provisions for loan losses resulting in higher net income.

Income Taxes. We recognize income taxes under the asset and liability method. Under this method, 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. 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 in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

Wauwatosa Savings has an investment subsidiary operating in Nevada. The income earned by that corporation is not subject to tax in Wisconsin nor has any such tax been paid. An accrued liability has been recorded pursuant to the Statement of Financial Accounting Standards Board No. 5 because the Wisconsin Department of Revenue has generally indicated that it may assess franchise taxes on the income of such out of state subsidiaries. Wauwatosa Savings has accrued an estimated liability, as of December 31, 2006, of \$3.2 million net of the federal deferred tax benefit. The accrued gross estimated liability as of December 31, 2006, is \$4.9 million offset by a \$1.7 million federal deferred tax benefit. Wauwatosa Savings will continue to accrue state income tax on certain Nevada subsidiary earnings until such time as this issue is resolved.

Management believes its tax policies and practices are critical because the determination of the tax provision and current and deferred tax assets and liabilities have a material impact on our net income and the carrying value of our assets. We have no plans to change the tax recognition methodology in the future. If our estimated valuation allowance is too high or too low it will affect

our future net income. Net deferred tax assets totaled \$7.9 million, \$6.8 million and \$4.4 million on December 31, 2006, December 31, 2005 and June 30, 2005, respectively. As of December 31, 2006 and 2005, there was a valuation allowance of \$234,000, net of \$126,000 federal income tax benefit, and \$225,000, net of \$121,000 federal income tax benefit respectively, related to the deferred tax asset recognized for the Wisconsin charitable contribution deduction carryforward. There were no valuation allowances as of June 30, 2005 or June 30, 2004. If our estimated current and deferred tax assets and liabilities and any related estimated valuation allowance is too high or too low, it will affect our future net income in the year that the new information enabling us to better evaluate our estimates of income tax assets and liabilities becomes available

Comparison of Financial Condition at December 31, 2006 and at December 31, 2005

Total Assets. Total assets increased by \$137.3 million, or 9.1%, to \$1.6 billion at December 31, 2006 from \$1.5 billion at December 31, 2005. The increase in total assets resulted primarily from increases in cash and cash equivalents and continued growth of the loan portfolio as funded by Federal Home Loan Bank advances.

Cash and Cash Equivalents. Cash and cash equivalents increased by \$57.3 million to \$73.8 million at December 31, 2006 from \$16.5 million at December 31, 2005. The increase was the direct result of \$100 million in Federal Home Loan Bank advances that were taken to fund future operations, year-end tax escrow disbursements and upcoming wholesale funding maturities. These transactions resulted in arbitrage earnings of approximately 0.78% when investing the proceeds of the Federal Home Loan Bank advances, with an average cost of 4.32%, in short-term Federal Home Loan Bank demand and time deposits, with an average yield of 5.10%.

Loans Held for Sale. Loans held for sale totaled \$5.4 million as of December 31, 2006. This represents mortgage loans originated by Waterstone that will be sold in the secondary market. As Wauwatosa Savings has not historically originated loans for sale in the secondary market, and Waterstone was not purchased until February 2006, there is no comparable balance as of December 31, 2005. All loans held at December 31, 2006 were subsequently sold at a net gain to Waterstone.

Loans Receivable. Loans receivable increased \$64.9 million, or 5.0%, to \$1.4 billion at December 31, 2006 from \$1.3 billion at December 31, 2005. Of the total increase in loans receivable, \$25.2 million, or 38.8% was attributable to over four-family residential mortgage loans, \$12.1 million, or 18.6% was attributable to commercial real estate loans and \$9.6 million, or 14.8% was attributable to construction loans.

Office Properties and Equipment. Office properties and equipment increased \$7.6 million, or 30.4%, to \$32.6 million at December 31, 2006 from \$25.0 million at December 31, 2005. The increase was attributable to the purchase of a building in West Allis, Wisconsin for \$2.8 million and land in Franklin and Germantown, Wisconsin, totaling \$2.1 million for expansion of our branch network. In addition, \$1.6 million in capital improvements was added to each of the Franklin branch, which opened in September, and the Germantown branch, which opened in November. An additional \$910,000 in capital improvements has been added to the West Allis branch due to open in 2007.

Federal Home Loan Bank Stock. Federal Home Loan Bank stock increased by \$2.8 million, or 19.5%, to \$17.2 million at December 31, 2006 from \$14.4 million at December 31, 2005. This increase is the direct result of the increase in Federal Home Loan Bank advances outstanding at December 31, 2006 as compared to December 31, 2005. Minimum stock ownership is based on a combination of member bank mortgage loans and Federal Home Loan Bank advances outstanding. Wauwatosa Savings owns the minimum required amount of Federal Home Loan Bank stock. Dividends paid on Federal Home Loan Bank stock averaged 3.07% for the year ended December 31, 2006.

Prepaid Expenses and Other Assets. Prepaid expenses and other assets increased by \$2.5 million, or 25.3%, to \$12.2 million at December 31, 2006 from \$9.8 million at December 31, 2005. The biggest single increase was for deferred federal and state income taxes which increased by \$1.1 million from December 31, 2005 to December 31, 2006. That increase includes \$651,000 attributable to the allowance for loan losses and \$458,000 attributable to the federal income tax benefit related to the Wisconsin tax accrual on the Nevada subsidiary's income. In addition, \$1.0 million of Waterstone assets are included in the December 31, 2006 total. Waterstone's other assets include \$716,000 in goodwill and non-compete intangibles related to the February acquisition by Wauwatosa Savings. There were no comparable assets at December 31, 2005.

Deposits. Total deposits decreased \$9.4 million, or 0.9%, but remained relatively stable at \$1.0 billion at December 31, 2006 and December 31, 2005. Total time deposits decreased \$46.4 million, or 5.0% to \$883.3 million at December 31, 2006 from \$929.7 million at December 31, 2005. This decrease is attributable to a decrease in non-local and brokered certificates of \$54.8 million, or 52.3% to \$49.8 million at December 31, 2006 from \$104.7 million at December 31, 2005. Non-local and brokered deposits are utilized when their relative cost compares favorably to the cost of local deposits. This is generally the case in a declining interest rate environment as local market deposit rates lag the national market. Total money market and savings deposits increased \$60.9 million, or 181.5%, to \$94.5 million at December 31, 2006 from \$33.6 million at December 31, 2005. Partially offsetting the overall increase in money market and savings deposits, demand deposits decreased \$23.9 million, or 29.0%, to \$58.4 million at December 31, 2006 from \$82.3 million at December 31, 2005. The development and promotion of competitive retail and business money market accounts resulted in the significant increase in money market account balances during the period ended December 31, 2006. The increase in money market account balances included amounts transferred from existing demand accounts.

Federal Home Loan Bank Advances. Total Federal Home Loan Bank advances increased \$132.8 million, or 66.0%, to \$334.0 million at December 31, 2006 from \$201.2 million at December 31, 2005. The increase was the result of the competitive market for deposit products, increased loan demand and an opportunity to fund future cash needs with long-term funding at rates below short-term investment yields.

Other Liabilities. Other liabilities increased \$4.3 million, or 13.1%, to \$36.8 million at December 31, 2006 from \$32.5 million at December 31, 2005. The biggest single increase was for accrued interest payable which increased by \$1.7 million from December 31, 2005 to December 31, 2006, primarily as a result of the increase in the cost of funds. In addition, accrued federal and state income taxes increased by \$1.1 million from December 31, 2005 to December 31, 2006. This

increase is entirely attributable to the accrual for Wisconsin income taxes on the Nevada subsidiary's income.

Shareholders' Equity. Shareholders' equity increased \$9.6 million, or 4.1%, to \$241.3 million at December 31, 2006 from \$231.7 million at December 31, 2005. The increase was primarily attributable to net income for the year ended December 31, 2006, which totaled \$8.1 million and a \$854,000 decrease in unearned ESOP shares. The decrease in unearned ESOP shares is due to the December 31, 2006 allocation of shares held in trust by the Wauwatosa Savings Bank ESOP Trust to plan participants.

Comparison of Financial Condition at December 31, 2005 and June 30, 2005

Total Assets. Our total assets increased by \$125.1 million, or 9.0%, to \$1.5 billion at December 31, 2005 from \$1.4 billion at June 30, 2005. The increase in total assets resulted primarily from continued growth of the loan portfolio and an increase in investment securities. The growth of the loan portfolio and purchase of investment securities was funded in part with the \$98.7 million in net proceeds received from the stock offering.

Loans Receivable. Loans receivable increased \$87.2 million, or 7.2%, to \$1.3 billion at December 31, 2005 from \$1.2 billion at June 30, 2005, reflecting continuing demand for new loans in a relatively low interest rate environment. Of the total increase in loans receivable, net, \$80.0 million, or 91.7%, was attributable to residential mortgage loans, of which \$38.9 million was for loans secured by over four-family residential properties.

Securities Available for Sale. Proceeds from the stock offering were also used to purchase available-for-sale securities which increased by \$38.0 million, or 45.2%, to \$122.0 million at December 31, 2005 from \$84.0 million at June 30, 2005. The increase as a result of purchases was partially offset by a decrease of \$1.5 million in the underlying market value of the existing portfolio.

Deposits. Total deposits decreased by \$83.2 million, or 7.4%, to \$1.0 billion at December 31, 2005 from \$1.1 billion at June 30, 2005. Interest-bearing deposits decreased by \$82.6 million or 7.3% and noninterest bearing deposits decreased by \$616,000 or 5.3%. Approximately \$19.1 million of this decrease resulted from the use of funds by depositors to purchase Company stock during the initial public offering. Brokered certificates of deposit decreased by \$21.6 million, or 17.1%, to \$104.7 million at December 31, 2005 from \$126.3 million at June 30, 2005. Brokered deposits tend to be a more volatile source of funds than deposits obtained from the local community and are used when the cost is measurably less than that of local funding.

Federal Home Loan Bank Advances. Total advances from the Federal Home Loan Bank increased \$108.1 million, or 116.0%, to \$201.2 million at December 31, 2005 from \$93.2 million at June 30, 2005. The increase was primarily due to the decrease in deposits. Advances outstanding at December 31, 2005 have a weighted average rate of 3.90%, compared to 3.07% on advances outstanding at June 30, 2005.

Advance Payments by Borrowers for Taxes. Advance payments by borrowers for taxes decreased \$15.6 million, or 98.9%, to \$181,000 at December 31, 2005 from \$15.8 million at June

30, 2005. The decrease is seasonally normal, as Wauwatosa Savings receives payments from borrowers' for their real estate taxes during the course of the calendar year until real estate tax obligations are paid out, primarily in December.

Other Liabilities. Other liabilities increased \$17.6 million, or 117.7%, to \$32.5 million at December 31, 2005 from \$14.9 million at June 30, 2005. The increase, which is seasonally normal, was primarily due to an increase in outstanding checks related to advance payments by borrowers for taxes. Wauwatosa Savings receives payments from borrowers' for their real estate taxes during the course of the calendar year until real estate tax obligations are paid out, primarily in December. The outstanding checks remain classified as an other liability until cashed. The balance of outstanding checks was \$16.5 million at December 31, 2005. There was no comparable balance at June 30, 2005.

Shareholders' Equity. Total shareholders' equity increased by \$98.3 million, or 73.7%, to \$231.7 million at December 31, 2005 from \$133.4 million at June 30, 2005, as a result of \$104.2 million of capital received from the stock offering, partially offset as discussed below. This amount primarily consists of \$98.8 million in net proceeds from the shares issued to subscribing depositors and \$5.6 million of additional paid-in-capital recognized as a result of the contribution of shares to Wauwatosa Savings Bank Fund of the Waukesha County Community Foundation. In connection with the reorganization and stock offering, Wauwatosa Savings initiated its ESOP. Approximately \$8.5 million of the proceeds from the offering were used to extend a loan to the ESOP. In turn, the ESOP, through its trustee (Marshall & Ilsley Trust Company, N.A.) used the proceeds to purchase 761,515 shares of stock on the open market. As a result of the purchase of shares by the ESOP, total shareholders' equity of the Company was reduced by \$7.7 million, which represents the \$8.5 million of shares purchased, less \$854,000 expensed in the six months ended December 31, 2005 for shares committed to be released to ESOP participants by December 31, 2005. Total shareholders' equity also increased by \$2.8 million in net income recognized during the six months ended December 31, 2005, partially offset by an increase in the unrealized loss on available for sale securities, net of tax of \$944,000.

Average Balance Sheets, Interest and Yields/Costs

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

	Years Ended December 31,					
	2006			2005		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable, net	\$1,350,865	\$ 83,822 ⁽¹⁾	6.21%	\$1,219,707	\$ 74,020 ⁽¹⁾	6.07%
Available for sale securities ⁽⁵⁾						
(6)	115,846	5,355	4.62	106,128	4,102	3.87
Other earning assets	<u>61,985</u>	<u>3,051</u>	4.92	<u>38,456</u>	<u>1,614</u>	4.20
Total interest-earning assets	1,528,696	<u>92,228</u>	6.03	1,364,291	<u>79,736</u>	5.84
Noninterest-earning assets	<u>68,286</u>			<u>57,461</u>		
Total assets	<u>\$1,596,982</u>			<u>\$1,421,752</u>		
Interest-bearing liabilities:						
Demand and money market accounts	\$110,907	2,810	2.53	\$89,694	1,156	1.29
Savings accounts	20,658	101	0.49	23,812	119	0.50
Certificates of deposit	<u>925,026</u>	<u>39,080</u>	4.22	<u>970,977</u>	<u>34,152</u>	3.52
Total interest-bearing deposits	1,056,591	41,991	3.97	1,084,483	35,427	3.27
Advances from the Federal Home Loan Bank and Federal funds purchased	265,821	11,472	4.32	110,979	3,719	3.35
Other interest bearing liabilities	<u>11,684</u>	<u>316</u>	2.70	<u>11,151</u>	<u>391</u>	3.51
Total interest-bearing liabilities	1,334,096	<u>53,779</u>	4.03	1,206,613	<u>39,537</u>	3.28
Noninterest-bearing liabilities	<u>26,716</u>			<u>81,398</u>		
Total liabilities	1,360,812			1,288,011		
Equity	<u>236,170</u>			<u>133,741</u>		
Total liabilities and equity	<u>\$1,596,982</u>			<u>\$1,421,752</u>		
Net interest income		<u>\$38,449</u>			<u>\$40,199</u>	
Net interest rate spread ⁽²⁾			2.00%			2.56%
Net interest-earning assets ⁽³⁾	<u>\$194,600</u>			<u>\$157,678</u>		
Net interest margin ⁽⁴⁾			2.52%			2.95%
Average interest-earning assets to average interest-bearing liabilities			114.59%			113.07%

(1) Includes net deferred loan fee amortization income of \$885,000 and \$940,000 for the years ended December 31, 2006 and 2005, respectively.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

(5) Average balance of available for sale securities is based on amortized historical cost.

(6) Interest income from tax exempt securities is not significant to total interest income, therefore, interest and yield on interest earnings assets are not stated on a tax equivalent basis.

Six Month Period Ended December 31,						
	2005			2004		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
(Dollars in Thousands)						
Interest-earning assets:						
Loans receivable, net	\$1,258,594	\$ 38,516 ⁽¹⁾	6.12%	\$1,106,826	\$ 34,272 ⁽¹⁾	6.19%
Available for sale securities ⁽⁵⁾						
⁽⁶⁾	123,872	2,440	3.94	99,988	1,784	3.57
Other earning assets	54,577	1,080	3.96	24,304	524	4.31
Total interest-earning assets	1,437,043	42,036	5.85	1,231,118	36,580	5.94
Noninterest-earning assets	62,987			51,989		
Total assets	<u>\$1,500,030</u>			<u>\$1,283,107</u>		
Interest-bearing liabilities:						
Demand and money market accounts	\$92,170	792	1.72	\$92,174	412	0.89
Savings accounts	18,088	60	0.66	24,912	63	0.51
Certificates of deposit	961,144	17,414	3.62	928,164	15,453	3.33
Total interest-bearing deposits	1,071,402	18,266	3.41	1,045,250	15,928	3.05
Advances from the Federal Home Loan Bank and Federal funds purchased	127,046	2,258	3.55	74,031	1,253	3.39
Other interest bearing liabilities	15,514	234	3.02	13,333	109	1.64
Total interest-bearing liabilities	1,213,962	20,758	3.42	1,132,614	17,290	3.05
Noninterest-bearing liabilities	117,302			11,133		
Total liabilities	1,331,504			1,143,747		
Equity	168,766			139,360		
Total liabilities and equity	<u>\$1,500,030</u>			<u>\$1,283,107</u>		
Net interest income		<u>\$21,278</u>			<u>\$19,290</u>	
Net interest rate spread ⁽²⁾			2.43%			2.89%
Net interest-earning assets ⁽³⁾	<u>\$223,081</u>			<u>\$98,504</u>		
Net interest margin ⁽⁴⁾			2.96%			3.13%
Average interest-earning assets to average interest-bearing liabilities			118.38%			108.70%

(1) Includes net deferred loan fee amortization income of \$512,000 and \$504,000 for the six month periods ended December 31, 2005 and 2004, respectively.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

(5) Average balance of available for sale securities is based on amortized historical cost.

(6) Interest income from tax exempt securities is not significant to total interest income, therefore, interest and yield on interest earnings assets are not stated on a tax equivalent basis.

Year Ended June 30,

	2005			2004		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable, net.....	\$1,140,444	\$69,775 ⁽¹⁾	6.12%	\$996,511	\$61,530 ⁽¹⁾	6.17%
Available for sale securities ^{(5) (6)}	78,870	3,442	4.36	97,092	3,700	3.82
Other earning assets	<u>37,302</u>	<u>989</u>	2.65	<u>35,287</u>	<u>858</u>	2.43
Total interest-earning assets.....	1,256,616	<u>74,207</u>	5.91	1,128,890	<u>66,088</u>	5.85
Noninterest-earning assets	<u>45,149</u>			<u>44,973</u>		
Total assets	<u>\$1,301,765</u>			<u>\$1,173,863</u>		
Interest-bearing liabilities:						
Demand and money market accounts	\$76,758	899	1.17	\$88,324	884	1.00
Savings accounts	27,944	122	0.44	22,675	113	0.50
Certificates of deposit	<u>954,322</u>	<u>32,068</u>	3.36	<u>847,126</u>	<u>29,084</u>	3.43
Total interest-bearing deposits.....	1,059,024	33,089	3.12	958,125	30,081	3.14
Advances from the Federal Home Loan Bank and Federal funds purchased.....	74,785	2,783	3.72	65,237	2,109	3.23
Other interest bearing liabilities.....	5,579	196	3.51	5,624	242	4.29
Total interest-bearing liabilities.....	1,139,388	<u>36,068</u>	3.17	1,028,986	<u>32,432</u>	3.15
Noninterest-bearing liabilities.....	<u>34,351</u>			<u>25,680</u>		
Total liabilities.....	1,173,739			1,054,666		
Equity	<u>128,026</u>			<u>119,197</u>		
Total liabilities and equity	<u>\$1,301,765</u>			<u>\$1,173,863</u>		
Net interest income		<u>\$38,139</u>			<u>\$33,656</u>	
Net interest rate spread ⁽²⁾			2.74%			2.70%
Net interest-earning assets ⁽³⁾	<u>\$117,288</u>			<u>\$99,904</u>		
Net interest margin ⁽⁴⁾			3.04%			2.98%
Average interest-earning assets to average interest-bearing liabilities			110.29%			109.71%

(1) Includes net deferred loan fee amortization income of \$932,000 and \$1,008,000 for the years ended June 30, 2005 and 2004, respectively.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

(5) Average balance of available for sale securities is based on amortized historical cost.

(6) Interest income from tax exempt securities is not significant to total interest income, therefore, interest and yield on interest earnings assets are not stated on a tax equivalent basis.

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.

	Years Ended December 31, 2006 vs. 2005			Six Month Period Ended December 31, 2005 vs. 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
(In Thousands)						
Interest and dividend income:						
Loans receivable ^{(1) (2)}	\$ 8,108	\$ 1,694	\$9,802	\$4,649	\$ (405)	\$4,244
Securities interest and income from other earning assets	<u>1,453</u>	<u>1,237</u>	<u>2,690</u>	<u>1,106</u>	<u>106</u>	<u>1,212</u>
Total interest-earning assets	<u>9,561</u>	<u>2,931</u>	<u>12,492</u>	<u>5,755</u>	<u>(299)</u>	<u>5,456</u>
Interest expense:						
Demand and Money Market accounts	325	1,329	1,654	-	380	380
Savings accounts	(15)	(3)	(18)	(20)	17	(3)
Certificates of deposit.....	<u>(1,516)</u>	<u>6,444</u>	<u>4,928</u>	<u>516</u>	<u>1,445</u>	<u>1,961</u>
Total interest-bearing deposits.	(1,206)	7,770	6,564	496	1,842	2,338
FHLB Advances	6,427	1,326	7,753	946	59	1,005
Other interest-bearing liabilities	<u>20</u>	<u>(95)</u>	<u>(75)</u>	<u>14</u>	<u>111</u>	<u>125</u>
Total interest-bearing liabilities	<u>5,241</u>	<u>9,001</u>	<u>14,242</u>	<u>1,456</u>	<u>2,012</u>	<u>3,468</u>
Net change in interest income	<u>\$4,320</u>	<u>\$(6,070)</u>	<u>\$(1,750)</u>	<u>\$4,299</u>	<u>\$(2,311)</u>	<u>\$1,988</u>

(1) Includes net deferred loan fee amortization income of \$885,000, \$940,000, \$512,000 and \$504,000 for the years ended December 31, 2006 and 2005 and for the six month periods ended December 31, 2005 and 2004, respectively.

(2) Non-accrual loans have been included in average loans receivable balance.

	Years Ended June 30, 2005 vs. 2004		
	Increase (Decrease) Due to		
	Volume	Rate	Net
	(In Thousands)		
Interest and dividend income:			
Loans receivable ^{(1) (2)}	\$8,811	\$(567)	\$8,244
Securities interest and income from other earning assets	<u>(590)</u>	<u>465</u>	<u>(125)</u>
Total interest-earning assets	<u>8,221</u>	<u>(102)</u>	<u>8,119</u>
Interest expense:			
Demand and Money Market accounts	(124)	139	15
Savings accounts	24	(15)	9
Certificates of deposit	<u>3,613</u>	<u>(630)</u>	<u>2,983</u>
Total interest-bearing deposits	3,513	(506)	3,007
FHLB Advances	(1,128)	1,802	674
Other interest-bearing liabilities	<u>(2)</u>	<u>(43)</u>	<u>(45)</u>
Total interest-bearing liabilities	<u>2,383</u>	<u>1,253</u>	<u>3,636</u>
Net change in interest income	<u>\$5,838</u>	<u>\$(1,355)</u>	<u>\$4,483</u>

(1) Includes net deferred loan fee amortization income of \$932,000, and \$1,008,000 for the years ended June 30, 2005 and 2004 , respectively.

(2) Non-accrual loans have been included in average loans receivable balance.

Comparison of Operating Results for the Years Ended December 31 2006 and December 31, 2005

General. Net income for the year ended December 31, 2006 totaled \$8.1 million, or \$0.24 for both basic and diluted earnings per share compared to net income of \$6.0 million for the year ended December 31, 2005. Due to the timing of the conversion during the prior year, there was no comparable earnings per share amount for the full twelve months ended December 31, 2005. For the year ended December 31, 2006, our return on average assets was 0.50% and our return on average equity was 3.41%, compared to 0.43% and 4.52%, respectively, for the year ended December 31, 2005. The increase in net income was due primarily to a decrease in income tax expense. The effective tax rate dropped from 50.3% for the year ended December 31, 2006 to 36.9% for the year ended December 31, 2006 due to the March 2005 accrual of estimated state tax liability net of federal deferred tax benefit related to the Wisconsin Department of Revenue indication that it will assess franchise taxes on certain income of the Wauwatosa Savings out-of-state investment subsidiary.

Total Interest Income. Total interest income increased \$12.5 million, or 15.7%, to \$92.2 million during the year ended December 31, 2006 compared to \$79.7 million for the year ended December 31, 2005. Interest income on loans increased \$9.8 million, or 13.2%, to \$83.8 million for the year ended December 31, 2006 compared to \$74.0 million for the year ended December 31, 2005. The increase resulted from an increase in the average outstanding loans receivable balance of

\$131.2 million, or 10.8%, to \$1.4 billion during the year ended December 31, 2006 from \$1.2 billion during the year ended December 31, 2005. The increase in volume was compounded by a 14 basis point increase in the average yield on loans to 6.21% for the year ended December 31, 2006 from 6.07% for the year ended December 31, 2005. Much of the remaining increase in total interest income reflected interest income from investment securities which increased \$1.3 million, or 30.6%, to \$5.4 million for the year ended December 31, 2006 compared to \$4.1 million for the year ended December 31, 2005. This was due to the increase in the average outstanding balance of investment securities portfolio of \$9.7 million, or 9.2%, to \$115.8 million during the year ended December 31, 2006 from \$106.1 million during the year ended December 31, 2005. The increase in volume was compounded by a 75 basis point increase in the average yield on investment securities to 4.62% for the year ended December 31, 2006 from 3.87% for the year ended December 31, 2005. Finally, the average balance of other earning assets increased by \$23.5 million, or 61.2%, to \$62.0 million during the year ended December 31, 2006 from \$38.5 during the year ended December 31, 2005. The increase in volume was compounded by a 72 basis point increase in the average yield on other earning assets to 4.92% during the year ended December 31, 2006 from 4.20% during the year ended December 31, 2005.

Total Interest Expense. Total interest expense increased by \$14.2 million, or 36.0%, to \$53.8 million during the year ended December 31, 2006 from \$39.5 million during the year ended December 31, 2005. This increase was the result of an increase in both the rates paid on deposits and borrowings and an increase in average borrowings outstanding.

Interest expense on deposits increased \$6.6 million, or 18.5%, to \$42.0 million during the year ended December 31, 2006 from \$35.5 million during the year ended December 31, 2005 as a result of an increase in the cost of deposits, which was partially offset by a decrease in average deposits outstanding. The cost of total average deposits increased by 70 basis points to 3.97% for the year ended December 31, 2006 compared to 3.27% for the year ended December 31, 2005. As market interest rates (in particular short-term interest rates) increased and deposit rates offered by competitors increased, it was necessary to increase the interest rates we offered on deposits to attract new and retain existing deposits, thereby increasing our cost of deposits.

Interest expense on borrowings increased \$7.7 million, or 188.5%, to \$11.7 million during the year ended December 31, 2006 from \$4.1 million during the year ended December 31, 2005. This increase was the result of increased average borrowings outstanding plus an increase in the related weighted average interest cost of such borrowings. The weighted average cost of advances from the Federal Home Loan Bank and of federal funds purchased increased 97 basis points to 4.32% for the year ended December 31, 2006 compared to 3.35% for the year ended December 31, 2005.

Net Interest Income. Net interest income decreased by \$1.8 million or 4.4%, during the year ended December 31, 2006 as compared to the year ended December 31, 2005. The decrease resulted from a 56 basis point decrease in our net interest rate spread to 2.00% for the year ended December 31, 2006 from 2.56% for the year ended December 31, 2005. The 56 basis point decrease in the net interest rate spread resulted from a 75 basis point increase in the cost of interest bearing liabilities, which was partially offset by a 19 basis point increase in the yield on interest earning assets. The Company has experienced net interest margin compression as the yield curve remains

inverted. In addition to the flat or inverted yield curve, net interest margin has been compressed as the repricing of interest bearing liabilities has outpaced that of interest earning assets. The decrease in net interest income resulting from a decrease in our net interest rate spread was partially offset by an increase in net average earning assets of \$36.9 million, or 23.4%, to \$194.6 million for the year ended December 31, 2006 from \$157.7 million from the year ended December 31, 2005.

Provision for Loan Losses. Provision for loan losses increased \$292,000, or 15.3%, to \$2.2 million during the year ended December 31, 2006, from \$1.9 million during the year ended December 31, 2005. The higher provision for the year ended December 31, 2006 was the result of growth of the overall loan portfolio, a continued increase in classified assets and specific loan loss provisions identified and recognized during the period.

Noninterest Income. Total noninterest income increased \$1.7 million, or 47.5%, to \$5.2 million during the year ended December 31, 2006 from \$3.5 million during the year ended December 31, 2005. The increase was primarily due to \$2.1 million in mortgage banking income generated by Waterstone, a subsidiary purchased by the Bank in February 2006. The increase in noninterest income generated by Waterstone was partially offset by losses on the sale of investment securities. In September 2006, \$26.7 million of investment securities with unrealized losses approximating \$819,000 were designated for sale with the unrealized loss expensed in the third quarter. The securities were sold and the proceeds were used to purchase higher yielding securities.

Noninterest Expense. Total noninterest expense decreased \$946,000, or 3.2%, to \$28.7 million during the year ended December 31, 2006 from \$29.6 million during the year ended December 31, 2005. The decrease was primarily the result of a decrease in charitable contributions, which was offset by increases in compensation, payroll taxes and other employee benefits, occupancy and data processing expenses.

In connection with its October 2005 reorganization, the Company contributed 556,442 shares of Wauwatosa Holdings Inc. common stock valued at \$5.6 million to the Waukesha County Community Foundation. There was no contribution expense for the year ended December 31, 2006.

Compensation, payroll taxes and other employee benefit expense increased \$3.1 million, or 23.4%, to \$16.2 million during the year ended December 31, 2006 from \$13.1 million during the year ended December 31, 2005. Wauwatosa Savings' salary expense increased by \$1.6 million, or 15.5%, in spite of a 9.8% reduction in full-time equivalent employees between December 31, 2005 and December 31, 2006. The net reduction in employees was concentrated in the fourth quarter, therefore the impact on annual expense was limited. In addition to the regular annual increase in staff wages, there was also a net increase in senior management personnel hired from outside of the Company for compensation that was higher than our average employee compensation levels. Compensation, taxes and employee benefits related to Waterstone totaled \$2.0 million from the date of acquisition, February 9, 2006, through December 31, 2006. Compensation expense related to the ESOP Plan totaled \$1.2 million during the year ended December 31, 2006, compared to \$854,000 during the year ended December 31, 2005. The increase resulted from an increase in the market value of the stock awarded to Plan participants. Expense related to health care benefits increased \$346,000, or 54%, to \$985,000 for the year ended December 31, 2006 compared to \$639,000 for the year ended December 31, 2005. The increase in ESOP and health care benefit expense was fully

offset by an \$876,000 reduction in pension benefits. The Company elected to freeze benefits accruing in the defined benefit pension plan in December 2005. Deferred compensation expense was \$242,000 higher in 2006 as compared to the prior year as the result of the early retirement of the CEO on December 31, 2006.

Occupancy, office furniture and equipment increased by \$734,000, or 20.6%, to \$4.3 million during the year ended December 31, 2006 from \$3.6 million during the year ended December 31, 2005. The increase relates primarily to a new branch office located in Waukesha that opened in September 2005, as well as new branch offices constructed in Franklin and Germantown, Wisconsin and a branch currently under construction in West Allis, Wisconsin.

Data processing expense increased \$318,000, or 22.5%, for the year ended December 31, 2006 to \$1.7 million from \$1.4 million during the year ended December 31, 2005. Contract termination costs of \$428,000 were recognized during the year ended December 31, 2006 as the result of a planned conversion of Wauwatosa Savings' core data processor to Metavante Corporation effective February 19, 2007. The termination costs were partially offset by a decrease in third party consulting costs during the year ended December 31, 2006.

Income Taxes. The effective tax rate for the year ended December 31, 2006 was 36.9% as compared to 50.3% for the year ended December 31, 2005. The 2005 effective tax rate was abnormally high as a result of an accrual of state income taxes recorded in 2005 attributable to an ongoing dispute with the Wisconsin Department of Revenue. Wauwatosa Savings has an investment subsidiary operating in Nevada. The income earned by that corporation is not subject to tax in the state of Wisconsin nor has any such tax been paid. During the year ended December 31, 2005, an accrued liability of \$2.0 million was established because the Wisconsin Department of Revenue has generally indicated that it will assess franchise taxes on certain income of such out-of-state subsidiaries. As of December 31, 2005, the gross liability totaled \$3.6 million, offset by a federal deferred tax benefit of \$1.2 million. As of December 31, 2006, the Company has accrued an estimated gross liability of \$4.9 million, offset by a federal deferred tax benefit of \$1.7 million.

Net Income. As a result of the foregoing factors, net income for the year ended December 31, 2006 increased \$2.0 million, or 33.2%, to \$8.1 million, from \$6.0 million during the year ended December 31, 2005.

Comparison of Operating Results for the Six Month Periods Ended December 31, 2005 and December 31, 2004

General. Net income decreased \$3.1 million, or 53.1%, to \$2.7 million during the six months ended December 31, 2005 from \$5.8 million during the six months ended December 31, 2004. The decrease in net income resulted primarily from the \$5.6 million (\$3.5 million after tax) charitable contribution made in connection with the stock offering. An increase in net interest income of \$2.0 million was offset by a \$672,000 increase in the provision for loan loss and a \$1.7 million increase in compensation expense. These items are described in greater detail in subsequent paragraphs.

Interest Income. Interest income increased by \$5.5 million, or 14.9%, to \$42.0 million for the six-month period ended December 31, 2005 from \$36.6 million for the six months ended December 31, 2004. Of the increase in interest income, \$4.2 million was related to the loan portfolio. The increase in interest income on loans receivable resulted from an increase in average loan balance of \$151.8 million, or 13.7%, to \$1.3 billion during the six-month period ended December 31, 2005 from \$1.1 billion during the comparable period in 2004. The increase in volume was partially offset by a 7 basis point decrease in the average yield on loans to 6.12% for the six-month period ended December 31, 2005 from 6.19% during the comparable period in 2004. The remaining increase in overall interest income was primarily related to the increase in the average balance of short term investments of \$30.3 million, or 124.7%, to \$54.6 million during the six-month period ended December 31, 2005 from \$24.3 during the comparable period ended in 2004. In connection with the initial public offering, the Company received \$386.7 million of cash from eligible stock subscribers. The cash was deposited in a Wauwatosa Savings Bank escrow account and invested in federal funds sold and short-term debt securities. The oversubscribed amounts were returned to depositors following the October 4, 2005 offering.

Interest Expense. Total interest expense increased by \$3.5 million, or 20.1%, to \$20.8 million for the six month period ended December 31, 2005 from \$17.3 million for the six-month period ended December 31, 2004. The increase in total interest expense resulted from a 37 basis point increase in the average cost of interest-bearing liabilities to 3.42% for the six-month period ended December 31, 2005 from 3.05% for the six-month period ended December 31, 2004, and by a \$81.3 million, or 7.2%, increase in average interest-bearing liabilities to \$1.2 billion for the six-month period ended December 31, 2005 from \$1.1 billion for the comparable period in 2004. The increase in the average cost of interest-bearing liabilities primarily reflected the increase in market interest rates generally which resulted in higher rates offered on all deposit account products, especially time accounts or certificates of deposit.

Net Interest Income. Net interest income increased \$2.0 million, or 10.4%, to \$21.3 million for the six months ended December 31, 2005 from \$19.3 million for the six-month period ended December 31, 2004. The increase resulted from an increase in net average earning assets of \$124.6 million, or 126.5%, to \$223.1 million for the six months ended December 31, 2005 from \$98.5 million from the comparable period of the preceding year. The increase in average earning assets was partially offset by a 46 basis point decrease in the net interest rate spread to 2.43% for the six-month period ended December 31, 2005 from 2.89% for the comparable period in 2004. The 46 basis point decrease in the net interest rate spread resulted from a 9 basis point decrease in the yield on interest earning assets, compounded by a 37 basis point increase in the cost of interest bearing liabilities. Consistent with industry trends, the Bank experienced net interest margin compression as the yield curve continued to flatten.

Provision for Loan Losses. Management provided \$1.0 million for loan losses for the six months ended December 31, 2005, compared to a provision of \$363,000 for the six months ended December 31, 2004. The provision increased as a result of an increase both in the overall balance of the loan portfolio as well as a significant and sustained increase in classified loans from \$11.2 million at June 30, 2005 to \$14.2 million at December 31, 2005. The allowance for loan losses totaled \$5.2 million, or 0.40% of total loans at December 31, 2005, compared to \$4.6 million, or 0.38% of total loans, at June 30, 2005.

Noninterest Income. Noninterest income increased by \$287,000, or 14.5%, to \$2.3 million for the six months ended December 31, 2005 from \$2.0 million for the six months ended December 31, 2004. The increase in noninterest income resulted primarily from a \$163,000, or 38.4%, increase in the cash surrender value of life insurance to \$587,000 for the six-month period ended December 31, 2005 from \$424,000 for the comparable period during 2004. The increase in noninterest income was also due to an increase in other income of \$113,000, or 17.9%, to \$745,000 for the six-month period ended December 31, 2005 compared to \$632,000 for the six-month period ended December 31, 2004. This increase resulted from a \$571,000 net gain from the sales of land and building in fiscal 2005. During the six-month period ended December 31, 2004 sales of land and building resulted in a net gain of \$488,000.

Noninterest Expense. Noninterest expense increased by \$6.1 million, or 49.5%, to \$18.3 million for the six-month period ended December 31, 2005 from \$12.3 million for the six-month period ended December 31, 2004. The primary reasons for the increase in noninterest expense were increases in salary and employee benefits and charitable contributions. Salaries and employee benefit expenses increased by \$1.7 million, or 29.8%, to \$7.4 million for the six-month period ended December 31, 2005 from \$5.7 million for the comparable period during 2004. The increase was primarily the result of the addition of the Wauwatosa Savings Bank ESOP and planned termination of the existing pension plan. For the period ended December 31, 2005, the Company incurred \$854,000 of expense for the shares committed to be released to ESOP participants for 2005. There was no comparable expense during the prior year. In addition, the plan to terminate the pension plan resulted in an additional pension expense of \$370,000. Charitable contributions increased by \$3.6 million, or 210.0%, to \$5.3 million for the six-month period ended December 31, 2005 from \$1.7 million for the comparable period in 2004. The increase was attributable to the \$5.6 million donation of 556,442 shares of Wauwatosa Holdings common stock issued to the Wauwatosa Savings Bank Fund of the Waukesha County Community Foundation in connection with the Company's initial public offering.

Income Tax Expense. Income tax expense decreased to \$1.5 million for the six-month period ended December 31, 2005 from \$2.9 million for the comparable period during 2004. The decrease in income tax expense was the direct result of a decrease in pretax income for the reasons discussed previously. The effective tax rate was 35.2% for the six-month period ended December 31, 2005 compared to 33.1% for the six-month period ended December 31, 2004. The increase in rate was due to increased state income taxes.

Comparison of Operating Results for the Years Ended June 30, 2005 (Fiscal 2005) and June 30, 2004 (Fiscal 2004)

General. Net income decreased \$1.5 million, or 13.9%, to \$9.1 million in fiscal 2005 from \$10.6 million for fiscal 2004. The decrease in net income resulted primarily from the establishment of an accrual related to a dispute with the Wisconsin Department of Revenue, which reduced net income for fiscal 2005 by \$2.0 million. The accrual was initially established in the third quarter of fiscal 2005 as the direct result of a general settlement agreement offered by the Department of Revenue in a letter dated July 27, 2004.

Interest Income. Interest income increased by \$8.1 million, or 12.3%, to \$74.2 million for fiscal 2005 from \$66.1 million for fiscal 2004. The increase in interest income resulted from a 6

basis point increase in the average yield on interest-earning assets to 5.9% for fiscal 2005 from 5.9% for fiscal 2004, and by an increase in average interest-earning assets to \$1.3 billion for fiscal 2005 from \$1.1 billion for fiscal 2004. The increase in average yield reflected the increase in market interest rates generally from fiscal 2004 through fiscal 2005. The increase in average interest-earning assets reflected continued strong demand for mortgage loans in a low interest rate environment.

Interest Expense. Total interest expense increased by \$3.7 million, or 11.4%, to \$36.1 million for fiscal 2005 from \$32.4 million for fiscal 2004. The increase in total interest expense resulted from a 2 basis point increase in the average cost of interest-bearing liabilities to 3.17% for fiscal 2005 from 3.2% for fiscal 2004, and by a \$110.4 million, or 10.7%, increase in average interest-bearing liabilities to \$1.1 billion for fiscal 2005 from \$1.0 billion for fiscal 2004. The increase in the average cost of interest-bearing liabilities primarily reflected the increase in market interest rates generally which resulted in higher rates offered on all deposit account products, especially time accounts or certificates of deposit.

Net Interest Income. Net interest income increased \$4.5 million, or 13.3%, to \$38.1 million for fiscal 2005 from \$33.7 million for fiscal 2004 and a 4 basis point increase in the net interest rate spread to 2.74% for fiscal 2005 from 2.70% for fiscal 2004. The increase in net interest income is the direct result of the 14.4% increase in average loans receivable for the period partially offset by the 18.8% decrease in available for sale securities.

Provision for Loan Losses. Management provided \$1.2 million for loan losses for fiscal 2005, compared to a provision of \$860,000 for fiscal 2004. The provision increased as a result of an increase both in the loan portfolio as well as a significant and sustained increase in classified loans from \$3.9 million at June 30, 2004 to \$11.2 million at June 30, 2005. The allowance for loan losses totaled \$4.6 million, or 0.38% of total loans at June 30, 2005, compared to \$3.4 million, or 0.32% of total loans, at June 30, 2004.

Noninterest Income. Noninterest income increased by \$276,000, or 9.1%, to \$3.3 million for fiscal 2005 from \$3.0 million for fiscal 2004. The increase in noninterest income resulted primarily from a \$488,000 net gain from the sales of land and building in fiscal 2005. There were no comparable transactions in the prior fiscal year. Noninterest income from the increase in cash surrender value of life insurance was lower in 2005 by \$365,000.

Noninterest Expense. Noninterest expense increased by \$3.2 million, or 15.7%, to \$23.6 million for fiscal 2005 from \$20.4 million for fiscal 2004. The primary reasons for the increase in noninterest expense were increases in salary and employee benefits and charitable contributions. Salaries and employee benefits expenses increased by \$671,000, or 6.2%, to \$11.4 million for fiscal 2005 from \$10.8 million for fiscal 2004. The increase was primarily the result of increases in staff members needed to sustain growth, annual salary increases for existing staff and higher pension plan expenses. Charitable contributions increased by \$1.1 million, or 111.4%, to \$2.1 million in fiscal 2005 as compared to \$988,000 in fiscal 2004.

Income Tax Expense. Income tax expense increased to \$7.5 million for the year ended June 30, 2005 from \$4.9 million for the year ended June 30, 2004. The higher income tax expense was the direct result of the establishment of an accrual related to a dispute with the Wisconsin

Department of Revenue, which increased net income taxes for fiscal 2005 by \$2.0 million plus the effect of the \$1.2 million, or 7.7% increase in income before income taxes. The effective tax rate was 45.2% for 2005 compared to 31.5% for 2004.

Liquidity and Capital Resources

We maintain liquid assets at levels we consider adequate to meet our liquidity needs. Our liquidity ratio averaged 2.3% and 2.4% for the years ended December 31, 2006 and 2005. Our liquidity ratio averaged 3.4%, 1.7%, 1.4% and 2.8% for the six-month periods ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004, respectively. 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 full 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 Wisconsin Department of Financial Institutions, 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, 2006 was 11.78% and 20.96%, respectively.

Our primary sources of liquidity are deposits, amortization and prepayment of loans, 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 prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. 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 for the purpose of managing long- and short-term cash flows include \$60 million in Federal funds lines of credit with four commercial banks and advances from the Federal Home Loan Bank of Chicago.

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, 2006 and 2005, respectively, \$73.8 million and \$16.5 million 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 Federal Home Loan Bank of Chicago.

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, 2006 and 2005 and the six months ended December 31, 2005 and 2004 and the years ended June 30, 2005 and 2004, our loan originations, net of collected principal, totaled \$68.7 million, \$161.8 million, \$88.2 million, \$79.6 million, \$153.1 million and \$127.6 million, respectively, reflecting net growth in our portfolio. Cash received from the calls and maturities of debt and mortgage-related securities totaled \$15.5 million, \$17.9 million, \$16.7 million, \$15.9 million, \$46.5 million and \$51.3 million for the years ended December 31, 2006 and 2005 and the six months ended December 31, 2005 and 2004 and the years ended June 30, 2005 and 2004, respectively. We purchased \$36.0 million, \$51.0 million, \$56.4 million, \$10.0 million, \$34.3 million and \$71.3 million in available-for-sale debt and mortgage-related securities during the years ended December 31, 2006 and 2005, the six months ended December 31, 2005 and 2004 and the years ended June 30, 2005 and 2004, respectively. We sold \$25.9 million, \$262,000, \$5.3 million, \$5.6 million and \$7.1 million in available-for-sale debt and mortgage-related securities during the years ended December 31, 2006 and 2005, the six months ended December 31, 2004 and the years ended June 30, 2005 and 2004, respectively. There were no securities sold during the six months ended December 31, 2005.

Deposit flows are generally affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. The net decrease in deposits was \$9.4 million, \$37.4 million and \$83.2 million during the years ended December 31, 2006 and 2005 and the six months ended December 31, 2005. The net increases in total deposits were \$47.4 million, \$93.2 million and \$126.1 million for the six months ended December 31, 2004 and for the years ended June 30, 2005 and 2004, respectively.

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 Federal Home Loan Bank of Chicago, which provide an additional source of funds. At December 31, 2006, we had \$334.0 million in advances from the Federal Home Loan Bank of Chicago, of which \$41.2 million was due within 12 months, and an additional available borrowing limit of \$178.6 million based on collateral requirements of the Federal Home Loan Bank of Chicago.

At December 31, 2006, we had outstanding commitments to originate loans of \$28.1 million and unfunded commitments under lines of credit and standby letters of credit of \$35.3 million. At December 31, 2006, certificates of deposit scheduled to mature in less than one year totaled \$693.4 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 in order to maintain our level of assets. However, we cannot assure that such borrowings would 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.

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

Wauwatosa Savings 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 Wauwatosa Savings as of December 31, 2006 and the respective maturity dates.

Contractual Obligations

	<u>Total</u>	<u>One Year or Less</u>	<u>More Than One Year Through Three Years</u>	<u>More than Three Years Through Five Years</u>	<u>Over Five Years</u>
	(In Thousands)				
Federal Home Loan Bank advances ⁽¹⁾	\$ 334,003	\$ 41,224	\$ 47,779	\$ 25,000	\$ 220,000
Operating leases ⁽²⁾	309	98	211	-	-
Capital lease	3,975	300	3,675	-	-
Salary continuation agreements	3,324	491	1,152	746	935
Total Contractual Obligations	<u>\$ 341,611</u>	<u>\$ 42,113</u>	<u>\$ 52,817</u>	<u>\$ 25,746</u>	<u>\$ 220,935</u>

⁽¹⁾ Secured under a blanket security agreement on qualifying assets, principally, mortgage loans. Excludes interest which will accrue on the advances.

⁽²⁾ Represents non-cancelable operating leases for offices and equipment.

The following table details the amounts and expected maturities of significant off-balance sheet commitments as of December 31, 2006.

Other Commitments

	<u>Total</u>	<u>One Year or Less</u>	<u>More than One Year Through Three Years</u>	<u>More than Three Years Through Five Years</u>	<u>Over Five Years</u>
	(In Thousands)				
Real estate loan commitments ⁽¹⁾	\$ 28,067	\$ 28,067	\$ -	\$ -	\$ -
Unused portion of home equity lines of credit ⁽²⁾	34,676	34,676	-	-	-
Unused portion of construction loans ⁽³⁾	32,714	32,714	-	-	-
Standby letters of credit	639	611	8	20	-
Total Other Commitments	<u>\$96,096</u>	<u>\$96,068</u>	<u>\$8</u>	<u>\$20</u>	<u>\$0</u>

General: 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 and generally have fixed expiration dates or other termination clauses.

⁽¹⁾ Commitments for loans are extended to customers for up to 180 days after which they expire.

⁽²⁾ Unused portions of home equity loans are available to the borrower for up to 10 years.

⁽³⁾ Unused portions of construction loans are available to the borrower for up to 1 year.

Impact of Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of Financial Accounting Standards Boards Statement No. 109" (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 31, 2006. The Company will adopt FIN 48 in the first quarter of 2007. No material impact on results of operations, financial position, or liquidity is anticipated upon adoption.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) in Issue No. 06-5, "Accounting for Purchase of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance," (EITF 06-5). EITF 06-5 concluded that companies purchasing a life insurance policy including bank owned life insurance should record the amount that could be realized, considering any additional amounts beyond cash surrender value included in the contractual terms of the policy. The amount that could be realized should be based on assumed surrender at the individual policy or certificate level, unless all policies or certificates are required to be surrendered as a group. When it is probable that contractual restrictions would limit the amount that could be realized, such contractual limitations should be considered and any amounts recoverable at the insurance company's discretion should be excluded from the amount that could be realized. Companies are permitted to recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company will adopt EITF 06-5 in the first quarter of 2007. No impact on results of operations, financial position, or liquidity is anticipated upon adoption.

In February 2006, the FASB issued Statement on Financial Accounting Standards (SFAS) 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain an embedded derivative requiring bifurcation, or hybrid financial instruments that contain embedded derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement will be effective for all financial instruments acquired or issued by the Company on or after January 1, 2007 and is not expected to have a material impact on financial condition, results of operations, or liquidity.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which upon adoption will replace various definitions of fair value in existing accounting literature with a single definition, will establish a framework for measuring fair value, and will require additional

disclosures about fair value measurements. The statement clarifies that fair value is the price that would be received to sell an asset or the price paid to transfer a liability in the most advantageous market available to the entity and emphasizes that fair value is a market-based measurement and should be based on the assumptions market participants would use. The statement also creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The statement does not expand the use of fair value to any new circumstances. The Company will be required to apply the new guidance beginning January 1, 2008, and is in the process of assessing the impact on its results of operations, financial position, and liquidity.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 does not change requirements for recognizing and measuring dividend income, interest income, or interest expense. The Company will be required to apply the new guidance beginning January 1, 2008, and is in the process of assessing the impact on its results of operations, financial position, and liquidity.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 provides guidance regarding the process of quantifying financial statement misstatements. In order to address the current diversity in practice, SAB 108 requires that registrants should quantify errors using both a balance sheet approach and an income statement approach. The balance sheet approach, also known as the "iron curtain" method, quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year(s) of origination. The income statement, or "rollover" method, quantifies a misstatement based on the amount of the error originating in the current year income statement, while ignoring the carryover effects of prior year misstatements. SAB 108 requires companies to quantify an error under both the rollover and iron curtain approaches and by evaluating the materiality of the error measured under each approach. If deemed material, companies are required to adjust their financial statements. The Company adopted SAB 108 in the fourth quarter of 2006. There was no impact on its results of operations, financial position, and liquidity.

Impact of Inflation and Changing Prices

The financial statements and accompanying notes of Wauwatosa Savings have been prepared in accordance with accounting principles generally accepted in the United States ("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 unaudited quarterly data for the periods indicated:

	Quarter Ended			
	March 31	June 30	September 30	December 31
(In thousands, except per share amounts)				
2006 (unaudited)				
Interest income	\$ 21,857	\$ 22,418	\$ 23,266	\$ 24,687
Interest expense	11,797	12,828	14,090	15,064
Net interest income	10,060	9,590	9,176	9,623
Provision for loan losses	307	345	1191	358
Net income after provision for loan losses	9,753	9,245	7,985	9,265
Total noninterest income	1,193	1,491	1,229	1,289
Total noninterest expense	6,656	7,327	7,771	6,944
Income before income taxes	4,290	3,409	1,443	3,610
Income taxes	1,584	1,252	537	1,326
Net income	\$ 2,706	\$ 2,157	\$ 906	\$ 2,284
Loss per share – basic	\$ 0.08	\$ 0.07	\$ 0.03	\$ 0.07
Loss per share - diluted	\$ 0.08	\$ 0.07	\$ 0.03	\$ 0.07
2005 (unaudited)				
Interest income	\$18,384	\$19,271	20,550	21,486
Interest expense	8,999	9,779	10,231	10,527
Net interest income	9,385	9,492	10,319	10,959
Provision for loan losses	900	(26)	209	826
Net income after provision for loan losses	8,485	9,518	10,110	10,133
Total noninterest income	601	697	1,005	1,267
Total noninterest expense	5,433	5,881	5,753	12,578
Income (loss) before income taxes	3,653	4,334	5,362	(1,178)
Income taxes (benefit)	3,062	1,594	1,940	(469)
Net income (loss)	\$ 591	\$ 2,740	\$ 3,422	\$ (709)
Loss per share – basic	n/a	n/a	n/a	(\$0.02)
Loss per share - diluted	n/a	n/a	n/a	(\$0.02)

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, Wauwatosa Savings' 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. During the low interest rate environment that has existed in recent years, we have implemented the following strategies to manage our interest rate risk: (i) emphasized 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 Federal Home Loan Bank of Chicago. These measures should serve to 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 could 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, 2006 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rate assumptions can 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 result in an increase to our liability sensitive position.

Percentage
Increase (Decrease) in Estimated Net
Annual Interest Income
Over 24 Months

300 basis point increase in rates.....	(17.22%)
200 basis point increase in rates.....	(9.82%)
100 basis point increase in rates.....	(4.05%)
100 basis point decrease in rates.....	3.74%
200 basis point decrease in rates.....	11.74%

Wauwatosa Savings' Asset/Liability policy limits projected changes in net average annual interest income to a maximum variance of (10%) to (50%) for various levels of interest rate changes measured over a 24-month period when compared to the flat rate scenario. In addition, projected changes in the capital ratio are limited to (.15%) to (1.00%) for various levels of changes in interest rates when compared to the flat rate scenario. These limits are re-evaluated on a periodic basis and may be modified, as appropriate. Because our balance sheet is liability sensitive, income is projected to decrease proportionately with increases in interest rates. At December 31, 2006, a 300 basis point immediate and instantaneous increase in interest rates had the effect of reducing forecast net interest income by 17.22% while a 100 basis point decrease in rates had the effect of increasing net interest income by 3.74%. At December 31, 2006, a 300 basis point immediate and instantaneous increase in interest rates had the effect of reducing the forecast return on assets by 0.27% while a 100 basis point decrease in rates had the effect of increasing the return on assets by 0.06%. While we believe the assumptions used are reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed security and loan repayment activity.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Board of Directors
Wauwatosa Holdings, Inc.:

We have audited the accompanying consolidated statements of financial condition of Wauwatosa Holdings, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005 and June 30, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 2006, the years ended June 30, 2005 and 2004 and for the six month period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005 and June 30, 2005, and the results of its operations and its cash flows for year ended December 31, 2006, the years ended June 30, 2005 and 2004 and for the six months ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Milwaukee, Wisconsin
March 15, 2007

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Financial Condition
December 31, 2006 and 2005 and June 30, 2005

	December 31,		June 30,
	2006	2005	2005
	(In Thousands, except share data)		
Assets			
Cash	\$ 26,745	8,761	10,107
Federal funds sold	19,458	5,388	8,779
Interest-bearing deposits in other financial institutions and other short term investments	27,604	2,349	1,581
Cash and cash equivalents	73,807	16,498	20,467
Securities available-for-sale (at fair value)	117,330	121,955	83,991
Loans held for sale	5,387	-	-
Loans receivable	1,372,907	1,306,018	1,218,167
Less: Allowance for loan losses	7,195	5,250	4,606
Loans receivable, net	1,365,712	1,300,768	1,213,561
Office properties and equipment, net	32,625	25,022	24,018
Federal Home Loan Bank stock, at cost	17,213	14,406	14,097
Cash surrender value of life insurance	24,152	22,792	22,078
Prepaid expenses and other assets	12,244	9,768	7,920
Total assets	\$ 1,648,470	1,511,209	1,386,132
Liabilities and Shareholders' Equity			
Liabilities:			
Demand deposits	\$ 58,407	82,290	100,861
Money market and savings deposits	94,472	33,565	27,117
Time deposits	883,339	929,738	1,000,813
Total deposits	1,036,218	1,045,593	1,128,791
Federal Home Loan Bank advances short-term	41,224	87,209	35,000
Federal Home Loan Bank advances long-term	292,779	114,003	58,162
Advance payments by borrowers for taxes	190	181	15,821
Other liabilities	36,787	32,527	14,942
Total liabilities	1,407,198	1,279,513	1,252,716
Shareholders' equity:			
Preferred stock (par value \$.01 per share, authorized 20,000,000 shares, no shares issued)	-	-	-
Common stock (par value \$.01 per share, authorized 200,000,000 shares, 33,723,750 shares issued, 33,114,539 and 33,038,385 shares outstanding at December 31, 2006 and 2005, respectively)	337	337	-
Additional paid-in capital	104,182	103,859	-
Accumulated other comprehensive loss (net of taxes)	(1,225)	(1,571)	(627)
Retained earnings	144,809	136,756	134,043
Unearned ESOP shares	(6,831)	(7,685)	-
Total shareholders' equity	241,272	231,696	133,416
Total liabilities and shareholders' equity	\$ 1,648,470	1,511,209	1,386,132

See Accompanying notes to consolidated financial statements.

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

	Years ended December 31,		Six months ended December 31,		Years ended June 30,	
	2006	2005	2005	2004	2005	2004
	(In Thousands, except per share amounts)					
	(Unaudited)		(Unaudited)			
Interest income:						
Loans	\$ 83,822	74,020	38,516	34,272	69,775	61,530
Mortgage-related securities	4,263	2,466	1,389	1,206	2,283	3,264
Debt securities, federal funds sold and short-term investments	4,143	3,250	2,131	1,102	2,149	1,294
Total interest income	92,228	79,736	42,036	36,580	74,207	66,088
Interest expense:						
Deposits	42,038	35,468	18,296	15,960	33,285	30,324
Borrowings	11,741	4,069	2,462	1,330	2,783	2,108
Total interest expense	53,779	39,537	20,758	17,290	36,068	32,432
Net interest income	38,449	40,199	21,278	19,290	38,139	33,656
Provision for loan losses	2,201	1,909	1,035	363	1,238	860
Net interest income after provision for loan losses	36,248	38,290	20,243	18,927	36,901	32,796
Noninterest income:						
Service charges on loans and deposits	2,021	1,745	940	929	1,216	1,144
Increase in cash surrender value of life insurance	1,055	805	587	424	642	1,007
Gain (loss) on sale of securities	(819)	12	-	-	12	47
Mortgage banking income	2,109	-	-	-	-	-
Other	836	964	745	632	1,441	837
Total noninterest income	5,202	3,526	2,272	1,985	3,311	3,035
Noninterest expenses:						
Compensation, payroll taxes, and other employee benefits	16,209	13,133	7,404	5,705	11,434	10,763
Occupancy, office furniture, and equipment	4,304	3,571	1,802	1,714	3,482	3,470
Advertising	1,369	1,355	764	536	1,128	1,025
Data processing	1,730	1,412	840	570	1,142	1,048
Charitable contributions	-	5,685	5,310	1,713	2,088	987
Communications	700	619	300	272	591	525
Professional fees	1,243	926	529	230	627	386
Other	3,143	2,945	1,382	1,522	3,084	2,180
Total noninterest expenses	28,698	29,646	18,331	12,262	23,576	20,384
Income before income taxes	12,752	12,170	4,184	8,650	16,636	15,447
Income taxes	4,699	6,127	1,471	2,864	7,520	4,863
Net income	\$ 8,053	6,043	2,713	5,786	9,116	10,584
Loss per share:						
Basic	\$ 0.24	(0.02)	(0.02)	N/A	N/A	N/A
Diluted	\$ 0.24	(0.02)	(0.02)	N/A	N/A	N/A
Weighted average shares outstanding:						
Basic	33,076,565	33,135,424	33,135,424	N/A	N/A	N/A
Diluted	33,076,565	33,135,424	33,135,424	N/A	N/A	N/A

See Accompanying notes to consolidated financial statements.

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2006 and June 30, 2005 and 2004
Six Months Ended December 31, 2005

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unearned</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>ESOP</u>	<u>Other</u>	<u>Equity</u>
			<u>Capital</u>		<u>Shares</u>	<u>Income (Loss)</u>	
	(In Thousands)						
Balances at June 30, 2005	—	\$ —	—	134,043	—	(627)	133,416
Comprehensive income:							
Net income	—	—	—	2,713	—	—	2,713
Other comprehensive income:							
Net unrealized holding gains on							
available for sale securities arising during the period, net							
of taxes \$521	—	—	—	—	—	(944)	(944)
Total comprehensive income							1,769
Sale of common stock, net of issuance costs of \$2,439	10,117	101	98,630	—	—	—	98,731
Contribution of shares to charitable foundation	557	6	5,559	—	—	—	5,565
Capitalization of Lamplighter Financial, MHC	23,050	230	(330)	—	—	—	(100)
Purchase of ESOP shares	—	—	—	—	(8,539)	—	(8,539)
ESOP shares committed to be released to Plan participants	—	—	—	—	854	—	854
Balances at December 31, 2005	33,724	337	103,859	136,756	(7,685)	(1,571)	231,696
Comprehensive income:							
Net income	—	—	—	8,053	—	—	8,053
Other comprehensive income:							
Net unrealized holding losses on							
available for sale securities arising during the period, net							
of taxes \$101	—	—	—	—	—	(187)	(187)
Reclassification adjustment for net losses on							
available for sale securities realized in net							
income, net of taxes of \$286	—	—	—	—	—	533	533
Total comprehensive income							8,399
ESOP shares committed to be released to Plan participants	—	—	323	—	854	—	1,177
Balances at December 31, 2006	33,724	\$ 337	104,182	144,809	(6,831)	(1,225)	241,272

See Accompanying notes to consolidated financial statements.

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005

	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (In Thousands)	Total Equity
Balances at June 30, 2003	\$ 252	114,343	114,595
Comprehensive income:			
Net income	—	10,584	10,584
Other comprehensive income:			
Net unrealized holding losses on available for sale securities arising during the year, net of taxes \$1,211	(2,350)	—	(2,350)
Less reclassification adjustment for net gains on available for sale securities realized in net income, net of taxes of \$16	(31)	—	(31)
Total comprehensive income	<u>(2,129)</u>	<u>124,927</u>	<u>122,798</u>
Balances at June 30, 2004	(2,129)	124,927	122,798
Comprehensive income:			
Net income	—	9,116	9,116
Other comprehensive income:			
Net unrealized holding gains on available for sale securities arising during the year, net of taxes \$799	1,509	—	1,509
Less reclassification adjustment for net gains on available for sale securities realized in net income, net of taxes of \$5	(7)	—	(7)
Total comprehensive income	<u>(627)</u>	<u>134,043</u>	<u>133,416</u>
Balances at June 30, 2005	\$ <u>(627)</u>	<u>134,043</u>	<u>133,416</u>

See Accompanying notes to consolidated financial statements.

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes Cash Flows
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

	Years ended December 31,		Six months ended December 31,		Years ended June 30,	
	2006	2005	2005	2004	2005	2004
	(Unaudited)		(In Thousands)		(Unaudited)	
Operating activities:						
Net income	8,053	6,043	2,713	5,786	9,116	10,584
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for loan losses	2,201	1,909	1,035	363	1,238	860
Provision for depreciation	2,369	2,017	1,053	945	1,607	1,353
Deferred income taxes	(1,280)	(2,344)	(1,933)	(780)	(1,192)	(133)
Net amortization of premium on debt and mortgage-related securities	22	(198)	(81)	(229)	49	190
Amortization of unearned ESOP shares	1,177	854	854	—	—	—
Gain on sale of loans held for sale	(1,054)	—	—	—	—	—
Loans originated for sale	(84,603)	—	—	—	—	—
Proceeds on sales of loans originated for sale	80,270	—	—	—	—	—
Charitable contribution of common stock	-	5,565	5,565	—	—	—
Decrease (increase) in accrued interest receivable	(621)	854	(412)	(1)	(230)	87
Increase in cash surrender value of life insurance	(1,055)	(928)	(587)	(451)	(642)	(1,007)
Increase (decrease) in accrued interest on deposits	1,301	(641)	68	480	1,269	333
Increase (decrease) in other liabilities	2,901	6,029	1,241	2,322	3,004	(238)
FHLB stock dividends	-	(684)	(309)	(400)	(776)	(664)
(Gain) loss on sale of securities	819	(12)	—	—	(12)	(47)
Gain on sale of office properties and equipment	7	(571)	(571)	(488)	(488)	—
Other	(386)	(477)	1,144	1,654	118	(94)
Net cash provided by operating activities	10,121	17,416	9,780	9,201	13,061	11,224
Investing activities:						
Proceeds from maturities of debt securities	-	1,003	6,350	1,000	25,397	19,300
Proceeds from sales of debt securities	12,832	262	—	—	262	5,040
Purchases of debt securities	-	(1,356)	(6,700)	(10,000)	(34,299)	(31,885)
Principal repayments on mortgage-related securities	15,457	16,855	10,323	14,914	21,091	31,993
Proceeds from sales of mortgage-related securities	13,036	—	—	5,347	5,348	2,056
Purchase of mortgage-related securities	(36,037)	(49,682)	(49,682)	—	—	(39,400)
Net increase in FHLB stock	(2,807)	—	—	—	—	(4,000)
Net increase in loans receivable	(68,717)	(161,771)	(88,242)	(79,554)	(153,126)	(127,550)
Purchase of bank owned life insurance	(306)	(306)	(126)	(126)	(456)	(363)
Net purchases of premises and equipment	(11,598)	(4,186)	(2,346)	(4,964)	(6,506)	(5,087)
Proceeds from sales of foreclosed properties	1,233	1,564	235	732	1,883	2,403
Proceeds from sales of premises and equipment	1,751	843	847	680	680	—
Purchase of Waterstone Mortgage Corporation	(1,081)	—	—	—	—	—
Net cash used by investing activities	(76,237)	(196,774)	(129,341)	(71,971)	(139,726)	(147,493)

See Accompanying notes to consolidated financial statements.

Wauwatosa Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes Cash Flows
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

Financing activities:

Net increase (decrease) in deposits	(9,375)	(37,403)	(83,198)	47,408	93,203	126,097
Net change in short-term FHLB advances	(112,209)	59,507	38,000	(25,000)	10,000	(10,000)
Proceeds from long-term FHLB advances	245,000	70,050	70,050	21,656	23,162	10,000
Proceeds from federal funds purchased	—	—	—	15,000	—	—
Net increase (decrease) in advance payments by borrowers	9	40	648	(2,116)	1,375	797
Net proceeds from sale of stock	—	98,731	98,731	—	—	—
Capitalization of Lamplighter, MHC	—	(100)	(100)	—	—	—
Financing for purchase of ESOP shares	—	(8,539)	(8,539)	—	—	—
Net cash provided by financing activities	<u>123,425</u>	<u>182,286</u>	<u>115,592</u>	<u>56,948</u>	<u>127,740</u>	<u>126,894</u>
Increase (decrease) in cash and cash equivalents	57,309	2,928	(3,969)	(5,822)	1,075	(9,375)
Cash and cash equivalents at beginning of period	16,498	13,570	20,467	19,392	19,392	28,767
Cash and cash equivalents at end of period	<u>\$ 73,807</u>	<u>16,498</u>	<u>16,498</u>	<u>13,570</u>	<u>20,467</u>	<u>19,392</u>

Supplemental information:

Cash paid or credited during the period for:

Income tax payments	4,777	5,765	2,970	3,130	5,925	5,045
Interest payments	52,477	38,683	20,691	16,810	34,798	32,100

Noncash investing activities:

Loans receivable transferred to foreclosed properties	1,572	269	—	1,571	1,921	1,057
Obligations under capital lease	—	3,423	—	—	3,423	—

Non Cash financing activities:

Long-term FHLB advances reclassified to short-term	66,224	12,703	14,209	—	25,000	25,000
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See Accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

1) Summary of Accounting Policies

a) Organization

The Board of Directors of Wauwatosa Savings Bank (the Bank) adopted the Plan of Reorganization and related Stock Issuance Plan on May 17, 2005, as amended on June 3, 2005, under which Wauwatosa Holdings, Inc. (the Company) was formed to become the mid-tier holding company for the Bank. In addition, Lamplighter Financial, MHC, a Wisconsin-chartered mutual holding company, was formed to become the majority owner of Wauwatosa Holdings, Inc.

In connection with the Plan of Reorganization and Stock Issuance Plan, on October 4, 2005, 10,117,125 shares of Wauwatosa Holdings, Inc. were sold to eligible subscribers in a registered stock offering; 556,442 shares were issued to the Wauwatosa Savings Bank Fund of the Waukesha County Community Foundation, and the remaining 23,050,183 shares were issued to Lamplighter Financial, MHC. The Company's outstanding common shares are 68.4% owned by Lamplighter Financial, MHC.

b) Fiscal Year Change

In 2005, the Company changed its fiscal year ended June 30 to a fiscal year ended December 31. The six month period ended December 31, 2005, transitions between the Company's old and new fiscal year ends. The results of operations for the six-month period ended December 31, 2005 are not necessarily indicative of results that may be expected for any other interim period or for an entire fiscal year. The unaudited financial statements for the year ended December 31, 2005 and for the six months ended December 31, 2004, in the opinion of management, include all adjustments (consisting of normal accruals) necessary for a fair presentation in accordance with U.S. generally accepted accounting principles.

c) Nature of Operations

The Company operates as a one-bank holding company. The Bank is principally engaged in the business of attracting deposits from the general public and using such deposits to originate residential real estate loans.

d) Principles of Consolidation

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

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.

e) 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

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reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the allowance for loan losses and deferred income taxes. Actual results could differ from those estimates.

f) 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.

g) Securities

Management has designated all securities as available-for-sale. As such, they are stated at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of equity.

The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-related securities, over the estimated life of the security. Such amortization is included in interest income from investments. Declines in the fair value of investment securities available for sale that are deemed to be other-than-temporary are charged to earnings as a realized loss and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and 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 retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Realized securities gains or losses on securities sales (using specific identification method) and declines in value judged to be other-than-temporary are included in investment securities gains (losses), net, in the consolidated statements of income.

Federal Home Loan Bank 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. FHLB dividends are recognized as income on their ex-dividend date.

h) Loans Held for Sale

Loans held for sale, which generally consist of current origination of certain fixed-rate mortgage loans, are carried at the lower of cost or estimated market value as determined on an aggregate basis. The amount by which cost exceeds market value is accounted for as a valuation adjustment to the carrying value of the loans. Changes, if any, are included in mortgage banking income in the consolidated statements of income.

i) Loans Receivable and Related Interest Income

Loans are carried at the principal amount outstanding, net of any unearned income. Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loans' 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. Interest on loans is accrued and credited to income as it is earned. 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 more than 90 days 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

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obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

j) *Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Bank establishes valuation allowances on multi-family and commercial real estate loans considered impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. A valuation allowance is established for an amount equal to the impairment when the carrying amount of the loan exceeds the present value of the expected future cash flows, discounted at the loan's original effective interest rate or the fair value of the underlying collateral.

The Bank also establishes valuation allowances based on an evaluation of the various risk components that are inherent in the loan portfolio. The risk components that are evaluated include past loan loss experience; the level of nonperforming and classified assets; current economic conditions; volume, growth, and composition of the loan portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; peer group comparisons; regulatory guidance; and other relevant factors. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. The adequacy of the allowance for loan losses is approved quarterly by the Bank's board of directors. The allowance reflects management's best estimate of the amount needed to provide for the probable loss on impaired loans, as well as other credit risks of the Bank, and is based on a risk model developed and implemented by management and approved by the Bank's board of directors.

Actual results could differ from this estimate, and future additions to the allowance may be necessary based on unforeseen changes in economic conditions. In addition, federal regulators periodically review the Bank's allowance for loan losses. Such regulators have the authority to require the Bank to recognize additions to the allowance at the time of their examination.

k) *Foreclosed Properties*

Foreclosed properties acquired through, or in lieu of, loan foreclosure are recorded at the lower of cost or fair value, minus estimated costs to sell at the date of foreclosure. Impairments of foreclosed properties after acquisition are charged to expense at the time of impairment.

l) *Cash Surrender Value of Life Insurance*

The Company purchased 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 are surrendered. Increases in the cash value of the policies and proceeds of death benefits received are recorded in non-interest 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.

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m) 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 to 10 years for equipment, and three years for software. Rent expense related to long-term operating leases is recorded on the accrual basis.

n) Income Taxes

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. 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 in income in the period that includes the enactment date. In assessing the likelihood of realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and, if necessary, tax planning strategies in making this assessment.

The Company accrues for income tax exposures for amounts management deems probable to be paid upon settlement of the related income tax issue. Amounts are accrued in the period in which the exposure becomes probable and estimable. When the exposure is no longer determined to be probable, the accrual is reversed as a reduction of income tax expense.

o) Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS 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 or converted into common stock. The Company does not currently have any securities or contracts to issue common stock that, if exercised or converted into common stock, would result in dilution. Shares of the Employee Stock Ownership Plan committed to be released are considered outstanding for both common and diluted EPS.

p) Other Comprehensive Income

Comprehensive income is the total of reported net income and all other revenues, expenses, gains and losses that under generally accepted accounting principles bypass reported net income. The Company includes unrealized gains or losses, net of tax, on securities available for sale in other comprehensive income.

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q) 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.

r) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2006 presentation.

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2) Securities Available for Sale

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

December 31, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses
			Fair value
	(In Thousands)		
Mortgage-backed securities	\$ 18,274	3	(275)
Collateralized mortgage obligations	82,419	1	(1,549)
Mortgage-related securities	100,693	4	(1,824)
Government agency bonds	13,450	—	(193)
Municipals	4,278	151	(8)
Debt securities	17,728	151	(201)
Other securities	794	—	(15)
	<u>\$ 119,215</u>	<u>155</u>	<u>(2,040)</u>
December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses
			Fair value
	(In Thousands)		
Mortgage-backed securities	\$ 17,478	3	(340)
Collateralized mortgage obligations	76,037	—	(1,600)
Mortgage-related securities	93,515	3	(1,940)
Government agency bonds	26,577	—	(627)
Municipals	4,278	176	(27)
Debt securities	30,855	176	(654)
	<u>\$ 124,370</u>	<u>179</u>	<u>(2,594)</u>

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June 30, 2005				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	\$ 5,817	3	(180)	5,640
Collateralized mortgage obligations	48,621	9	(825)	47,805
Mortgage-related securities	54,438	12	(1,005)	53,445
Government agency bonds	26,580	27	(220)	26,387
Municipals	3,923	238	(2)	4,159
Debt securities	30,503	265	(222)	30,546
	<u>\$ 84,941</u>	<u>277</u>	<u>(1,227)</u>	<u>83,991</u>

The amortized cost and fair value of securities at December 31, 2006 and 2005, 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, 2006		
	Amortized cost	Fair value
	(In Thousands)	
Debt securities:		
Due within one year	\$ 5,502	5,447
Due after one year through five years	10,543	10,538
Due after five years through ten years	1,683	1,693
Mortgage-related securities	100,693	98,873
Mutual Funds	794	779
	<u>\$ 119,215</u>	<u>117,330</u>

Notes to Consolidated Financial Statements

Total proceeds and gross realized gains and losses from sale of securities available for sale for the years ended December 31, 2006 and 2005 and the six-month periods ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004 were:

	Years Ended December 31,		Six Months Ended December 31,		Year ended June 30,	
	2006	2005	2005	2004	2005	2004
	(Unaudited)		(Unaudited)			
Proceeds	\$ 25,868	262	—	5,347	5,610	7,096
Gross gains	—	12	—	4	16	49
Gross losses	819	—	—	4	4	2

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, 2006					
	Less than 12 months		12 months or longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	value	loss	value	loss	value	loss
(In Thousands)						
Government agency bonds	\$ —	—	13,257	(193)	13,257	(193)
Municipals	874	(5)	472	(3)	1,346	(8)
Mortgage-related securities	38,986	(470)	54,922	(1,354)	93,908	(1,824)
Other Securities	778	(15)	—	—	778	(15)
	\$ 40,638	(490)	68,651	(1,550)	109,289	(2,040)

				December 31, 2005	
	Less than 12 months		12 months or longer		Total
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value Unrealized loss
	(In Thousands)				
Government agency bonds	\$ 13,863	(303)	12,088	(324)	25,951 (627)
Municipals	1,327	(27)	—	—	1,327 (27)
Mortgage-related securities	55,679	(716)	35,739	(1,224)	91,418 (1,940)
	<u>\$ 70,869</u>	<u>(1,046)</u>	<u>47,827</u>	<u>(1,548)</u>	<u>118,696 (2,594)</u>

	June 30, 2005					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Government agency bonds	\$ 18,952	(167)	2,948	(53)	21,900	(220)
Municipals	999	(2)	—	—	999	(2)
Mortgage-related securities	17,341	(173)	34,378	(832)	51,719	(1,005)
	\$ 37,292	(342)	37,326	(885)	74,618	(1,227)

The unrealized losses reported for government agency bonds and mortgage-related securities relate exclusively to debt securities issued by government agencies such as the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). There are seven and seventeen individual securities at December 31, 2006, that comprise the government agency bonds and mortgage-related securities, respectively, which have been in an unrealized loss position for twelve months

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or longer. The unrealized loss reported for municipal securities relates to a single security. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these debt securities until a market price recovery or maturity, these securities are not considered other-than-temporarily impaired.

3) Loans Receivable

Loans receivable at December 31, 2006 and 2005, June 30, 2005 are summarized as follows:

	December 31,		June 30,
	2006	2005	2005
	(In Thousands)		
Mortgage loans:			
Residential real estate:			
Single family	\$ 472,852	469,395	430,333
Two- to four-family	250,571	256,270	251,268
Over four-family	468,750	443,528	407,601
Construction	175,165	165,516	149,540
Commercial real estate	46,610	34,543	36,586
Land	27,951	23,685	24,282
Commercial loans	2,657	—	—
Credit cards	141	126	150
Other	86	33	52
	<u>1,444,783</u>	<u>1,393,096</u>	<u>1,299,812</u>
Less:			
Undisbursed loan proceeds	67,390	82,712	77,484
Unearned loan fees	<u>4,486</u>	<u>4,366</u>	<u>4,161</u>
	<u>\$ 1,372,907</u>	<u>1,306,018</u>	<u>1,218,167</u>

Real estate collateralizing the Company's first mortgage loans is located in the Company's general lending area of metropolitan Milwaukee.

The unpaid principal balance of loans serviced for others was \$7.9 million, \$8.1 million and \$9.5 million at December 31, 2006, December 31, 2005 and June 30, 2005, respectively. These loans are not reflected in the consolidated financial statements.

Six Months Ended December 31, 2005 and 2004

A summary of the activity for the years ended December 31, 2006 and 2005, six months ended December 31, 2005 and 2004 and for the years ended June 30, 2005, and 2004 in the allowance for loan losses follows:

	Years ended December 31,		Six months ended December 31,		Years ended June 30,	
	2006	2005	2005	2004	2005	2004
	(Unaudited)		(Unaudited)			
Balance at beginning of period	\$ 5,250	3,737	4,606	3,378	3,378	2,970
Provision for loan losses	2,201	1,909	1,035	363	1,238	860
Charge-offs	(536)	(397)	(391)	(4)	(11)	(453)
Recoveries	280	1	-	-	1	1
Balance at end of period	\$ 7,195	5,250	5,250	3,737	4,606	3,378
Percentage of allowance to gross loans	0.52%	0.40%	0.40%	0.33%	0.38%	0.32%

The following table presents nonperforming loans at December 31, 2006 and 2005 and at June 30, 2005:

	December 31,		June 30,
	2006	2005	2005
	(In Thousands)		
Non-performing loans	\$ 28,888	18,065	13,076

Commercial real estate and multi-family loans with nonaccrual status or restructured terms are considered to be impaired loans. The following table presents data on impaired loans at December 31, 2006 and 2005 and at June 30, 2005:

	December 31,		June 30,
	2006	2005	2005
	(In Thousands)		
Impaired loans for which an allowance has been provided	\$ 11,430	699	1,158
Impaired loans for which no allowance has been provided	18,499	11,549	5,951
Total loans determined to be impaired	<u>\$ 29,929</u>	<u>12,248</u>	<u>7,109</u>
Allowance for loan losses related to impaired loans	\$ 1,616	230	195
Average recorded investment in impaired loans	\$ 14,447	10,784	6,824
Cash basis interest income recognized from impaired loans	\$ 2,216	1,001	492

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The Company has granted loans to their directors, executive officers, or their related interests. These loans were made on substantially the same terms and collateral as those prevailing at the time for comparable transactions with other unrelated customers, except that loans to executive officers originated prior to April 1, 2006 (as with all employees of the Company) were made at interest rates approximating the Company's cost of funds, which is a lower rate than similar loans to unrelated parties. These loans are performing according to contractual terms and do not present more than a normal risk of collection. These loans to related parties are summarized as follows:

	Years ended December 31,		Six months ended December 31,	Year ended June 30,
	2006	2005	2005	2005
	(In Thousands)			
Balance at beginning of period	\$ 885	781	896	747
New loans	145	300	-	574
Repayments	(80)	(196)	(11)	(425)
Balance at end of period	<u>\$ 950</u>	<u>885</u>	<u>885</u>	<u>896</u>
Average interest rate at end of period	3.90%	3.08%	3.08%	3.08%

The Company serves the credit needs of its customers by offering a wide variety of loan programs to customers, primarily in Wisconsin. The loan portfolio is widely diversified by types of borrowers, property type, and market areas. 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. At December 31, 2006 and 2005 and at June 30, 2005, no loans to one borrower or industry concentrations existed in the Company's loan portfolio in excess of 10% of total loans.

4) Office Properties and Equipment

Office properties and equipment are summarized as follows:

	December 31,		June 30,
	2006	2005	2005
	(In Thousands)		
Land	\$ 5,989	4,962	5,031
Office buildings and improvements	28,838	21,796	20,579
Furniture and equipment	<u>11,301</u>	<u>9,399</u>	<u>8,808</u>
	46,128	36,157	34,418
Less accumulated depreciation	<u>(13,503)</u>	<u>(11,135)</u>	<u>(10,400)</u>
	<u><u>\$ 32,625</u></u>	<u><u>25,022</u></u>	<u><u>24,018</u></u>

The Company is obligated under a capital lease related to facilities and equipment at one of the Company's branch locations. The four-year lease, which was entered into in March 2005, provides the Company an

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option to either purchase the building for \$3.3 million at maturity or to renew the lease for an additional 26 years. The building was occupied in September 2005. It is probable that the building will be purchased at the end of the initial term of the lease in March 2009.

The gross amount of buildings and improvements and accumulated amortization recorded under the capital lease is as follows:

	December 31,	
	2006	2005
	(In Thousands)	
Office buildings and improvements	\$ 5,724	5,765
Less accumulated depreciation	(240)	(93)
	<u>\$ 5,484</u>	<u>5,672</u>

Amortization of assets held under the capital lease is included in depreciation expense.

The Company and certain subsidiaries are obligated under noncancelable operating leases for other facilities and equipment. The appropriate minimum annual commitments under all noncancelable lease agreements for leases with remaining terms in excess of one year and future minimum capital lease payments as of December 31, 2006 are as follows:

	Capital lease	Operating leases
	(In Thousands)	
Within one year	\$ 300	98
One to two years	300	107
Two to three years	3,375	104
Three to four years	—	—
Four to five years	—	—
After five years	—	—
Total	<u>\$ 3,975</u>	<u>309</u>
Net minimum lease payments	3,975	
Less amounts representing interest	<u>(601)</u>	
Present value of net minimum capital lease payments	<u>\$ 3,374</u>	

5) Deposits

At December 31, 2006 and 2005 and June 30, 2005, time deposits with balances greater than one hundred thousand dollars amounted to \$207.0 million \$250.8 million and \$277.7 million, respectively. Time deposits at December 31, 2006 and 2005 and June 30, 2005 also include brokered deposits of \$36.3 million, \$96.3 million and \$112.6 million, respectively.

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A summary of interest expense on deposits is as follows:

Years ended December 31,	
2006	2005
(In Thousands)	
\$	(Unaudited)
Interest-bearing demand deposits	631 1,104
Money market and savings deposits	2,326 212
Time deposits	39,081 34,152
\$	<u>42,038</u> <u>35,468</u>

Six months ended December 31,		Year ended June 30,	
2005	2004	2005	2004
(In Thousands)			
\$	(Unaudited)		
Interest-bearing demand deposits	637 395	863	741
Money market and savings deposits	122 112	202	326
Time deposits	17,537 15,453	32,220	29,257
\$	<u>18,296</u> <u>15,960</u>	<u>33,285</u>	<u>30,324</u>

A summary of the contractual maturities of time deposits at December 31, 2006 is as follows:

(In Thousands)	
Within one year	\$ 693,396
One to two years	111,080
Two to three years	45,720
Three to four years	29,751
Four through five years	3,392
After five years	—
\$	<u>883,339</u>

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6) FHLB Advances

FHLB advances at December 31, 2006 and 2005 and at June 30, 2005 consist of the following:

	<u>December 31,</u>	<u>June 30,</u>
	<u>2006</u>	<u>2005</u>
	<u>2005</u>	<u>2005</u>
	(In Thousands)	
Federal Home Loan Bank (FHLB) advances:		
Short-term FHLB advances:		
At 2.62%, due January 2006	\$ —	25,000
At 2.21%, due January 2006	—	10,000
At 4.41%, due January 2006	—	23,000
At 3.26%, due July 2006	—	11,777
At 2.83%, due September 2006	—	2,432
At 4.49%, due October 2006	—	15,000
At 3.56%, due February 2007	7,000	—
At 3.17%, due August 2007	5,408	—
At 3.19%, due September 2007	4,123	—
At 3.09%, due October 2007	4,693	—
At 4.56%, due October 2007	10,000	—
At 4.73%, due December 2007	10,000	—
	<u>41,224</u>	<u>87,209</u>
Total short-term FHLB advances	41,224	87,209
Long-term FHLB advances:		
At 3.26%, due July 2006	—	11,777
At 2.83%, due September 2006	—	2,432
At 3.56%, due February 2007	—	7,000
At 3.17%, due August 2007	—	5,408
At 3.19%, due September 2007	—	4,123
At 3.09%, due October 2007	—	4,693
At 4.56%, due October 2007	—	10,000
At 4.73%, due December 2007	—	10,000
At 3.67%, due January 2008	6,819	6,819
At 3.63%, due January 2008	3,074	3,074
At 3.80%, due February 2008	7,836	7,836
At 3.58%, due August 2008	5,000	5,000
At 4.78%, due November 2008	9,150	—
At 4.69%, due November 2008	8,900	—
At 4.76%, due December 2008	7,000	—
At 4.72%, due October 2010	25,000	—
At 4.01%, due January 2016, callable quarterly as of January 2009	50,000	—
At 4.48%, due May 2016, callable quarterly as of May 2007	10,000	—
At 4.49%, due June 2016, callable quarterly as of June 2007	10,000	—
At 4.82%, due July 2016, callable quarterly as of July 2007	25,000	—
At 4.51%, due July 2016, callable quarterly as of July 2008	25,000	—
At 4.46%, due August 2016, callable quarterly as of August 2007	25,000	—
At 4.33%, due August 2016, callable quarterly as of August 2008	25,000	—
At 4.25%, due September 2016, callable as of March 2009	50,000	—
	<u>292,779</u>	<u>114,003</u>
Total long-term FHLB advances	292,779	114,003
Total FHLB advances	<u>\$ 334,003</u>	<u>93,162</u>

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The Company selects loans that meet underwriting criteria established by the FHLB as collateral for outstanding advances. The Company's borrowings at the FHLB are limited to 60% of the carrying value of unencumbered one- to four-family mortgage loans. In addition, these advances are collateralized by FHLB stock of \$17.2 million, \$14.4 million and \$14.1 million at December 31, 2006 and 2005 and at June 30, 2005, respectively. In the event of prepayment, the Company is obligated to pay all remaining contractual interest on the advance.

The Company has a federal funds line of credit with four commercial banks which total \$60 million. As of December 31, 2006, no draws were outstanding.

7) Regulatory Capital

The Company, as well as the subsidiary Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements 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 statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, that the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2006 the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios, as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

As a state-chartered savings bank, the Bank is required to meet minimum capital levels established by the state of Wisconsin in addition to federal requirements. For the state of Wisconsin, regulatory capital consists of retained income, paid-in-capital, capital stock equity and other forms of capital considered to be qualifying capital by the Federal Deposit Insurance Corporation.

The actual capital amounts and ratios for the Company and its subsidiary Bank as of December 31, 2006 and 2005 and June 30, 2005 are presented in the table below:

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

December 31, 2006							
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions (1)		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
	(Dollars In Thousands)						
Wauwatosa Holdings							
Total capital (to risk-weighted assets)	\$	248,866	21.36%	93,216	8.00%	N/A	N/A
Tier I capital (to risk-weighted assets)		241,760	20.75%	46,608	4.00%	N/A	N/A
Tier I capital (to average assets)		241,760	14.47%	66,820	4.00%	N/A	N/A
Wauwatosa Savings							
Total capital (to risk-weighted assets)	\$	203,400	18.19%	89,439	8.00%	111,799	10.00%
Tier I capital (to risk-weighted assets)		196,464	17.57%	44,719	4.00%	67,079	6.00%
Tier I capital (to average assets)		196,464	12.10%	64,961	4.00%	81,201	5.00%
State of Wisconsin (to total assets) (2)		196,464	12.26%	96,180	6.00%	N/A	N/A
December 31, 2005							
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions (1)		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
	(Dollars In Thousands)						
Wauwatosa Holdings							
Total capital (to risk-weighted assets)	\$	238,212	22.79%	83,723	8.00%	N/A	N/A
Tier I capital (to risk-weighted assets)		233,262	22.29%	41,862	4.00%	N/A	N/A
Tier I capital (to average assets)		233,262	14.23%	65,564	4.00%	N/A	N/A
Wauwatosa Savings							
Total capital (to risk-weighted assets)	\$	187,370	17.90%	83,689	8.00%	104,611	10.00%
Tier I capital (to risk-weighted assets)		182,120	17.40%	41,845	4.00%	62,767	6.00%
Tier I capital (to average assets)		182,120	11.12%	65,535	4.00%	81,919	5.00%
State of Wisconsin (to total assets) (2)		182,120	12.08%	90,424	6.00%	N/A	N/A
June 30, 2005							
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
	(Dollars In Thousands)						
Wauwatosa Savings							
Total capital (to risk-weighted assets)	\$	138,638	14.05%	78,963	8.00%	98,704	10.00%
Tier I capital (to risk-weighted assets)		134,032	13.58%	39,481	4.00%	59,222	6.00%
Tier I capital (to average assets)		134,032	9.84%	54,458	4.00%	68,072	5.00%
State of Wisconsin (to total assets) (2)		134,043	9.60%	83,167	6.00%	N/A	N/A

(1) Prompt corrective action provisions are not applicable at the bank holding company level.

(2) State of Wisconsin regulatory capital requirements are not applicable at the bank holding company level.

Notes to Consolidated Financial Statements
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8) Employee Benefit Plans

The Company participates in an industry group sponsored multi-employer defined-benefit retirement plan covering substantially all employees with one year or more of service. During the period ended December 31, 2005, the Company elected to freeze benefits accruing in the Pension Plan, and will apply to the Internal Revenue Service to terminate the Plan and to pay out all benefits to Plan participants in the fiscal year ending December 31, 2007. There was no related expense for the year ended December 31, 2006. The expense for the six months ended December 31, 2005 includes amounts contributed to the Plan to fully settle the pension plan obligation. Pension plan expense was approximately \$640,000, \$240,000, \$485,000 and \$407,000 for the six months ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004, respectively. The Company's policy is to fund pension costs accrued.

The Company has a 401(k) profit sharing plan and trust covering substantially all employees with at least one year of service who have attained age 18. Participating employees may annually contribute up to 15% of their pretax compensation. The Bank made no contributions to the Plan during the years ended December 31, 2006 and 2005, the six months ended December 31, 2005 and 2004 and the years ended June 30, 2005 and 2004.

The Company has a nonqualified salary continuation plan for three former employees. These agreements provide for payments of specific amounts over 10-year periods subsequent to each key employee's retirement. The deferred compensation liability was accrued ratably to the employee's respective normal retirement date. Payments made to the retired employees reduce the liability. As of December 31, 2006 and 2005 and June 30, 2005, approximately \$2.8 million, \$2.7 million and \$2.9 million was accrued related to these plans, respectively. These agreements are intended to be funded by life insurance policies owned by the Company on these employees, which have a face amount of \$12.1 million and a cash surrender value of \$9.4 million, \$8.5 million and \$8.0 million at December 31, 2006 and 2005 and June 30, 2005, respectively. The former employees, however, have no interest in these policies. The expense for compensation under these agreements was approximately \$322,000, \$80,000, \$40,000, \$34,000, \$74,000 and \$69,000 for the years ended December 2006 and 2005, six months ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004, respectively.

During the year ended December 31, 2006, the Company established a nonqualified deferred compensation plan for executive officers. The plan allows participants to defer a portion of regular salary and bonus to future periods. The participant earns interest on the deferred balance. As of December 31, 2006 approximately \$78,000 of compensation has been deferred. Earnings credited to compensation deferred totaled \$1,000 for the year ended December 31, 2006.

In addition to the key-man policies noted above, there is a Bank-owned life insurance contract with a face amount of \$308.5 million and cash surrender value of \$14.8 million, \$14.3 million and \$14.1 million at December 31, 2006 and 2005 and June 30, 2005, respectively.

9) Employee Stock Ownership Plan

In conjunction with the mutual holding company reorganization, Wauwatosa Savings established an Employee Stock Ownership Plan (the "Plan"). All employees are eligible to participate in the Plan after they attain twenty-one years of age and complete twelve consecutive months of service in which they work at least 1,000 hours of service. The Plan borrowed \$8.5 million from the Company and purchased 761,515 shares of common stock of the Company in the open market. The Plan debt is secured by shares of the

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

Company. The Company has committed to make annual contributions to the Plan necessary to repay the loan, including interest. The loan is scheduled to be repaid in ten annual installments. 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-tenth of the shares are scheduled to be released as shares are earned over a period of ten years, beginning with the six-month period ended December 31, 2005. As the debt is repaid, shares are released from collateral and allocated to active employees' 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 \$1.2 million for the year ended December 31, 2006 and \$854,000 for the six months ended December 31, 2005.

The aggregate activity in the number of unearned ESOP shares, considering the allocation of those shares committed to be released as of December 31, is as follows:

	<u>2006</u>	<u>2005</u>
Beginning ESOP shares	685,365	761,515
Shares committed to be released	(76,152)	(76,150)
Unreleased shares	<u>609,213</u>	<u>685,365</u>
Fair value of unreleased shares (in thousands)	\$ 10,856	7,841

10) Income Taxes

The provision (benefit) for income taxes for the year ended December 31, 2006 and 2005, the six months ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004 consists of the following:

	<u>Years ended December 31,</u>		<u>Six months ended December 31,</u>		<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In Thousands)					
	(Unaudited)		(Unaudited)			
Current:						
Federal	\$ 4,761	5,144	2,526	2,784	5,403	4,811
State	1,218	3,327	878	860	3,309	185
	<u>5,979</u>	<u>8,471</u>	<u>3,404</u>	<u>3,644</u>	<u>8,712</u>	<u>4,996</u>
Deferred:						
Federal	(899)	(2,718)	(1,632)	(69)	(1,155)	(86)
State	(381)	374	(301)	(711)	(37)	(47)
	<u>(1,280)</u>	<u>(2,344)</u>	<u>(1,933)</u>	<u>(780)</u>	<u>(1,192)</u>	<u>(133)</u>
Total	\$ 4,699	6,127	1,471	2,864	7,520	4,863

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

The income tax provisions differ from that computed at the Federal statutory corporate tax rate for the years ended December 31, 2006 and 2005, the six months ended December 31, 2005 and 2004 and for the years ended June 30, 2005 and 2004 as follows:

	Years ended December 31,		Six months ended December 31,	
	2006	2005	2005	2004
	(Dollars In Thousands)			
		(Unaudited)		(Unaudited)
Income before income taxes	\$ 12,752	12,169	\$4,184	\$8,650
Tax at Federal statutory rate (35%)	4,463	4,259	1,464	3,028
Add (deduct) effect of:				
State income taxes, net of Federal income tax benefit	545	2,405	375	97
Cash surrender value of life insurance	(370)	(281)	(205)	(149)
Non-deductible ESOP expense	113	-	-	-
Tax-exempt interest income	(69)	(61)	(29)	(32)
Other	17	(195)	(134)	(80)
Income tax provision	4,699	6,127	1,471	2,864
Effective tax rate	36.9%	50.3%	35.2%	33.1%

	Year ended June 30,	
	2005	2004
	(Dollars In Thousands)	
Income before income taxes	\$ 16,636	15,447
Tax at Federal statutory rate (35%)	\$ 5,822	5,406
Add (deduct) effect of:		
State income taxes, net of Federal income tax benefit	2,127	90
Cash surrender value of life insurance	(225)	(353)
Tax-exempt interest income	(64)	(58)
Other	(140)	(222)
Income tax provision	\$ 7,520	4,863
Effective tax rate	45.2%	31.5%

Notes to Consolidated Financial Statements
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Six Months Ended December 31, 2005 and 2004

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, 2006 and 2005 and at June 30, 2005:

	December 31,	June 30,
	2006	2005
	2006	2005
Gross deferred tax assets:		
	(In Thousands)	
Excess book depreciation	\$ 455	138
Compensation agreements	1,139	1,092
Allowance for loan losses	2,846	2,195
State tax contingent liability	1,701	1,243
State NOL carryforward	167	—
Unrealized loss on securities available for sale	660	844
Loans to facilitate the sale of real estate owned	589	589
Charitable contributions carry forward	1,386	1,916
Other	363	210
	<u>9,306</u>	<u>8,227</u>
Total gross deferred tax assets		5,537
Valuation allowance - charitable contribution carry forward	(234)	(225)
	<u>9,072</u>	<u>5,537</u>
Deferred tax assets		
Gross deferred tax liabilities:		
FHLB stock dividends	(1,018)	(1,018)
Deferred loan fees	(135)	(161)
	<u>(1,153)</u>	<u>(1,179)</u>
Deferred liabilities		(1,168)
Net deferred tax assets	<u>\$ 7,919</u>	<u>4,369</u>

The change in net deferred tax assets from December 31, 2005 to December 31, 2006, June 30, 2005 to December 31, 2005 and from June 30, 2004 to June 30, 2005 includes the deferred tax effect reported in other comprehensive income of \$184,000, \$(521,000) and \$777,000 respectively.

Based upon the level of historical taxable income and expected future taxable income over the periods in which the net deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

Like many financial institutions located in Wisconsin, the Bank transferred investment securities and loans to an out-of-state subsidiary. The Bank's Nevada subsidiary now holds and manages those assets. Because the subsidiary is located in the state of Nevada, income from its operations has not been subject to Wisconsin state taxation. The investment subsidiary has not filed returns with, or paid income or franchise taxes to, the state of Wisconsin. The Wisconsin Department of Revenue (the Department) recently implemented a program to audit Wisconsin financial institutions that have formed and contributed assets to subsidiaries located outside of Wisconsin, and the Department has generally indicated that it intends to assess income or franchise taxes on some or all of the income of the out-of-state investment subsidiaries of Wisconsin financial institutions. The Department has not issued an assessment to the Bank, but the Department has stated that it intends to do so if the matter is not settled.

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Prior to the formation of the investment subsidiary, the Bank sought and obtained a private letter ruling from the Department regarding the non-taxability of the investment subsidiary in the state of Wisconsin. The Bank believes that it complied with Wisconsin law and the private ruling received from the Department. At December 31, 2006, the Company has an accrued estimated state tax liability of \$4.9 million including interest for the probable settlement amount on the basis of facts currently known. A deferred Federal tax benefit of \$1.7 million has been established as a result of this accrual. The Company does not expect the resolution of this matter to have a material adverse affect on its consolidated results of operations and financial position beyond the amounts accrued. However, the Company intends to accrue state income taxes on future income of the Nevada subsidiary in line with the previously discussed accrual until such time as the dispute is resolved.

Under the Internal Revenue Code and Wisconsin Statutes, the Company is permitted to deduct, for tax years beginning before 1998, 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, 2006 include approximately \$16.7 million for which no deferred Federal or state income taxes were provided. Under SFAS No. 109, deferred income taxes have been provided on certain additions to the tax reserve for bad debts.

11) Financial Instruments with Off-Balance-Sheet Risk

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.

The Company's potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for other financial instruments reflected in the consolidated financial statements.

	<u>December 31,</u>		<u>June 30,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>(In Thousands)</u>		
Financial instruments whose contract amounts represent potential credit risk:			
Commitments to extend credit under first mortgage loans	\$ 28,067	43,375	65,566
Commitments to extend credit home equity lines of credit	34,676	31,809	30,253
Standby letters of credit	639	1,576	1,374

Notes to Consolidated Financial Statements
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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, 2006, December 31, 2005 and June 30, 2005.

In connection with its mortgage banking activities, the Company enters into forward loan sale commitments. Forward commitments to sell mortgage loans represent commitments obtained by the Company from a secondary market agency to purchase mortgages from the Company at specified interest rates and within specified periods of time. Commitments to sell loans are made to mitigate interest rate risk on commitments to originate loans and loans held for sale. As of December 31, 2006, the Company had \$5.4 million in forward loan sale commitments. A forward sale commitment is a derivative instrument under Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," (as amended), which must be recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in its value recorded in income from mortgage banking operations. In determining the fair value of its derivative loan commitments for economic purposes, 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.

12) Fair Values of Financial Instruments

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.

Notes to Consolidated Financial Statements
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The following methods and assumptions were used by the Company in determining its fair value disclosures for financial instruments.

a) *Cash and Cash Equivalents*

The carrying amounts reported in the consolidated statements of financial condition for cash and cash equivalents approximate those assets' fair values.

b) *Mortgage-Related and Debt Securities*

Fair values for mortgage-related and debt securities are based on quoted market prices of these or comparable instruments.

c) *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.

d) *Loans Receivable*

Fair values for loans receivable are estimated using a discounted cash flow calculation that applies current interest rates to estimated future cash flows of the loans receivable.

e) *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.

f) *Cash Surrender Value of Life Insurance*

The carrying amounts reported in the consolidated statements of financial condition for the cash surrender value of life insurance approximate those assets' fair values.

g) *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.

h) *FHLB Advances*

Fair values for FHLB advances are estimated using a discounted cash flow calculation that applies current interest rates to estimated future cash flows of the advances.

i) *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.

Notes to Consolidated Financial Statements
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j) 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 is not material at December 31, 2006 and 2005 and June 30, 2005.

k) Obligations under Capital Leases

The fair value of obligations under capital leases is determined using a present value of future minimum lease payments discounted at the current interest rate at the time of lease inception.

The carrying amounts and fair values of the Company's financial instruments consist of the following at December 31, 2006, December 31, 2005 and June 30, 2005:

	December 31, 2006		December 31, 2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In Thousands)			
Cash and cash equivalents	\$ 73,807	73,807	16,498	16,498
Securities	117,330	117,330	121,955	121,955
Loans held for sale	5,387	5,387	—	—
Loans receivable	1,365,712	1,367,223	1,300,768	1,289,777
FHLB stock	17,213	17,213	14,406	14,406
Cash surrender value of life insurance	24,152	24,152	22,792	22,792
Accrued interest receivable	2,179	2,179	1,558	1,558
Deposits	1,036,218	1,034,697	1,045,593	1,035,048
Advance payments by borrowers for taxes	190	190	181	181
FHLB advances	334,003	333,746	201,212	200,146
Accrued interest payable	4,344	4,344	3,039	3,039
Obligations under capital leases	3,374	3,374	3,403	3,403
Commitments to extend credit	—	—	—	—
Stand-by letters of credit	4	4	10	10

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

June 30, 2005		
	Carrying amount	Fair value
	(In Thousands)	
Cash and cash equivalents	\$ 20,467	20,467
Mortgage-related securities	53,445	53,445
Debt securities	30,546	30,546
Loans receivable	1,213,561	1,290,428
FHLB stock	14,097	14,097
Cash surrender value of life insurance	22,078	22,078
Accrued interest receivable	1,145	1,145
Deposits	1,128,791	1,121,833
Advance payments by borrowers for taxes	15,821	15,821
FHLB advances	93,162	93,162
Accrued interest payable	2,974	2,974
Obligations under capital leases	3,416	3,416
Commitments to extend credit	—	—
Stand-by letters of credit	9	9

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
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13) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding adjusted for the dilutive effect of all potential common shares. At December 31, 2006 and 2005, 152,302 and 76,150 shares of the Employee Stock Purchase Plan have been committed to be released to Plan participants and are considered outstanding for both common and dilutive earnings per share, respectively. No earnings per share are reflected for periods prior to October 4, 2005, as there were no shares outstanding prior to the reorganization. The calculation of earnings per share for the period subsequent to the reorganization reflect the actual net loss and weighted average shares outstanding from the period October 5, 2005 through December 31, 2005.

Presented below are the calculations for basic and diluted earnings (loss) per share.

	(In Thousands, except per share amounts)
Net income for the year ended December 31, 2006	<u>\$ 8,053</u>
Weighted average shares outstanding	33,077
Effect of dilutive potential common shares	<u>-</u>
Diluted weighted average shares outstanding	<u>33,077</u>
Basic earnings per share	<u>\$ 0.24</u>
Diluted earnings per share	<u>\$ 0.24</u>
 Net loss (for the period October 5, 2005 through December 31, 2005)	 <u>\$ (709)</u>
Weighted average shares outstanding	33,135
Effect of dilutive potential common shares	<u>-</u>
Diluted weighted average shares outstanding	<u>33,135</u>
Basic loss per share	<u>\$ (0.02)</u>
Diluted loss per share	<u>\$ (0.02)</u>

14) Acquisition

On February 9, 2006, the Company consummated its \$1.1 million cash acquisition of 100% of the outstanding shares of Waterstone Mortgage Corporation, a closely-held mortgage brokerage firm headquartered in Pewaukee, Wisconsin. The acquisition was individually immaterial to the consolidated financial results of the Company. Goodwill of approximately \$601,000 and other intangibles of approximately \$228,000 were recognized in the transaction at acquisition.

Notes to Consolidated Financial Statements
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Six Months Ended December 31, 2005 and 2004

15) Condensed Parent Company Only Statements

Statements of Financial Condition

	December 31,	
	2006	2005
	(In Thousands)	
Assets		
Cash and cash equivalents	\$ 82	41,311
Loans receivable	42,786	-
Less: Allowance for loan losses	(171)	-
Loans receivable, net	42,697	-
Investment in subsidiaries	195,975	188,239
Receivable from ESOP	1,238	952
Deferred tax asset	1,062	1,564
Income tax benefit receivable	459	617
Other assets	-	1
Total Assets	\$ 241,431	232,684
Liabilities and shareholders' equity		
Liabilities:		
Due to subsidiaries	\$ -	785
Other liabilities	159	203
	159	988
Shareholders' equity		
Preferred Stock (par value \$.01 per share, authorized 20,000,000 shares, no shares issued)	-	-
Common Stock (par value \$.01 per share, authorized 200,000,000 shares, 33,723,750 shares issued, 33,114,539 and 33,038,385 shares outstanding at December 31, 2006 and 2005, respectively)	337	337
Additional paid-in-capital	104,182	103,859
Retained earnings	144,809	136,756
Unearned ESOP shares	(6,831)	(7,685)
Accumulated other comprehensive loss (net of taxes)	(1,225)	(1,571)
Total shareholders' equity	241,272	231,696
Total liabilities and shareholders' equity	\$ 241,431	232,684

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

Statements of Operations

	For the year ended December 31, 2006	For the period October 5, 2005 through December 31, 2005
	(In Thousands)	
Interest income	\$ 2,601	97
Provision for loan losses	171	-
Interest income after provision for loan losses	<u>2,430</u>	<u>-</u>
Equity in earnings of subsidiaries*	7,390	2,965
Total income	<u>9,820</u>	<u>3,062</u>
Compensation	513	-
Professional fees	146	-
Charitable contribution	-	5,564
Other expense	448	38
Total expense	<u>1,107</u>	<u>5,602</u>
Income (loss) before income tax benefit	<u>8,713</u>	<u>(2,540)</u>
Income tax expense (benefit)	660	(1,831)
Net income (loss)	<u>\$ 8,053</u>	<u>(709)</u>

*Equity in earnings of subsidiaries related to the prior period is for the period from October 5, 2005 through December 31, 2005, the period for which Wauwatosa Holdings, Inc owned the Bank and its subsidiaries.

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005 and June 30, 2005 and 2004
Six Months Ended December 31, 2005 and 2004

Statements of Cash Flows

	For the year ended December 31, 2006	For the period October 5, 2005 through December 31, 2005
	(In Thousands)	
Cash flows from operating activities		
Net loss	\$ 8,053	(709)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	171	-
Amortization of unearned ESOP	1,177	-
Deferred income taxes	502	(1,564)
Charitable contribution of common stock	-	5,565
Equity in earnings of subsidiaries*	(7,390)	(2,965)
Change in other operating activities and liabilities	(956)	(582)
Net cash used in operating activities	<u>1,557</u>	<u>(255)</u>
Cash flows from investing activities:		
Net increase in loans receivable	(42,786)	-
Investment of proceeds in subsidiary	-	(57,065)
Net cash used by investing activities	<u>(42,786)</u>	<u>(57,065)</u>
Cash flows from financing activities:		
Net proceeds from sale of common stock	-	98,731
Capitalization of Lamplighter, MHC	-	(100)
Net cash provided by financing activities	<u>-</u>	<u>98,631</u>
Net increase (decrease) in cash	(41,229)	41,311
Cash and cash equivalents at beginning of year	41,311	-
Cash and cash equivalents at end of year	<u>\$ 82</u>	<u>41,311</u>

16) Segments and Related Information

The Company is required to report each operating segment based on materiality thresholds of 10% or more of certain amounts, such as revenue. Additionally, the Company is required to report separate operating segments until the revenue attributable to such segments is at least 75% of total consolidated revenue. The Company provides a broad range of financial services to individuals and companies in southeastern Wisconsin. These services include demand, time, and savings products, and commercial and retail lending. While the Company's chief decision-maker monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Since the Company's business units have similar basic characteristics in the nature of the products, production processes, and type or class of customer for products or services, and do not meet materiality thresholds based on the requirements of reportable segments, these business units are considered one operating segment.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures: Wauwatosa Holdings management, with the participation of Wauwatosa Holding's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Wauwatosa Holdings' 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, Wauwatosa Holdings' Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, Wauwatosa Holdings' disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Wauwatosa Holdings in the reports that it files or submits under the Exchange Act.

Change in Internal Control Over Financial Reporting: There have not been any changes in Wauwatosa Holdings' internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the final fiscal quarter of the period to which this report relates that have materially affected, or are reasonably likely to materially affect, Wauwatosa Holdings' internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management of Wauwatosa Holdings Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The 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 the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

As of December 31, 2006, 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). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2006 is effective.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control

over financial reporting as of December 31, 2006, is included below under the heading “Report of Independent Registered Public Accounting Firm.”

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Wauwatosa Holdings, Inc.:

We have audited management’s assessment, included in the accompanying *Management’s Annual Report on Internal Control Over Financial Reporting*, that Wauwatosa Holdings, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Wauwatosa Holdings, Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness on internal control. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of Wauwatosa Holdings Inc.’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, management's assessment that Wauwatosa Holdings, Inc maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Wauwatosa Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Wauwatosa Holdings, Inc and subsidiaries as of December 31, 2006 and 2005 and June 30, 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and June 30, 2005 and 2004 and the six month period ended December 31, 2005, and our report dated March 15, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Milwaukee, Wisconsin
March 15, 2007

Item 9B. Other Information.

None

Part III

Item 10. Directors and Executive Officers of the Registrant

The information in the Company's definitive Proxy Statement, prepared for the 2007 Annual Meeting of Shareholders, which contains information concerning directors of the Company under the caption "Election of Directors" and compliance with Section 16 reporting requirements under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and information concerning executive officers of the Company under the caption "Executive Officers of Wauwatosa Holdings" in Part I hereof 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.

<u>Name and Age</u>	<u>Offices and Positions with Wauwatosa Holdings and Wauwatosa Savings Bank*</u>	<u>Executive Officer Since (1)</u>
Douglas S. Gordon, 49 (2)	Chief Executive Officer and President of Wauwatosa Holdings and of Wauwatosa Savings Bank	2005
Richard C. Larson, 49	Chief Financial Officer and Senior Vice President of Wauwatosa Holdings and of Wauwatosa Savings Bank	1990
Barbara J. Coutley, 55	Senior Vice President and Secretary of Wauwatosa Holdings and of Wauwatosa Savings Bank	1984
William F. Bruss, 37	General Counsel of Wauwatosa Holdings and General Counsel, Senior Vice President and Compliance Officer of Wauwatosa Savings Bank	2005
Rebecca M. Arndt, 39	Vice President – Retail Operations of Wauwatosa Savings Bank previously First Vice President, Retail Banking at Ozaukee Bank	2006

* Excluding directorships and excluding positions with Bank subsidiaries. Those positions do not constitute a substantial part of the officers' duties.

- (1) Indicates date when individual first held an executive officer position with the Bank. These individuals became executive officers of Wauwatosa Holdings upon its organization as noted.
- (2) Prior to joining Wauwatosa Holdings in October 2005, Mr. Gordon was a real estate investor.

Item 11. Executive Compensation

The information in the Company's definitive Proxy Statement, prepared for the 2007 Annual Meeting of Shareholders, which contains information concerning this item under the captions "Executive Compensation," "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Discussion and Analysis" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information in the Company's definitive Proxy Statement, prepared for the 2007 Annual Meeting of Shareholders, which contains information concerning this item under the caption "Stock Ownership of Certain Beneficial Owners" is incorporated herein by reference. At December 31, 2006, the Company had no equity compensation plans requiring tabular disclosure under this heading.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information in the Company's definitive Proxy Statement, prepared for the 2007 Annual Meeting of Shareholders, which contains information concerning this item under the captions "Certain Transactions with the Company" and "Board Meetings and Committee" is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information in the Company's definitive Proxy Statement, prepared for the 2007 Annual Meeting of Shareholders, which contains information concerning this item under the caption "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 Wauwatosa Holdings, Inc. and subsidiaries are filed as part of this report under Item 8, "Financial Statements and Supplementary Data":

Consolidated Statements of Financial Condition – December 31, 2006 and 2005 and June 30, 2005.

Consolidated Statements of Income – Years ended December 31, 2006 and 2005 (Unaudited) and June 30, 2005 and 2004 and Six months ended December 31, 2005 and 2004 (Unaudited).

Consolidated Statements of Equity – Years ended December 31, 2006 and June 30, 2005 and 2004 and Six months ended December 31, 2005.

Consolidated Statements of Cash Flows – Years ended December 31, 2006 and 2005 (Unaudited) and June 30, 2005 and 2004 and Six months ended December 31, 2005 and 2004 (Unaudited).

Notes to Consolidated Financial Statements.

Report of KPMG LLP, Independent Registered Public Accounting Firm, on 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.

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.

March 15, 2007

WAUWATOSA HOLDINGS, 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, Richard C. Larson and Barbara J. Coutley, 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/Patrick S. Lawton
Patrick S. Lawton, *Chairman and Director*

/s/Barbara J. Coutley
Barbara J. Coutley, *Senior Vice President*
Secretary and Director

/s/Thomas E. Dalum
Thomas E. Dalum, *Director*

/s/Richard C. Larson
Richard C. Larson, *Senior Vice President*
Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/Michael L. Hansen
Michael L. Hansen, *Director*

/s/Stephen J. Schmidt
Stephen J. Schmidt, *Director*

*Each of the above signatures is affixed as of March 15, 2007.

WAUWATOSA HOLDINGS, INC.
(“Wauwatosa Holdings” or the “Company”)**
Commission File No. 000-51507

EXHIBIT INDEX
TO
2006 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, 2006:

<u>Exhibit</u>	<u>Description</u>	<u>Incorporated Herein By Reference To</u>	<u>Filed Herewith</u>
2.1	Plan of Reorganization from Mutual Savings Bank to Mutual Holding Company of Wauwatosa Savings Bank (the “Bank”), as adopted on May 17, 2005 and amended on June 3, 2005 (the “Plan”)	Exhibit 2.1 to the Company’s Registration Statement on Form S-1, Registration No. 333-125715 (the “2005 S-1”)	
3.1	Proposed Articles of Incorporation of the Company	Exhibit 3.1 to 2005 S-1	
3.2	Proposed Bylaws of the Company	Exhibit 3.1 to 2005 S-1	
10.1*	Wauwatosa Savings Bank Employee Stock Ownership Plan and Trust	Exhibit 10.1 to 2005 S-1	
10.2*	Supplemental Retirement Benefit Plan between the Bank and Donald J. Stephens	Exhibit 10.2 to 2005 S-1	
10.3*	Employment Agreement between the Bank and Douglas S. Gordon	Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on October 26, 2005 and amended on December 19, 2006	
10.4*	Stock Compensation Plans	Exhibit 10.1 to the company’s Current Report on Form 8-K filed on May 22, 2006	
10.5*	Early Retirement, Resignation and Release Agreement between the Bank and Donald J. Stephens	Exhibit 10.5 to the Company’s Annual Report on Form 10-K filed March 27, 2006	
11.1	Statement re: Computation of Per Share Earnings	See Note 13 in Part II Item 8	
21.1	List of Subsidiaries		X
23.1	Consent of Independent Registered Public Accounting Firm		X

<u>Exhibit</u>	<u>Description</u>	<u>Incorporated Herein By Reference To</u>	<u>Filed Herewith</u>
24.1	Powers of Attorney	Signature Page	
31.1	Sarbanes-Oxley Act Section 302 Certification signed by the Chief Executive Officer of Wauwatosa Holdings		X
31.2	Sarbanes-Oxley Act Section 302 Certification signed by the Chief Financial Officer of Wauwatosa Holdings		X
32.1	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 Wauwatosa Holdings		X
32.2	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 Wauwatosa Holdings		X

* Designates management or compensatory agreements, plans or arrangements required to be filed as exhibits pursuant to Item 15(b) of Form 10-K.

Exhibit 21.1

The following table sets forth the name and jurisdiction of incorporation/charter of the Company's subsidiaries as of December 31, 2006. Inactive subsidiaries are not listed. All of the subsidiaries are 100% owned except as noted.

Name of Subsidiary	Jurisdiction of Incorporation/Charter
Wauwatosa Savings Bank (1)	Wisconsin
Wauwatosa Investments, Inc. (2)	Nevada
Main Street Real Estate Holdings, LLC (2)	Wisconsin
Waterstone Mortgage Corporation (2)	Wisconsin

-
- (1) Direct subsidiary of Wauwatosa Holdings, Inc.
(2) Direct subsidiary of Wauwatosa Savings Bank.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 of Wauwatosa Holdings, Inc. of our reports dated March 15, 2007 with respect to the consolidated balance sheets of Wauwatosa Holdings, Inc. and Subsidiaries as of December 31, 2006 and 2005 and June 30, 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2006 and June 30, 2005 and 2004 and the six month period ended December 31, 2005, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 and the effectiveness of internal control over financial reporting as of December 31, 2006, which reports appear in the December 31, 2006 annual report on Form 10-K of Wauwatosa Holdings, Inc.

/s/ KPMG LLP

Milwaukee, Wisconsin
March 15, 2007

CERTIFICATION

I, Douglas S. Gordon, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2006 of Wauwatosa Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/s/ Douglas S. Gordon

Douglas S. Gordon,
Chief Executive Officer

CERTIFICATION

I, Richard C. Larson, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2006 of Wauwatosa Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/s/ Richard C. Larson

Richard C. Larson,
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Wauwatosa Holdings, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas S. Gordon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas S. Gordon
Douglas S. Gordon
Chief Executive Officer
March 15, 2007

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Wauwatosa Holdings, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard C. Larson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard C. Larson
Richard C. Larson
Chief Financial Officer
March 15, 2007