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Waterstone Financial, Inc.
Form 10-Q
October 30, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

T Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-36271

WATERSTONE FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland 90-1026709
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

11200 W. Plank Court Wauwatosa, Wisconsin 53226
(Address of principal executive offices) (Zip Code)

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

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 T No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes T No

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

Large accelerated filer Accelerated filer T Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

Yes No T

The number of shares outstanding of the issuer's common stock, \$0.01 par value per share, was 28,829,339 at October 29, 2018.

WATERSTONE FINANCIAL, INC.

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WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited)	
	September 30, 2018	December 31, 2017
	(Dollars In Thousands, except share and per share data)	
Assets		
Cash	\$32,966	\$22,306
Federal funds sold	18,352	17,034
Interest-earning deposits in other financial institutions and other short term investments	7,538	9,267
Cash and cash equivalents	58,856	48,607
Securities available for sale (at fair value)	179,076	199,707
Loans held for sale (at fair value)	192,674	149,896
Loans receivable	1,357,656	1,291,814
Less: Allowance for loan losses	13,226	14,077
Loans receivable, net	1,344,430	1,277,737
Office properties and equipment, net	22,417	22,941
Federal Home Loan Bank stock (at cost)	19,575	16,875
Cash surrender value of life insurance	67,198	65,996
Real estate owned, net	2,170	4,558
Prepaid expenses and other assets	33,007	20,084
Total assets	\$1,919,403	\$1,806,401
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits	\$130,969	\$129,597
Money market and savings deposits	159,742	148,804
Time deposits	713,739	688,979
Total deposits	1,004,450	967,380
Borrowings	451,132	386,285
Advance payments by borrowers for taxes	30,460	4,876
Other liabilities	28,717	35,756
Total liabilities	1,514,759	1,394,297
Shareholders' equity:		
Preferred stock (par value \$.01 per share)		
Authorized - 50,000,000 shares in 2018 and in 2017, no shares issued	-	-
Common stock (par value \$.01 per share)		
Authorized - 100,000,000 shares in 2018 and in 2017		
Issued - 29,049,939 in 2018 and 29,501,346 in 2017		
Outstanding - 29,049,939 in 2018 and 29,501,346 in 2017	291	295
Additional paid-in capital	329,743	326,655
Retained earnings	184,697	183,358
Unearned ESOP shares	(18,101)	(18,991)
Accumulated other comprehensive loss, net of taxes	(3,808)	(477)
Cost of shares repurchased (6,583,837 shares at September 30, 2018 and 6,030,900 shares at December 31, 2017)	(88,178)	(78,736)

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Total shareholders' equity	404,644	412,104
Total liabilities and shareholders' equity	\$1,919,403	\$1,806,401

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In Thousands, except per share amounts)			
Interest income:				
Loans	\$17,340	\$15,855	\$49,498	\$45,078
Mortgage-related securities	643	647	1,925	2,021
Debt securities, federal funds sold and short-term investments	1,063	951	2,949	2,680
Total interest income	19,046	17,453	54,372	49,779
Interest expense:				
Deposits	3,063	1,981	8,087	5,614
Borrowings	2,133	2,439	5,574	6,756
Total interest expense	5,196	4,420	13,661	12,370
Net interest income	13,850	13,033	40,711	37,409
Provision for loan losses	40	20	(1,060)	(1,166)
Net interest income after provision for loan losses	13,810	13,013	41,771	38,575
Noninterest income:				
Service charges on loans and deposits	442	300	1,332	1,148
Increase in cash surrender value of life insurance	695	688	1,496	1,476
Loss on sale of securities	-	-	-	(107)
Mortgage banking income	32,653	31,863	88,930	92,774
Other	272	203	805	941
Total noninterest income	34,062	33,054	92,563	96,232
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	27,453	26,153	74,670	73,732
Occupancy, office furniture, and equipment	2,751	2,533	7,995	7,587
Advertising	1,224	821	3,084	2,414
Data processing	809	623	2,057	1,854
Communications	412	394	1,229	1,170
Professional fees	583	629	1,930	1,953
Real estate owned	(128)	(20)	63	258
FDIC insurance premiums	131	129	361	366
Other	3,191	3,054	9,921	10,227
Total noninterest expenses	36,426	34,316	101,310	99,561
Income before income taxes	11,446	11,751	33,024	35,246
Income tax expense	2,743	4,362	7,948	12,397
Net income	\$8,703	\$7,389	\$25,076	\$22,849
Income per share:				
Basic	\$0.32	\$0.27	\$0.91	\$0.83
Diluted	\$0.31	\$0.26	\$0.90	\$0.82
Weighted average shares outstanding:				
Basic	27,451	27,532	27,488	27,449
Diluted	27,680	27,953	27,765	27,927

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Cost of Shares Repurchased	Total Shareholders' Equity
(Dollars In Thousands, except per share amounts)								
Balances at December 31, 2016	29,430	\$ 294	\$ 322,934	\$ 184,565	\$(20,178)	\$ (378)	\$(76,547)	\$ 410,690
Comprehensive income:								
Net income	-	-	-	22,849	-	-	-	22,849
Other comprehensive income	-	-	-	-	-	706	-	706
Total comprehensive income								23,555
ESOP shares committed to be released to Plan participants	-	-	572	-	890	-	-	1,462
Cash dividend, \$0.86 per share	-	-	-	(23,836)	-	-	-	(23,836)
Stock compensation activity, net of tax	176	2	820	-	-	-	-	822
Stock compensation expense	-	-	1,427	-	-	-	-	1,427
Purchase of common stock returned to authorized but unissued	(123)	(1)	-	-	-	-	(2,189)	(2,190)
Balances at September 30, 2017	29,483	\$ 295	\$ 325,753	\$ 183,578	\$(19,288)	\$ 328	\$(78,736)	\$ 411,930
Balances at December 31, 2017	29,501	\$ 295	\$ 326,655	\$ 183,358	\$(18,991)	\$ (477)	\$(78,736)	\$ 412,104
Comprehensive income:								
Net income	-	-	-	25,076	-	-	-	25,076
Other comprehensive loss	-	-	-	-	-	(3,331)	-	(3,331)
Total comprehensive income								21,745
Reclassification for net deferred tax liability revaluation	-	-	-	(5)	-	-	-	(5)

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ESOP shares committed to be released to Plan participants	-	-	472	-	890	-	-	1,362
Cash dividend, \$0.86 per share	-	-	-	(23,732)	-	-	-	(23,732)
Stock based compensation activity	102	1	1,289	-	-	-	-	1,290
Stock compensation expense	-	-	1,327	-	-	-	-	1,327
Purchase of common stock returned to authorized but unissued	(553)	(5)	-	-	-	-	(9,442)	(9,447)
Balances at September 30, 2018	29,050	\$ 291	\$ 329,743	\$ 184,697	\$ (18,101)	\$ (3,808)	\$ (88,178)	\$ 404,644

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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WATERSTONE FINANCIAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine months ended September 30,	
	2018	2017
	(In Thousands)	
Operating activities:		
Net income	\$25,076	\$22,849
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	(1,060)	(1,166)
Provision for depreciation	1,704	1,549
Stock based compensation	1,327	1,427
Net amortization of premium/discount on debt and mortgage related securities	373	