Waterstone Financial, Inc.
Form 10-Q
July 31, 2017
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 June 30, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 Emerging growth company	Accelerated filer T Non-accelerated filer Smaller reporting company (Do not check if smaller reporting company)

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

Indicate by check mark whether the registrant 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 29,555,466 at July 28, 2017.

WATERSTONE FINANCIAL, INC.

10-Q INDEX

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited) June 30, 2017	December 31, 2016
	(Dollars In Thousands, except share and per share data)	
Assets		
Cash	$84,013	$7,878
Federal funds sold	29,382	26,828
Interest-earning deposits in other financial institutions and other short term investments	16,165	12,511
Cash and cash equivalents	129,560	47,217
Securities available for sale (at fair value)	209,079	226,795
Loans held for sale (at fair value)	196,644	225,248
Loans receivable	1,225,762	1,177,884
Less: Allowance for loan losses	14,612	16,029
Loans receivable, net	1,211,150	1,161,855
Office properties and equipment, net	23,170	23,655
Federal Home Loan Bank stock (at cost)	18,675	13,275
Cash surrender value of life insurance	64,978	61,509
Real estate owned, net	4,784	6,118
Prepaid expenses and other assets	28,270	24,947
Total assets	$1,886,310	$1,790,619
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits	$119,585	$120,371
Money market and savings deposits	153,743	162,456
Time deposits	664,065	666,584
Total deposits	937,393	949,411
Borrowings	498,103	387,155
Advance payments by borrowers for taxes	18,842	4,716
Other liabilities	23,965	38,647
Total liabilities	1,478,303	1,379,929
Shareholders' equity:		
Preferred stock (par value $.01 per share)		
Authorized - 50,000,000 shares in 2017 and in 2016, no shares issued	-	-
Common stock (par value $.01 per share)		
Authorized - 100,000,000 shares in 2017 and in 2016		
Issued - 29,554,466 in 2017 and 29,430,123 in 2016		
Outstanding - 29,554,466 in 2017 and 29,430,123 in 2016	296	294
Additional paid-in capital	325,003	322,934
Retained earnings	179,512	184,565

Unearned ESOP shares	(19,584)	(20,178)
Accumulated other comprehensive income (loss), net of taxes	237	(378)
Cost of shares repurchased (5,957,833 shares at June 30, 2017 and 5,908,150 shares at December 31, 2016)	(77,457)	(76,547)
Total shareholders' equity	408,007	410,690
Total liabilities and shareholders' equity	$1,886,310	$1,790,619

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In Thousands, except per share amounts)			
Interest income:				
Loans	$14,985	$14,073	$29,223	$27,857
Mortgage-related securities	678	790	1,374	1,628
Debt securities, federal funds sold and short-term investments	877	885	1,729	1,859
Total interest income	16,540	15,748	32,326	31,344
Interest expense:				
Deposits	1,838	1,835	3,633	3,554
Borrowings	2,221	3,748	4,317	7,642
Total interest expense	4,059	5,583	7,950	11,196
Net interest income	12,481	10,165	24,376	20,148
Provision for loan losses	25	-	(1,186)	205
Net interest income after provision for loan losses	12,456	10,165	25,562	19,943
Noninterest income:				
Service charges on loans and deposits	481	616	848	953
Increase in cash surrender value of life insurance	470	471	788	712
Loss on sale of securities	(107)	-	(107)	-
Mortgage banking income	36,224	34,980	60,911	55,594
Other	173	284	738	537
Total noninterest income	37,241	36,351	63,178	57,796
Noninterest expenses:				
Compensation, payroll taxes, and other employee benefits	27,584	25,709	47,579	43,395
Occupancy, office furniture, and equipment	2,527	2,419	5,054	4,755
Advertising	869	655	1,593	1,313
Data processing	633	638	1,231	1,281
Communications	397	372	776	714
Professional fees	717	489	1,324	1,012
Real estate owned	(133)	163	278	307
FDIC insurance premiums	117	155	237	360
Other	3,476	3,631	7,173	6,316
Total noninterest expenses	36,187	34,231	65,245	59,453
Income before income taxes	13,510	12,285	23,495	18,286
Income tax expense	4,622	4,518	8,035	6,658
Net income	$8,888	$7,767	$15,460	$11,628
Income per share:				
Basic	$0.32	$0.29	$0.56	$0.43
Diluted	$0.32	$0.29	$0.55	$0.43
Weighted average shares outstanding:				
Basic	27,487	26,919	27,406	26,942
Diluted	27,955	27,204	27,913	27,243

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(In Thousands)			
Net income	$8,888	$7,767	$15,460	$11,628
Other comprehensive income, net of tax:				
Net unrealized holding gain on available for sale securities:				
Net unrealized holding gain arising during the period, net of tax expense of ($204), ($528), ($356), ($1,728), respectively	316	815	550	2,675
Reclassification adjustment for net loss included in net income during the period, net of tax benefit of ($42), $0, ($42), $0, respectively	65	-	65	-
Total other comprehensive income	381	815	615	2,675
Comprehensive income	$9,269	$8,582	$16,075	$14,303

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Common Stock Shares	Common 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, 2015	29,407	$ $294	$ 317,022	$ 168,089	$ (21,365)	$ 582	$ (72,692)	$ 391,930
Comprehensive income:								
Net income	-	-	-	11,628	-	-	-	11,628
Other comprehensive income	-	-	-	-	-	2,675	-	2,675
Total comprehensive income								14,303
ESOP shares committed to be released to Plan participants	-	-	145	-	594	-	-	739
Cash dividend, $0.13 per share	-	-	-	(3,554)	-	-	-	(3,554)
Stock compensation activity, net of tax	40	-	78	-	-	-	-	78
Stock compensation expense	-	-	942	-	-	-	-	942
Repurchase of common stock returned to authorized but unissued	(284)	(2)	-	-	-	-	(3,855)	(3,857)
Balances at June 30, 2016	29,163	$ $292	$ 318,187	$ 176,163	$ (20,771)	$ 3,257	$ (76,547)	$ 400,581
Balances at December 31, 2016	29,430	$ $294	$ 322,934	$ 184,565	$ (20,178)	$ (378)	$ (76,547)	$ 410,690
Comprehensive income:								
Net income	-	-	-	15,460	-	-	-	15,460
Other comprehensive income	-	-	-	-	-	615	-	615
Total comprehensive income								16,075

ESOP shares committed to be released to Plan participants	-	-	315	-	594	-	-	909
Cash dividend, $0.74 per share	-	-	-	(20,513)	-	-	-	(20,513)
Stock based compensation activity	174	2	806	-	-	-	-	808
Stock compensation expense	-	-	948	-	-	-	-	948
Repurchase of common stock returned to authorized but unissued	(50)	-	-	-	-	-	(910)	(910)
Balances at June 30, 2017	29,554	$ $296	$ 325,003	$ 179,512	$ (19,584)	$ 237	$ (77,457)	$ 408,007

See Accompanying Notes to Unaudited Consolidated Financial Statements.

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

	Six months ended June 30,	
	2017	2016
	(In Thousands)	
Operating activities:		
Net income	$15,460	$11,628
Adjustments to reconcile net income to net cash provided by (used in)operating activities:		
Provision for loan losses	(1,186)	205
Provision for depreciation	1,043	1,447
Stock based compensation	948	942
Net amortization of premium/discount on debt and mortgage related securities	365	510
Amortization of unearned ESOP shares	909	739
Amortization and impairment of mortgage servicing rights	49	389
Gain on sale of loans held for sale	(60,277)	(54,929)
Loans originated for sale	(1,219,226)	(1,046,354)
Proceeds on sales of loans originated for sale	1,308,107	1,058,992
Increase in accrued interest receivable	(153)	(21)
Increase in cash surrender value of life insurance	(788)	(712)
Increase (decrease) in accrued interest on deposits and borrowings	70	(211)
(Decrease) increase in other liabilities	(560)	4,149
Increase in accrued tax receivable	(1,132)	(367)
Loss on sale of securities	107	-
Net loss related to real estate owned	102	3
Gain on sale of mortgage servicing rights	(308)	-
Other	(1,899)	(9,447)
Net cash provided by (used in) operating activities	41,524	(33,037)
Investing activities:		
Net increase in loans receivable	(49,033)	(18,910)
Net change in FHLB stock	(5,400)	4,650
Purchases of:		
Mortgage related securities	(4,976)	(5,236)
Premises and equipment, net	(695)	(689)
Bank owned life insurance	(2,680)	(10,180)
Proceeds from:		
Principal repayments on mortgage-related securities	16,940	19,115
Maturities of debt securities	5,845	5,945
Sale of debt securities	448	-
Sales of real estate owned	2,119	3,712
Net cash used in investing activities	(37,432)	(1,593)
Financing activities:		
Net (decrease) increase in deposits	(12,018)	49,348
Net change in short term borrowings	34,948	(6,458)
Repayment of long term debt	(24,000)	(70,000)
Proceeds from long term debt	100,000	50,000
Net change in advance payments by borrowers for taxes	(241)	175

Cash dividends on common stock	(20,336)	(2,671)
Purchase of common stock returned to authorized but unissued	(910)	(3,857)
Proceeds from stock option exercises	808	78
Net cash provided by financing activities	78,251	16,615
Increase (decrease) in cash and cash equivalents	82,343	(18,015)
Cash and cash equivalents at beginning of period	47,217	100,471
Cash and cash equivalents at end of period	$129,560	$82,456
Supplemental information:		
Cash paid or credited during the period for:		
Income tax payments	$9,332	$6,545
Interest payments	7,880	11,407
Noncash activities:		
Loans receivable transferred to real estate owned	923	3,123
Dividends declared but not paid in other liabilities	3,514	2,304

See Accompanying Notes to Unaudited Consolidated Financial Statements.

Note 1 — Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of Waterstone Financial, Inc. (the "Company") and the Company's subsidiaries.

WaterStone Bank SSB (the "Bank") is a community bank that has served the banking needs of its customers since 1921. WaterStone Bank also has an active mortgage banking segment, Waterstone Mortgage Corporation.

WaterStone Bank conducts its community banking business from 11 banking offices located in Milwaukee, Washington and Waukesha Counties, Wisconsin, as well as a loan production office in Minneapolis, Minnesota. WaterStone Bank's principal lending activity is originating one- to four-family, multi-family residential real estate, and commercial real estate loans for retention in its portfolio. WaterStone Bank also offers home equity loans and lines of credit, construction and land loans, and commercial business loans, and consumer loans. WaterStone Bank funds its loan production primarily with retail deposits and Federal Home Loan Bank advances. Our deposit offerings include: certificates of deposit, money market savings accounts, transaction deposit accounts, non-interest bearing demand accounts and individual retirement accounts. Our investment securities portfolio is comprised principally of mortgage-backed securities, government-sponsored enterprise bonds and municipal obligations.

WaterStone Bank's mortgage banking operations are conducted through its wholly-owned subsidiary, Waterstone Mortgage Corporation. Waterstone Mortgage Corporation originates single-family residential real estate loans for sale into the secondary market. Waterstone Mortgage Corporation utilizes lines of credit provided by WaterStone Bank as a primary source of funds, and also utilizes a line of credit with another financial institution as needed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information, Rule 10-01 of Regulation S-X and the instructions to Form 10-Q. The financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations, changes in shareholders' equity, and cash flows of the Company for the periods presented.

The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the Company's December 31, 2016 Annual Report on Form 10-K. Operating results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or for any other period.

The preparation of the unaudited consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the allowance for loan losses, deferred income taxes and real estate owned. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications did not result in any changes to previously reported net income or shareholders' equity.

Impact of Recent Accounting Pronouncements

Accounting Standards Codification (ASC) Topic 606 "Revenue from Contracts with Customers." New authoritative accounting guidance under ASC Topic 606, "Revenue from Contracts with Customers" amended prior guidance to require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and to provide clarification on identifying performance obligations and licensing implementation guidance. The new authoritative guidance was initially effective for reporting periods after January 1, 2017 but was deferred to January 1, 2018. The Company is evaluating the new guidance but does not expect it to have a material impact on the Company's statements of operations or financial condition.

ASC Topic 825 "Financial Instruments." New authoritative accounting guidance under ASC Topic 825, "Financial Instruments" amended prior guidance to require equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. An entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. The new guidance simplifies the impairment assessment of equity investments without readily determinable fair values, requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from changes in the instrument-specific credit risk when the entity has selected the fair value option for financial instruments and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset. The new authoritative guidance will be effective for reporting periods after January 1, 2018 and is not expected to have a material impact on the Company's statements of operations or financial condition.

ASC Topic 842 "Leases." New authoritative accounting guidance under ASC Topic 842, "Leases" amended prior guidance to require lessees to recognize the assets and liabilities arising from all leases on the balance sheet. The new authoritative guidance defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. In addition, the qualifications for a sale and leaseback transaction have been amended. The new authoritative guidance also requires qualitative and quantitative disclosures by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The new authoritative guidance will be effective for reporting periods after January 1, 2019. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

ASC Topic 718 "Compensation - Stock Compensation." New authoritative accounting guidance under ASC Topic 718, "Compensation - Stock Compensation" amended prior guidance on several aspects, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. The new authoritative guidance allows for all excess tax benefits and tax deficiencies to be recognized as income tax benefit or expense in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. For earnings per share, anticipated excess tax benefits will not be included in assumed proceeds when applying the treasury method for computing dilutive shares. For the statement of cash flows, excess tax benefits should be classified along with other income tax cash flows as an operating activity, and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The new authoritative guidance also allows an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions. The Company adopted this standard on January 1, 2017 and the standard did not have a material impact on its consolidated financial statements.

ASC Topic 326 "Financial Instruments - Credit Losses." New authoritative accounting guidance under ASC Topic 326, "Financial Instruments - Credit Losses" amended the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new authoritative guidance also requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses). In addition, the credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses rather than a write-down. The new authoritative guidance will be effective for reporting periods after January 1, 2020. The Company is evaluating the new guidance and its impact on the Company's statements of operations and financial condition.

Note 2— Securities Available for Sale

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

	June 30, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$66,297	$ 612	$ (163)	$66,746
Collateralized mortgage obligations:				
Government sponsored enterprise issued	56,695	64	(319)	56,440
Mortgage-related securities	122,992	676	(482)	123,186
Government sponsored enterprise bonds	2,500	1	(2)	2,499
Municipal securities	63,747	1,590	(8)	65,329
Other debt securities	17,397	52	(612)	16,837
Debt securities	83,644	1,643	(622)	84,665
Certificates of deposit	1,225	4	(1)	1,228
	$207,861	$ 2,323	$ (1,105)	$209,079

	December 31, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In Thousands)			
Mortgage-backed securities	$72,858	$ 798	$ (243)	$73,413
Collateralized mortgage obligations:				
Government sponsored enterprise issued	62,297	70	(365)	62,002
Mortgage-related securities	135,155	868	(608)	135,415
Government sponsored enterprise bonds	2,500	4	(1)	2,503
Municipal securities	70,311	685	(300)	70,696
Other debt securities	17,399	154	(603)	16,950
Debt securities	90,210	843	(904)	90,149
Certificates of deposit	1,225	7	(1)	1,231
	$226,590	$ 1,718	$ (1,513)	$226,795

The Company's mortgage-backed securities and collateralized mortgage obligations issued by government sponsored enterprises are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. At June 30, 2017, $63.9 million of the Company's mortgage related securities were pledged as collateral to secure repurchase agreement obligations of the Company. As of June 30, 2017, $2.9 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities. At December 31, 2016, $93.2 million of the Company's government sponsored enterprise bonds and $2.4 million of the Company's mortgage related securities were pledged as collateral to secure mortgage banking related activities, respectively.

The amortized cost and fair values of investment securities by contractual maturity at June 30, 2017 are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Debt and other securities		
Due within one year	$9,486	$9,484
Due after one year through five years	20,358	20,504
Due after five years through ten years	38,150	39,470
Due after ten years	16,875	16,435
Mortgage-related securities	122,992	123,186
	$207,861	$209,079

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:

	June 30, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$10,436	$ (144)	$1,054	$ (19)	$11,490	$ (163)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	37,476	(319)	-	-	37,476	(319)
Government sponsored enterprise bonds	1,998	(2)	-	-	1,998	(2)
Municipal securities	9,322	(8)	-	-	9,322	(8)
Other debt securities	-	-	9,388	(612)	9,388	(612)
Certificates of deposit	489	(1)	-	-	489	(1)
	$59,721	$ (474)	$10,442	$ (631)	$70,163	$ (1,105)

	December 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In Thousands)					
Mortgage-backed securities	$23,433	$ (222)	$1,068	$ (21)	$24,501	$ (243)
Collateralized mortgage obligations:						
Government sponsored enterprise issued	39,395	(365)	-	-	39,395	(365)
Government sponsored enterprise bonds	2,000	(1)	-	-	2,000	(1)
Municipal securities	32,141	(300)	-	-	32,141	(300)
Other debt securities	-	-	9,397	(603)	9,397	(603)
Certificates of deposit	489	(1)	-	-	489	(1)
	$97,458	$ (889)	$10,465	$ (624)	$107,923	$ (1,513)

The Company reviews the investment securities portfolio on a quarterly basis to monitor its exposure to other-than-temporary impairment. In evaluating whether a security's decline in market value is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, the financial condition of the issuer and the underlying obligors, quality of credit enhancements, volatility of the fair value of the security, the expected recovery period of the security and ratings agency evaluations. In addition, the Company may also evaluate payment structure, whether there are defaulted payments or expected defaults, prepayment speeds and the value of any underlying collateral.

The following table presents the change in other-than-temporary credit related impairment charges on securities available for sale for which a portion of the other-than-temporary impairments related to other factors was recognized in other comprehensive loss.

	(In Thousands)
Credit-related impairments on securities as of December 31, 2015	$ 117
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized	-
Decrease in credit-related impairments related to securities for which an other-than-temporary impairment was previously recognized	(23)

Credit-related impairments on securities as of December 31, 2016		94
Credit-related impairments related to securities for which an other- than-temporary impairment was not previously recognized		-
Increase in credit-related impairments related to securities for which an other-than-temporary impairment was previously recognized		-
Credit-related impairments on securities as of June 30, 2017	$	94

As of June 30, 2017, the Company held one municipal security that had previously been deemed to be other-than-temporarily impaired. The security was issued by a tax incremental district in a municipality located in Wisconsin. During the year ended December 31, 2012, the Company received audited financial statements with respect to the municipal issuer that called into question the ability of the underlying taxing district that issued the security to operate as a going concern. During the year ended December 31, 2012, the Company's analysis of this security resulted in $77,000 in credit losses charged to earnings with respect to this municipal security. An additional $17,000 credit loss was charged to earnings during the year ended December 31, 2014 with respect to this security as a sale occurred at a discounted price. As of June 30, 2017, this security had a combined amortized cost of $116,000 and total life-to-date impairment of $94,000.

As of June 30, 2017, the Company had one mortgage-backed security and one other debt security which had been in an unrealized loss position for twelve months or longer. These securities were determined not to be other-than-temporarily impaired as of June 30, 2017. The Company has determined that the decline in fair value of these securities is primarily attributable to an increase in market interest rates compared to the stated rates on these securities and is not attributable to credit deterioration. As the Company does not intend to sell nor is it more likely than not that it will be required to sell these securities before recovery of the amortized cost basis, these securities are not considered other-than-temporarily impaired.

Deterioration of general economic market conditions could result in the recognition of future other than temporary impairment losses within the investment portfolio and such amounts could be material to our consolidated financial statements.

During the six months ended June 30, 2017, proceeds from the sale of securities totaled $448,000 and resulted in losses totaling $107,000. The $107,000 included in loss on sale of available for sale securities in the consolidated statements of income during the six months ended June 30, 2017 was reclassified from accumulated other comprehensive income. There were no sales of securities during the six months ended June 30, 2016.

Note 3 - Loans Receivable

Loans receivable at June 30, 2017 and December 31, 2016 are summarized as follows:

	June 30, 2017	December 31, 2016
	(In Thousands)	
Mortgage loans:		
Residential real estate:		
One- to four-family	$412,139	$392,817
Multi-family	574,468	558,592
Home equity	21,046	21,778
Construction and land	14,906	18,179
Commercial real estate	176,934	159,401
Consumer	291	319
Commercial loans	25,978	26,798
	$1,225,762	$1,177,884

The Company provides several types of loans to its customers, including residential, construction, commercial and consumer loans. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to one borrower or to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. While the Company's credit risks are geographically concentrated in the Milwaukee metropolitan area, there are no concentrations with individual or groups of related borrowers.

Qualifying loans receivable totaling $933.3 million and $911.9 million at June 30, 2017 and December 31, 2016, respectively, are pledged as collateral against $415.0 million in outstanding Federal Home Loan Bank of Chicago (FHLBC) advances under a blanket security agreement.

Certain of the Company's executive officers, directors, employees, and their related interests have loans with the Bank. As of June 30, 2017 and December 31, 2016, loans aggregating approximately $4.6 million and $5.1 million, respectively, were outstanding to such parties. None of these loans were considered impaired as of June 30, 2017 or December 31, 2016.

As of June 30, 2017 and December 31, 2016, there were no loans 90 or more days past due and still accruing interest.

An analysis of past due loans receivable as of June 30, 2017 and December 31, 2016 follows:

	As of June 30, 2017					
	1-59 Days Past Due [1]	60-89 Days Past Due [2]	90 Days or Greater	Total Past Due	Current [3]	Total Loans
	(In Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	$1,924	$1,057	$4,317	$7,298	$404,841	$412,139
Multi-family	129	-	763	892	573,576	574,468
Home equity	155	-	56	211	20,835	21,046
Construction and land	-	-	37	37	14,869	14,906
Commercial real estate	164	212	186	562	176,372	176,934
Consumer	-	-	-	-	291	291
Commercial loans	-	-	26	26	25,952	25,978
Total	$2,372	$1,269	$5,385	$9,026	$1,216,736	$1,225,762

	As of December 31, 2016					
	1-59 Days Past Due [1]	60-89 Days Past Due [2]	90 Days or Greater	Total Past Due	Current [3]	Total Loans
	(In Thousands)					
Mortgage loans:						
Residential real estate:						
One- to four-family	$2,403	$ 7	$4,623	$7,033	$385,784	$392,817
Multi-family	376	-	401	777	557,815	558,592
Home equity	82	-	35	117	21,661	21,778
Construction and land	-	-	-	-	18,179	18,179
Commercial real estate	-	-	203	203	159,198	159,401
Consumer	-	-	-	-	319	319
Commercial loans	42	-	27	69	26,729	26,798
Total	$2,903	$ 7	$5,289	$8,199	$1,169,685	$1,177,884

(1) Includes $59,000 and $148,000 at June 30, 2017 and December 31, 2016, respectively, which are on non-accrual status.

(2) Includes $1.3 million and $- at June 30, 2017 and December 31, 2016, respectively, which are on non-accrual status.

(3) Includes $1.9 million and $4.4 million at June 30, 2017 and December 31, 2016, respectively, which are on non-accrual status.

A summary of the activity for the six months ended June 30, 2017 and 2016 in the allowance for loan losses follows:

One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
(In Thousands)							

Six months ended June 30, 2017								
Balance at beginning of period	$7,164	$ 4,809	$ 364	$ 1,016	$ 1,951	$ 12	$ 713	$16,029
Provision (credit) for loan losses	(187)	(376)	1	(310)	(166)	(1)	(147)	(1,186)
Charge-offs	(392)	(44)	-	(14)	-	-	-	(450)
Recoveries	119	43	17	40	-	-	-	219
Balance at end of period	$6,704	$ 4,432	$ 382	$ 732	$ 1,785	$ 11	$ 566	$14,612

Six months ended June 30, 2016								
Balance at beginning of period	$7,763	$5,000	$433	$904	$1,680	$9	$396	$16,185
Provision (credit) for loan losses	(103)	(5)	(2)	(13)	52	1	275	205
Charge-offs	(464)	(445)	(62)	(3)	-	-	-	(974)
Recoveries	178	59	19	33	-	-	-	289
Balance at end of period	$7,374	$4,609	$388	$921	$1,732	$10	$671	$15,705

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of June 30, 2017 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$986	$45	$85	$ -	$ 58	$ -	$ -	$1,174
Allowance related to loans collectively evaluated for impairment	5,718	4,387	297	732	1,727	11	566	13,438
Balance at end of period	$6,704	$4,432	$382	$ 732	$ 1,785	$ 11	$ 566	$14,612
Loans individually evaluated for impairment	$10,024	$3,686	$273	$ 37	$ 691	$ -	$ 26	$14,737
Loans collectively evaluated for impairment	402,115	570,782	20,773	14,869	176,243	291	25,952	1,211,025
Total gross loans	$412,139	$574,468	$21,046	$ 14,906	$ 176,934	$ 291	$ 25,978	$1,225,762

A summary of the allowance for loan loss for loans evaluated individually and collectively for impairment by collateral class as of December 31, 2016 follows:

	One- to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
Allowance related to loans individually evaluated for impairment	$499	$-	$79	$ -	$ 83	$ -	$ 1	$662
Allowance related to loans collectively evaluated for impairment	6,665	4,809	285	1,016	1,868	12	712	15,367
Balance at end of period	$7,164	$4,809	$364	$ 1,016	$ 1,951	$ 12	$ 713	$16,029
Loans individually evaluated for impairment	$10,920	$3,941	$442	$ -	$ 718	$ -	$ 41	$16,062
Loans collectively evaluated for impairment	381,897	554,651	21,336	18,179	158,683	319	26,757	1,161,822
Total gross loans	$392,817	$558,592	$21,778	$ 18,179	$ 159,401	$ 319	$ 26,798	$1,177,884

The following table presents information relating to the Company's internal risk ratings of its loans receivable as of June 30, 2017 and December 31, 2016:

	One to Four-Family	Multi-Family	Home Equity	Construction and Land	Commercial Real Estate	Consumer	Commercial	Total
	(In Thousands)							
At June 30, 2017								
Substandard	$9,647	$ 1,198	$242	$ 37	$ 691	$ -	$ 906	$12,721
Watch	9,702	2,989	53	-	598	-	1,372	14,714
Pass	392,790	570,281	20,751	14,869	175,645	291	23,700	1,198,327
	$412,139	$ 574,468	$21,046	$ 14,906	$ 176,934	$ 291	$ 25,978	$1,225,762
At December 31, 2016								
Substandard	$12,845	$ 1,427	$428	$ -	$ 717	$ -	$ 41	$15,458
Watch	10,509	3,975	149	436	1,389	-	3,671	20,129
Pass	369,463	553,190	21,201	17,743	157,295	319	23,086	1,142,297
	$392,817	$ 558,592	$21,778	$ 18,179	$ 159,401	$ 319	$ 26,798	$1,177,884

Factors that are important to managing overall credit quality include sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early identification of potential problems, an allowance for loan losses, and sound non-accrual and charge-off policies. Our underwriting policies require an officers' loan committee review and approval of all loans in excess of $500,000. In addition, we utilize an independent loan review function for all loans. Our ability to manage credit risk depends in large part on our ability to properly identify and manage problem loans. To do so, we maintain a loan review system under which our credit management personnel review non-owner occupied one- to four-family, multi-family, construction and land, commercial real estate and commercial loans that individually, or as part of an overall borrower relationship exceed $1.0 million in potential exposure. Loans meeting these criteria are reviewed on an annual basis, or more frequently, if the loan renewal is less than one year. With respect to this review process, management has determined that pass loans include loans that exhibit acceptable financial statements, cash flow and leverage. Watch loans have potential weaknesses that deserve management's attention, and if left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit. Substandard loans are considered inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. These loans generally have a well-defined weakness that may jeopardize liquidation of the debt and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Finally, a loan is considered to be impaired when it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Management has determined that all non-accrual loans and loans modified under troubled debt restructurings meet the definition of an impaired loan.

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

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

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

The following tables present data on impaired loans at June 30, 2017 and December 31, 2016.

	As of or for the Six Months Ended June 30, 2017					
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Interest Paid
	(In Thousands)					
Total Impaired with Reserve						
One- to four-family	$3,384	$3,384	$986	$ -	$ 3,410	$ 65
Multi-family	373	373	45	-	374	-
Home equity	163	163	85	-	167	6
Construction and land	-	-	-	-	-	-

Commercial real estate	255	664	58	409	263	5
Consumer	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
	4,175	4,584	1,174	409	4,214	76
Total Impaired with no Reserve						
One- to four-family	6,640	7,612	-	972	6,778	144
Multi-family	3,313	4,188	-	875	3,344	95
Home equity	110	110	-	-	114	2
Construction and land	37	51	-	14	49	-
Commercial real estate	436	436	-	-	437	7
Consumer	-	-	-	-	-	-
Commercial	26	26	-	-	26	-
	10,562	12,423	-	1,861	10,748	248
Total Impaired						
One- to four-family	10,024	10,996	986	972	10,188	209
Multi-family	3,686	4,561	45	875	3,718	95
Home equity	273	273	85	-	281	8
Construction and land	37	51	-	14	49	-
Commercial real estate	691	1,100	58	409	700	12
Consumer	-	-	-	-	-	-
Commercial	26	26	-	-	26	-
	$ 14,737	$ 17,007	$ 1,174	$ 2,270	$ 14,962	$ 324

	As of or for the Year Ended December 31, 2016					
	Recorded Investment	Unpaid Principal	Reserve	Cumulative Charge-Offs	Average Recorded Investment	Interest Paid
	(In Thousands)					
Total Impaired with Reserve						
One- to four-family	$ 3,007	$ 3,007	$ 499	$ -	$ 3,063	$ 88
Multi-family	-	-	-	-	-	-
Home equity	188	188	79	-	198	15
Construction and land	-	-	-	-	-	-
Commercial real estate	280	689	83	409	295	15
Consumer	-	-	-	-	-	-
Commercial	1	1	1	-	2	-
	3,476	3,885	662	409	3,558	118
Total Impaired with no Reserve						
One- to four-family	7,913	9,245	-	1,332	8,150	401
Multi-family	3,941	4,952	-	1,011	4,005	230
Home equity	254	254	-	-	258	9
Construction and land	-	-	-	-	-	-
Commercial real estate	438	438	-	-	442	13
Consumer	-	-	-	-	-	-
Commercial	40	40	-	-	46	2
	12,586	14,929	-	2,343	12,901	655
Total Impaired						
One- to four-family	10,920	12,252	499	1,332	11,213	489
Multi-family	3,941	4,952	-	1,011	4,005	