Ottawa Savings Bancorp, Inc.
Form 10-Q
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______to_______

Commission File Number 000-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact name of registrant as specified in its charter)

United States	**20-3074627**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

925 LaSalle Street	**61350**
Ottawa, Illinois	(Zip Code)
(Address of principal executive offices)	

(815) 433-2525

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)	Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	**Outstanding as of November 13, 2014**
Common Stock, $0.01 par value	2,117,979

OTTAWA SAVINGS BANCORP, INC.

FORM 10-Q

For the quarterly period ended September 30, 2014

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

OTTAWA SAVINGS BANCORP, INC.

Consolidated Balance Sheets

September 30, 2014 and December 31, 2013

(Unaudited)

	September 30, 2014	**December 31, 2013**
Assets		
Cash and due from banks	$1,405,499	$2,174,979
Interest bearing deposits	1,145,046	4,430,861
Total cash and cash equivalents	2,550,545	6,605,840
Federal funds sold	889,000	3,630,000
Securities available for sale	30,102,195	34,547,080
Non-marketable equity securities	1,233,536	1,233,536
Loans, net of allowance for loan losses of $3,015,021 and $2,910,580 at September 30, 2014 and December 31, 2013, respectively	112,272,071	110,672,618
Loans held for sale	108,000	-
Premises and equipment, net	6,325,481	6,451,409
Accrued interest receivable	621,020	652,693
Foreclosed real estate	331,860	584,786
Deferred tax assets	2,286,646	2,450,072
Cash value of life insurance	2,135,466	2,096,181
Other assets	1,913,590	1,686,107
Total assets	$160,769,410	$170,610,322
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$4,522,550	$5,219,028
Interest bearing	130,588,340	140,549,623
Total deposits	135,110,890	145,768,651
Accrued interest payable	2,157	582
Other liabilities	2,858,678	3,035,707
Total liabilities	137,971,725	148,804,940
Commitments and contingencies		

Redeemable common stock held by ESOP plan	395,530	319,090
Stockholders' Equity		
Common stock, $.01 par value, 12,000,000 shares authorized; 2,224,911 shares issued	22,249	22,249
Additional paid-in-capital	8,710,853	8,706,921
Retained earnings	15,287,133	14,619,095
Unallocated ESOP shares	(267,099)	(305,256)
Unearned management recognition plan shares	(14,612)	(21,024)
Accumulated other comprehensive income (loss)	271,279	(4,485)
	24,009,803	23,017,500
Less:		
Treasury stock, at cost; 106,932 shares	(1,212,118)	(1,212,118)
Maximum cash obligation related to ESOP shares	(395,530)	(319,090)
Total stockholders' equity	22,402,155	21,486,292
Total liabilities and stockholders' equity	$160,769,410	$170,610,322

See accompanying notes to these unaudited consolidated financial statements.

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OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30, 2014	**Three Months Ended September 30, 2013**	**Nine Months Ended September 30, 2014**	**Nine Months Ended September 30, 2013**
Interest and dividend income:				
Interest and fees on loans	$1,463,865	$1,494,762	$4,310,573	$4,760,905
Securities:				
Residential mortgage-backed and related securities	133,958	114,339	415,161	334,534
State and municipal securities	72,342	69,255	214,535	196,725
Dividends on non-marketable equity securities	1,303	831	3,383	2,544
Interest-bearing deposits	328	1,233	2,300	4,302
Total interest and dividend income	1,671,796	1,680,420	4,945,952	5,299,010
Interest expense:				
Deposits	234,254	343,977	741,065	1,152,505
Borrowings	179	-	179	-
Total interest expense	234,433	343,977	741,244	1,152,505
Net interest income	1,437,363	1,336,443	4,204,708	4,146,505
Provision for loan losses	225,000	225,000	695,000	775,000
Net interest income after provision for loan losses	1,212,363	1,111,443	3,509,708	3,371,505
Other income:				
Gain on sale of securities	24,820	-	24,820	-
Gain on sale of loans	18,455	18,216	25,442	64,961
Gain (loss) on sale of OREO	60,706	(18,327)	71,431	(4,177)
Gain (loss) on sale of repossessed assets	4,000	-	4,952	(385)
Origination of mortgage servicing rights, net of amortization	1,368	3,005	(1,513)	7,659
Customer service fees	79,941	80,645	223,523	224,059
Income (loss) on bank owned life insurance	12,865	(2,441)	39,285	9,886
Other	28,454	16,039	83,652	174,596
Total other income	230,609	97,137	471,592	476,599
Other expenses:				
Salaries and employee benefits	476,538	388,535	1,300,716	1,144,192
Directors fees	25,200	25,200	75,600	75,600
Occupancy	124,932	115,589	385,204	336,002
Deposit insurance premium	35,098	56,999	103,772	171,663
Legal and professional services	184,365	80,435	405,294	222,803
Data processing	80,797	68,497	219,274	218,968
Valuation adjustments and expenses on foreclosed real estate	13,524	71,956	55,710	246,988
Other	164,872	130,977	473,146	429,348
Total other expenses	1,105,326	938,188	3,018,716	2,845,564

Income before income tax expense	337,646	270,392	962,584	1,002,540
Income tax expense	101,426	101,557	294,546	367,183
Net income	$236,220	$168,835	$668,038	$635,357
Basic earnings per share	$0.11	$0.08	$0.32	$0.31
Diluted earnings per share	$0.11	$0.08	$0.32	$0.31

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2014	**2013**	**2014**	**2013**
Net income	$236,220	$168,835	$668,038	$635,357
Other comprehensive income (loss), before tax:				
Securities available for sale:				
Unrealized holding gains (losses) arising during the period	(8,643)	(90,135)	475,011	(758,794)
Reclassification adjustment for (gains) included in net income	(24,820)	-	(24,820)	-
Other comprehensive income (loss), before tax	(33,463)	(90,135)	450,191	(758,794)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(12,990)	(30,647)	174,427	(257,991)
Other comprehensive income (loss), net of tax	(20,473)	(59,488)	275,764	(500,803)
Comprehensive income (loss)	$215,747	$109,347	$943,802	$134,554

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014	**2013**
Cash Flows from Operating Activities		
Net income	$668,038	$635,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	134,199	140,218
Provision for loan losses	695,000	775,000
Provision for deferred income taxes	(11,002)	38,608
Net amortization of premiums and discounts on securities	418,500	459,644
Gain on sale of securities	(24,820)	-
Origination of mortgage loans held for sale	(1,570,150)	(5,042,468)
Proceeds from sale of mortgage loans held for sale	1,487,592	5,278,524
Gain on sale of loans, net	(25,442)	(64,961)
Origination of mortgage servicing rights, net of amortization	1,513	(7,659)
Proceeds from sale of non-mortgage loans held for sale	-	268,634
Gain (loss) on sale of foreclosed real estate	(71,431)	4,177
Write down of foreclosed real estate	-	109,284
(Gain) loss on sale of repossessed assets	(4,952)	385
ESOP compensation expense	34,363	26,458
MRP compensation expense	6,412	9,617
Compensation expense on RRP options granted	7,726	10,730
Increase in cash surrender value of life insurance	(39,285)	(9,886)
Change in assets and liabilities:		
Decrease in prepaid FDIC insurance premiums	-	163,999
Decrease in accrued interest receivable	31,673	25,929
Increase in other assets	(210,619)	(316,316)
Decrease in income tax refunds receivable	-	166,590
(Decrease) increase in accrued interest payable and other liabilities	(175,454)	43,944
Net cash provided by operating activities	1,351,861	2,715,808
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(3,809,868)	(12,808,383)
Sales and pay-downs	8,311,265	5,501,090
Securities held to maturity:		
Pay-downs	-	12
Purchase of bank-owned life insurance	-	(500,000)
Net (increase) decrease in loans	(2,426,528)	7,220,501
Net decrease (increase) in federal funds sold	2,741,000	(1,219,000)
Proceeds from sale of foreclosed real estate	408,582	829,095

Proceeds from sale of repossessed assets	34,425	4,357
Sale of non-marketable equity securities	-	100,900
Purchase of premises and equipment	(8,271)	(8,572)
Net cash provided by (used in) investing activities	5,250,605	(880,000)
Cash Flows from Financing Activities		
Net (decrease) in deposits	(10,657,761)	(7,414,838)
Proceeds from Federal Home Loan Bank advances	2,000,000	-
Principal reduction of Federal Home Loan Bank advances	(2,000,000)	-
Net cash used in financing activities	(10,657,761)	(7,414,838)
Net decrease in cash and cash equivalents	(4,055,295)	(5,579,030)
Cash and cash equivalents:		
Beginning	6,605,840	10,787,989
Ending	$2,550,545	$5,208,959

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014	**2013**
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$739,490	$1,150,531
Interest paid on borrowings	179	-
Income taxes paid, net of (refunds) received	231,000	295,217
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	400,425	552,662
Other assets acquired in settlement of loans	47,850	44,500
Sale of foreclosed real estate through loan origination	316,200	-
Transfer of non-mortgage loans to held for sale	-	268,634
Increase in ESOP put option liability	76,440	52,432

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 1 – NATURE OF BUSINESS

Ottawa Savings Bancorp, Inc. (the “Company”) was incorporated under the laws of the United States on July 11, 2005, for the purpose of serving as the holding company of Ottawa Savings Bank (the “Bank”), as part of the Bank’s conversion from a mutual to a stock form of organization. The Company is a publicly traded savings and loan holding company with assets of $160.8 million at September 30, 2014 and is headquartered in Ottawa, Illinois.

In 2005, the Board of Directors of the Bank unanimously adopted a plan of conversion providing for the conversion of the Bank from an Illinois chartered mutual savings bank to a federally chartered stock savings bank and the purchase of all of the common stock of the Bank by the Company. The depositors of the Bank approved the plan at a meeting held in 2005.

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its depositors and the Bank. The conversion was completed in 2005 when the Company issued 1,223,701 shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company), and 1,001,210 shares of common stock to the public. As of September 30, 2014, Ottawa Savings Bancorp MHC holds 1,223,701 shares of common stock, representing 57.8% of the Company’s common shares outstanding.

The Bank’s business is to attract deposits from the general public and use those funds to originate and purchase one-to-four family, multi-family and non-residential real estate, construction, commercial and consumer loans, which the Bank primarily holds for investment. The Bank has continually diversified its products to meet the needs of the community.

On June 30, 2014, the Company, the Bank, and Ottawa Savings Bancorp, MHC entered into an agreement with Twin Oaks Savings Bank (“Twin Oaks”), an Illinois chartered mutual savings bank, whereby Twin Oaks will merge into the Bank, with the Bank as the surviving institution. See Note 12 for additional information.

NOTE 2 – BASIS OF PRESENTATION

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company's management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company's financial position and the results of operations and cash flows have been recorded. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2013. Certain amounts in the accompanying financial statements and footnotes for 2013 have been reclassified with no effect on net income or stockholders' equity to be consistent with the 2014 classifications. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

NOTE 3 – USE OF ESTIMATES

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and, thus, actual results could differ from the amounts reported and disclosed herein.

At September 30, 2014, there were no material changes in the Company's significant accounting policies from those disclosed in the Form 10-K filed with the Securities and Exchange Commission on March 25, 2014.

NOTE 4 – CRITICAL ACCOUNTING POLICIES

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses and deferred income taxes to be our critical accounting policies.

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

Allowance for Loan Losses. Our allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral if the loan is collateral dependent. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

General loan loss allowances consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company using the most recent twelve quarters with heavier weighting given to the most recent quarters. The weighting applies 40% to each of the most recent four quarters and 30% to each of the next eight quarters.

The allowance is increased through provisions charged against current earnings, and offset by recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. Management uses available information to recognize probable and reasonably estimable loan losses, but future loss provisions may be necessary based on changing economic conditions. The allowance for loan losses as of September 30, 2014 is maintained at a level that represents management’s best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews our allowance for loan losses.

Deferred Income Taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are also recognized for operating loss and tax credit carry-forwards. Accounting guidance requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard.

Per accounting guidance, the Company reviewed its deferred tax assets at September 30, 2014 and determined that no valuation allowance was necessary. Despite a continued challenging economic environment, the Company has a history of strong earnings, is well-capitalized, and has positive expectations regarding future taxable income.

The deferred tax asset will be analyzed quarterly to determine if a valuation allowance is warranted. There can be no guarantee that a valuation allowance will not be necessary in future periods. In making such judgments, significant weight is given to evidence that can be objectively verified. In making decisions regarding any valuation allowance, the Company considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 5 – EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan ("ESOP") shares and vested Management Recognition Plan ("MRP") shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Net income available to common stockholders	$236,220	$168,835	$668,038	$635,357
Basic potential common shares:				
Weighted average shares outstanding	2,117,979	2,117,979	2,117,979	2,117,979
Weighted average unallocated ESOP shares	(27,549)	(32,636)	(28,808)	(33,895)
Weighted average unvested MRP shares	(4,539)	(6,719)	(4,539)	(6,719)
Basic weighted average shares outstanding	2,085,891	2,078,624	2,084,632	2,077,365
Dilutive potential common shares:				
Weighted average unrecognized compensation on MRP shares	5,637	5,028	5,643	5,009
Weighted average RRP options outstanding *	1,203	-	-	-
Dilutive weighted average shares outstanding	2,092,732	2,083,652	2,090,275	2,082,374
Basic earnings per share	$0.11	$0.08	$0.32	$0.31
Diluted earnings per share	$0.11	$0.08	$0.32	$0.31

* For all periods other than for the three months ended September 30, 2014, the effect of share options was not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 – EMPLOYEE STOCK OWNERSHIP PLAN

On July 11, 2005, the Company adopted an ESOP for the benefit of substantially all employees. Upon adoption of the ESOP, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the

Company's stock in the initial public offering at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately $77,000 are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share ("EPS") computations. Dividends on allocated ESOP shares reduce retained earnings, and dividends on unallocated ESOP shares reduce accrued interest.

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At September 30, 2014, 41,201 shares at a fair value of $9.60 have been classified as mezzanine capital.

The following table reflects the status of the shares held by the ESOP:

	September 30, 2014	**December 31, 2013**
Shares allocated	49,604	45,788
Shares withdrawn from the plan	(8,403)	(8,249)
Unallocated shares	26,710	30,526
Total ESOP shares	67,911	68,065
Fair value of unallocated shares	$ 256,416	$ 259,471

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

NOTE 7 – INVESTMENT SECURITIES

The amortized cost and fair values of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014:				
Available for Sale				
State and municipal securities	$9,194,372	$239,652	$37,775	$9,396,249
Residential mortgage-backed securities	20,464,427	324,260	82,741	20,705,946
	$29,658,799	$563,912	$120,516	$30,102,195
December 31, 2013:				
Available for Sale				
State and municipal securities	8,676,586	80,152	312,219	8,444,519
Residential mortgage-backed securities	25,877,289	369,098	143,826	26,102,561
	$34,553,875	$449,250	$456,045	$34,547,080

The amortized cost and fair value at September 30, 2014, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due after three months through one year	$-	$-
Due after one year through five years	-	-
Due after five years through ten years	4,931,345	5,073,740
Due after ten years	4,263,027	4,322,509
Residential mortgage-backed securities	20,464,427	20,705,946

$29,658,799 $30,102,195

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at September 30, 2014 and December 31, 2013:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2014						
Securities Available for Sale						
State and municipal securities	$-	$-	$2,556,673	$ 37,775	$2,556,673	$37,775
Residential mortgage-backed securities	4,181,549	30,887	4,099,460	51,854	8,281,009	82,741
	$4,181,549	$30,887	$6,656,133	$ 89,629	$10,837,682	$120,516
December 31, 2013						
Securities Available for Sale						
State and municipal securities	$4,937,528	$288,364	$258,573	$ 23,855	$5,196,101	$312,219
Residential mortgage-backed securities	9,832,934	122,774	994,240	21,052	10,827,174	143,826
	$14,770,462	$411,138	$1,252,813	$ 44,907	$16,023,275	$456,045

OTTAWA SAVINGS BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

(continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability to retain and whether it is not more likely than not the Company will be required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports.

At September 30, 2014, 19 securities had unrealized losses with an aggregate depreciation of 1.10% from the Company's amortized cost basis. The Company does not consider these investments to be other than temporarily impaired at September 30, 2014 due to the following:

Decline in value is attributable to interest rates.

The value did not decline due to credit quality.

The Company does not intend to sell these securities.

The Company has adequate liquidity such that it will not more likely than not have to sell these securities before recovery of the amortized cost basis, which may be at maturity.

There were proceeds of $3.5 million from the sale of securities for the three and nine months ended September 30, 2014, resulting in gross realized gains of $42,054 and gross realized losses of $17,234, for a net realized gain of $24,820. The tax provision applicable to this realized gain amounted to $9,635. There were no proceeds from the sales of securities for the three or nine months ended September 30, 2013.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The components of loans, net of deferred loan costs (fees), are as follows:

	September 30, 2014	December 31, 2013
Mortgage loans:		
One-to-four family residential loans	$75,236,857	$77,406,656
Multi-family residential loans	2,801,011	2,744,963
Total mortgage loans	78,037,868	80,151,619
Other loans:		
Non-residential real estate loans	17,688,362	17,016,805
Commercial loans	9,331,663	7,860,312
Consumer direct	658,120	392,273
Purchased auto	9,571,079	8,162,189
Total other loans	37,249,224	33,431,579
Gross loans	115,287,092	113,583,198
Less: Allowance for loan losses	(3,015,021)	(2,910,580)
Loans, net	$112,272,071	$110,672,618

Purchases of loans receivable, segregated by class of loans, for the periods indicated were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Purchased auto	$2,509,980	$510,729	$4,038,146	$3,536,965

OTTAWA SAVINGS BANCORP, INC.

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(continued)

Net (charge-offs) / recoveries, segregated by class of loans, for the periods indicated were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
One-to-four family	$39,872	$(523,236)	$(197,968)	$(705,543)
Multi-family	11,547	(286,906)	19,895	(286,906)
Non-residential	(181,863)	(54,591)	(336,110)	52,596
Commercial	-	-	-	-
Consumer direct	(24,600)	(647)	(23,047)	(647)
Purchased auto	(26,142)	4,433	(53,329)	(1,666)
Net (charge-offs)/recoveries	$(181,186)	$(860,947)	$(590,559)	$(942,166)

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(continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2014 and 2013:

September 30, 2014	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$2,472,553	$211,585	$180,350	$34,334	$-	$72,385	$2,971,207
Provision charged to income	(184,948)	48,145	265,918	2,714	36,834	56,337	225,000
Loans charged off	(26,809)	-	(181,863)	-	(25,000)	(28,021)	(261,693)
Recoveries of loans previously charged off	66,681	11,547	-	-	400	1,879	80,507
Balance at end of period	$2,327,477	$271,277	$264,405	$37,048	$12,234	$102,580	$3,015,021

September 30, 2013	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$2,908,642	$55,991	$713,094	$83,560	$3,674	$85,261	$3,850,222
Provision charged to income	(30,762)	377,410	(60,564)	(52,086)	(1,294)	(7,704)	225,000
Loans charged off	(528,313)	(286,906)	(54,680)	-	(647)	-	(870,546)
Recoveries of loans previously charged off	5,077	-					