

Ottawa Savings Bancorp, Inc.  
Form 10-Q  
August 14, 2015  
**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 June 30, 2015**

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)

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**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:

<b>Class</b>	<b>Outstanding as of August 14, 2015</b>
Common Stock, \$0.01 par value	2,894,123

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**OTTAWA SAVINGS BANCORP, INC.**

**FORM 10-Q**

**For the quarterly period ended June 30, 2015**

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**Part I – Financial Information**

## ITEM 1 – FINANCIAL STATEMENTS

**OTTAWA SAVINGS BANCORP, INC.****Consolidated Balance Sheets****June 30, 2015 and December 31, 2014**

(Unaudited)

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash and due from banks	\$2,485,820	\$2,053,117
Interest bearing deposits	2,462,526	3,140,118
<b>Total cash and cash equivalents</b>	<b>4,948,346</b>	<b>5,193,235</b>
Time deposits	649,000	854,861
Federal funds sold	4,738,000	1,662,000
Securities available for sale	50,476,523	52,772,108
Non-marketable equity securities	1,358,121	1,780,674
Loans, net of allowance for loan losses of \$2,528,216 and \$2,314,607 at June 30, 2015 and December 31, 2014, respectively	137,774,350	142,501,513
Premises and equipment, net	6,994,413	7,040,228
Accrued interest receivable	869,962	881,612
Foreclosed real estate	377,476	232,650
Deferred tax assets	3,206,594	3,055,068
Cash value of life insurance	2,172,299	2,148,043
Goodwill	649,869	649,869
Core deposit intangible	509,000	567,000
Other assets	1,992,255	2,386,030
<b>Total assets</b>	<b>\$216,716,208</b>	<b>\$221,724,891</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$9,118,809	\$8,198,356
Interest bearing	171,216,048	174,034,663
<b>Total deposits</b>	<b>180,334,857</b>	<b>182,233,019</b>
Accrued interest payable	1,744	369
FHLB advances	2,672,003	5,483,036
Other liabilities	3,483,590	3,876,053
<b>Total liabilities</b>	<b>186,492,194</b>	<b>191,592,477</b>

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Commitments and contingencies Redeemable common stock held by ESOP plan	533,001	424,730
<b>Stockholders' Equity</b>		
Common stock, \$.01 par value, 12,000,000 shares authorized; 3,001,055 shares issued	30,010	30,010
Additional paid-in-capital	15,838,754	15,830,623
Retained earnings	15,490,099	15,423,412
Unallocated ESOP shares	(228,942 )	(254,380 )
Unearned management recognition plan shares	(8,112 )	(12,388 )
Accumulated other comprehensive income	314,323	327,255
	31,436,132	31,344,532
Less:		
Treasury stock, at cost; 106,932 shares	(1,212,118 )	(1,212,118 )
Maximum cash obligation related to ESOP shares	(533,001 )	(424,730 )
<b>Total stockholders' equity</b>	29,691,013	29,707,684
<b>Total liabilities and stockholders' equity</b>	\$216,716,208	\$221,724,891

See accompanying notes to these unaudited consolidated financial statements.

## OTTAWA SAVINGS BANCORP, INC.

## Consolidated Statements of Operations

## Three and Six Months Ended June 30, 2015 and 2014

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	\$1,717,130	\$1,450,924	\$3,456,714	\$2,846,708
Securities:				
Residential mortgage-backed and related securities	156,707	135,874	313,980	281,203
State and municipal securities	140,876	72,615	282,903	142,193
Dividends on non-marketable equity securities	1,902	1,289	3,278	2,080
Interest-bearing deposits	2,518	612	7,870	1,972
<b>Total interest and dividend income</b>	<b>2,019,133</b>	<b>1,661,314</b>	<b>4,064,745</b>	<b>3,274,156</b>
Interest expense:				
Deposits	218,911	244,983	443,166	506,811
Borrowings	15,664	-	31,532	-
<b>Total interest expense</b>	<b>234,575</b>	<b>244,983</b>	<b>474,698</b>	<b>506,811</b>
<b>Net interest income</b>	<b>1,784,558</b>	<b>1,416,331</b>	<b>3,590,047</b>	<b>2,767,345</b>
Provision for loan losses	55,000	245,000	220,000	470,000
<b>Net interest income after provision for loan losses</b>	<b>1,729,558</b>	<b>1,171,331</b>	<b>3,370,047</b>	<b>2,297,345</b>
Other non-interest income:				
Gain on sale of securities	-	-	21,630	-
Gain on sale of loans	51,801	4,966	90,409	6,987
Gain on sale of OREO	41,442	4,802	46,933	20,995
Gain on sale of repossessed assets	2,335	3,872	2,335	3,872
Origination of mortgage servicing rights, net of amortization	10,836	(726 )	10,836	(2,881 )
Customer service fees	110,761	73,824	205,558	143,582
Income on bank owned life insurance	12,072	12,371	24,256	26,420
Other	26,353	27,361	52,772	55,198
<b>Total other non-interest income</b>	<b>255,600</b>	<b>126,470</b>	<b>454,729</b>	<b>254,173</b>
Other non-interest expenses:				
Salaries and employee benefits	700,212	425,516	1,411,555	824,178
Directors fees	37,800	25,200	75,600	50,400
Occupancy	176,846	128,336	330,611	260,272
Deposit insurance premium	44,198	35,743	89,105	68,674
Legal and professional services	81,743	128,171	185,403	220,929
Data processing	797,238	70,656	1,172,166	138,477
Loss on sale of securities	-	-	2,039	-
Valuation adjustments and expenses on foreclosed real estate	89,805	19,365	109,903	42,186
Loss on sale of OREO	-	1,870	-	10,271
Loss on sale of repossessed assets	2,088	-	11,971	2,919
Other	254,118	182,751	475,305	308,274

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<b>Total other non-interest expenses</b>	2,184,048	1,017,608	3,863,658	1,926,580
<b>(Loss) income before income tax expense</b>	(198,890 )	280,193	(38,882 )	624,938
Income tax (benefit) expense	(121,913 )	82,374	(105,569 )	193,120
<b>Net (loss) income</b>	\$(76,977 )	\$197,819	\$66,687	\$431,818
<b>Basic (loss) earnings per share</b>	\$(0.03 )	\$0.09	\$0.02	\$0.21
<b>Diluted (loss) earnings per share</b>	\$(0.03 )	\$0.09	\$0.02	\$0.21

See accompanying notes to these unaudited consolidated financial statements.



**OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Comprehensive Income****Three and Six Months Ended June 30, 2015 and 2014**

(Unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net (loss) income	\$ (76,977 )	\$ 197,819	\$ 66,687	\$ 431,818
Other comprehensive (loss) income, before tax:				
Securities available for sale:				
Unrealized holding (losses) gains arising during the period	(409,900)	357,562	(1,545 )	483,654
Reclassification adjustment for net (gains) included in net income	-	-	(19,591)	-
<b>Other comprehensive (loss) income, before tax</b>	<b>(409,900)</b>	<b>357,562</b>	<b>(21,136)</b>	<b>483,654</b>
Income tax (benefit) expense related to items of other comprehensive income	(159,115)	138,799	(8,204 )	187,417
<b>Other comprehensive (loss) income, net of tax</b>	<b>(250,785)</b>	<b>218,763</b>	<b>(12,932)</b>	<b>296,237</b>
<b>Comprehensive (loss) income</b>	<b>\$ (327,762)</b>	<b>\$ 416,582</b>	<b>\$ 53,755</b>	<b>\$ 728,055</b>

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Cash Flows****Six Months Ended June 30, 2015 and 2014**

(Unaudited)

	<b>2015</b>	<b>2014</b>
Cash Flows from Operating Activities		
Net income	\$66,687	\$431,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	109,528	89,451
Provision for loan losses	220,000	470,000
Provision for deferred income taxes	(143,322 )	(58,948 )
Net amortization of premiums and discounts on securities	352,766	290,318
Gain on sale of securities, net	(19,591 )	-
Origination of mortgage loans held for sale	(3,375,900)	(525,800 )
Proceeds from sale of mortgage loans held for sale	3,466,309	532,787
Gain on sale of loans, net	(90,409 )	(6,987 )
Origination of mortgage servicing rights, net of amortization	10,836	2,881
Gain on sale of foreclosed real estate	(46,933 )	(10,724 )
Write down of foreclosed real estate	65,490	-
Loss (gain) on sale of repossessed assets, net	9,636	(953 )
ESOP compensation expense	28,418	22,195
MRP compensation expense	4,276	4,275
Compensation expense on RRP options granted	5,151	5,151
Amortization of core deposit intangible	58,000	-
Amortization (accretion) of fair value adjustments on acquired:		
Loans	37,148	-
Certificates of deposit	(58,000 )	-
Increase in cash surrender value of life insurance	(24,256 )	(26,420 )
Change in assets and liabilities:		
Decrease in accrued interest receivable	11,650	1,243
Decrease in other assets	349,239	42,668
(Decrease) increase in accrued interest payable and other liabilities	(391,088 )	164,882
<b>Net cash provided by operating activities</b>	<b>645,635</b>	<b>1,427,837</b>
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(7,372,128)	(3,809,868)
Sales, calls, maturities, and paydowns	9,313,402	3,253,087
Net decrease in time deposits	205,861	-
Net (increase) decrease in federal funds sold	(3,076,000)	1,874,000
Net decrease (increase) in loans	3,836,474	(101,643 )
Proceeds from sale of foreclosed real estate	427,858	125,241
Proceeds from sale of repossessed assets	66,364	22,513
Sale of non-marketable equity securities	422,553	-
Purchase of premises and equipment	(63,713 )	(8,271 )

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<b>Net cash provided by investing activities</b>	3,760,671	1,355,059
Cash Flows from Financing Activities		
Net decrease in deposits	(1,840,162)	(5,638,991)
Principal reduction of Federal Home Loan Bank advances	(2,811,033)	-
<b>Net cash used in financing activities</b>	(4,651,195)	(5,638,991)
<b>Net decrease in cash and cash equivalents</b>	(244,889 )	(2,856,095)
Cash and cash equivalents:		
Beginning	5,193,235	6,605,840
Ending	\$4,948,346	\$3,749,745

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Cash Flows****Six Months Ended June 30, 2015 and 2014**

(Unaudited)

	<b>2015</b>		<b>2014</b>
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest paid to depositors	\$ 441,791		\$ 505,762
Interest paid on borrowings	31,532		-
Income taxes paid, net of (refunds) received	(48,000 )		92,000
Supplemental Schedule of Noncash Investing and Financing Activities			
Real estate acquired through or in lieu of foreclosure	591,241		400,425
Other assets acquired in settlement of loans	42,300		31,750
Sale of foreclosed real estate through loan origination	-		205,000
Increase in ESOP put option liability	108,271		20,307

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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**NOTE 1 – NATURE OF BUSINESS**

Ottawa Savings Bancorp, Inc. (the “Company”) is a savings and loan holding company 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 banking company with assets of \$216.7 million at June 30, 2015 and is headquartered in Ottawa, Illinois. 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 communities it serves.

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.

On December 31, 2014, the Company acquired Twin Oaks Savings Bank (“Twin Oaks”) and merged Twin Oaks with and into the Bank, with the Bank being the surviving entity in the merger (the “Merger”). Since the Merger occurred at the close of business on December 31, 2014, there are no operating results of the former Twin Oaks included in the consolidated financial statements for 2014; however, beginning January 1, 2015 they are included going forward.

In connection with the Merger, the Company issued 776,144 shares of common stock to Ottawa Savings Bancorp, MHC. As of June 30, 2015, Ottawa Savings Bancorp MHC holds 1,999,845 shares of common stock, representing 69.1% of the Company’s common shares outstanding.

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, 2014. Certain amounts in the accompanying financial statements and footnotes for 2014 have been reclassified with no effect on net income or stockholders’ equity to be consistent with the 2015 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 June 30, 2015, 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 30, 2015.

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 to be our critical accounting policy.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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*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 June 30, 2015 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.

**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.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income available to common stockholders	\$ (76,977 )	\$ 197,819	\$ 66,687	\$ 431,818
Basic potential common shares:				
Weighted average shares outstanding	2,894,123	2,117,979	2,894,123	2,117,979
Weighted average unallocated ESOP shares	(23,728 )	(28,816 )	(24,360 )	(29,448 )
Weighted average unvested MRP shares	(2,795 )	(4,539 )	(2,795 )	(4,539 )
Basic weighted average shares outstanding	2,867,600	2,084,624	2,866,968	2,083,992
Dilutive potential common shares:				
Weighted average unrecognized compensation on MRP shares	-	5,618	2,335	5,594
Weighted average RRP options outstanding *	-	-	11,920	-
Dilutive weighted average shares outstanding	2,867,600	2,090,242	2,881,223	2,089,586
Basic earnings per share	\$ (0.03 )	\$ 0.09	\$ 0.02	\$ 0.21
Diluted earnings per share	\$ (0.03 )	\$ 0.09	\$ 0.02	\$ 0.21

\* For all periods except the six months ended June 30, 2015, 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.



**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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**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 June 30, 2015, 45,017 shares at a fair value of \$11.84 have been classified as mezzanine capital.

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

<b>June 30,</b>	<b>December</b>
	<b>31,</b>

	<b>2015</b>	<b>2014</b>
Shares allocated	53,420	50,876
Shares withdrawn from the plan	(8,403 )	(8,403 )
Unallocated shares	22,894	25,438
Total ESOP shares	67,911	67,911
Fair value of unallocated shares	\$271,065	\$254,380

**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
<b>June 30, 2015:</b>				
<b>Available for Sale</b>				
State and municipal securities	\$19,028,782	\$290,474	\$111,287	\$19,207,969
Residential mortgage-backed securities	30,933,990	447,662	113,098	31,268,554
	\$49,962,772	\$738,136	\$224,385	\$50,476,523
<b>December 31, 2014:</b>				
<b>Available for Sale</b>				
State and municipal securities	\$19,997,846	\$261,791	\$34,445	\$20,225,192
Residential mortgage-backed securities	32,239,374	357,715	50,173	32,546,916
	\$52,237,220	\$619,506	\$84,618	\$52,772,108

**OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)**

The amortized cost and fair value at June 30, 2015, 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	\$241,903	\$242,318
Due after one year through five years	539,608	557,120
Due after five years through ten years	7,305,135	7,426,001
Due after ten years	10,942,136	10,982,530
Residential mortgage-backed securities	30,933,990	31,268,554
	\$49,962,772	\$50,476,523

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at June 30, 2015 and December 31, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>June 30, 2015</b>						
<b>Securities Available for Sale</b>						
State and municipal securities	\$4,871,126	\$ 57,831	\$679,989	\$ 53,456	\$5,551,115	\$ 111,287
Residential mortgage-backed securities	7,328,146	83,049	2,688,957	30,049	10,017,103	113,098
	\$12,199,272	\$ 140,880	\$3,368,946	\$ 83,505	\$15,568,218	\$ 224,385
<b>December 31, 2014</b>						
<b>Securities Available for Sale</b>						
State and municipal securities	\$408,165	\$ 93	\$701,492	\$ 34,352	\$1,109,657	\$ 34,445
Residential mortgage-backed securities	2,449,087	21,546	3,468,577	28,627	5,917,664	50,173
	\$2,857,252	\$ 21,639	\$4,170,069	\$ 62,979	\$7,027,321	\$ 84,618

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 June 30, 2015, 33 securities had unrealized losses with an aggregate depreciation of 1.42% from the Company's amortized cost basis. The Company does not consider these investments to be other than temporarily impaired at June 30, 2015 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 no proceeds from the sales of securities for the three months ended June 30, 2015 and 2014, resulting in no realized gains or losses. There were proceeds of \$5.6 million from the sale of securities for the six months ended June 30, 2015 and no proceeds for the six months ended June 30, 2014, resulting in gross realized gains of \$21,630 and none, respectively, and gross realized losses of \$2,039 and none, respectively, for net realized gains of \$19,591 and none, respectively. The tax provision applicable to the realized gains amounted to \$7,605 and none, respectively.

**OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)****NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES**

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

	June 30, 2015	December 31, 2014
Mortgage loans:		
One-to-four family residential loans	\$98,211,038	\$98,144,990
Multi-family residential loans	2,805,396	3,111,650
<b>Total mortgage loans</b>	<b>101,016,434</b>	<b>101,256,640</b>
Other loans:		
Non-residential real estate loans	20,327,648	20,928,085
Commercial loans	10,638,688	12,242,145
Consumer direct	1,471,310	1,724,700
Purchased auto	6,848,486	8,664,550
<b>Total other loans</b>	<b>39,286,132</b>	<b>43,559,480</b>
<b>Gross loans</b>	<b>140,302,566</b>	<b>144,816,120</b>
Less: Allowance for loan losses	(2,528,216 )	(2,314,607 )
<b>Loans, net</b>	<b>\$137,774,350</b>	<b>\$142,501,513</b>

The following table reflects the carrying amount of loans acquired in the Twin Oaks merger, which are included in the loan categories above as of the dates indicated.

	June 30, 2015	December 31, 2014
Mortgage loans:		
One-to-four family residential loans	\$22,594,342	\$23,667,808
Multi-family residential loans	297,600	529,147
<b>Total mortgage loans</b>	<b>22,891,942</b>	<b>24,196,955</b>
Other loans:		
Non-residential real estate loans	3,039,576	3,141,438
Commercial loans	992,299	1,450,602

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Consumer direct	720,723	1,006,915
Purchased auto	-	-
<b>Total other loans</b>	4,752,598	5,598,955
<b>Gross loans</b>	27,644,540	29,795,910
Less: Allowance for loan losses	-	-
<b>Loans, net</b>	\$27,644,540	\$29,795,910

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

	Three Months Ended June 30, 201 <del>2</del> 014	Six Months Ended June 30, 201 <del>2</del> 014
Purchased auto loans	\$- \$1,027,194	\$- \$1,528,166

**OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)**

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
One-to-four family	\$35,393	\$(130,891)	\$83,959	\$(237,840)
Multi-family	(25,597)	3,972	(25,949)	8,348
Non-residential	-	(108,493)	-	(154,247)
Commercial	-	-	-	-
Consumer direct	(20,183)	2,500	(43,671)	1,553
Purchased auto	(3,222 )	(17,753 )	(20,730)	(27,187 )
Net (charge-offs)/recoveries	\$(13,609)	\$(250,065)	\$(6,391 )	\$(409,373)

**OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)**

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended June 30, 2015 and 2014:

<b>June 30, 2015</b>	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	\$ 1,956,183	\$ 131,280	\$ 228,173	\$ 43,966	\$ 20,942	\$ 106,281	\$ 2,486,825
Provision charged to income	(5,301 )	38,287	14,837	(11,316 )	28,440	(9,947 )	55,000
Loans charged off	(10,057 )	(29,569 )	-	-	(21,383 )	(4,629 )	(65,638 )
Recoveries of loans previously charged off	45,450	3,972	-	-	1,200	1,407	52,029
Balance at end of period	\$ 1,986,275	\$ 143,970	\$ 243,010	\$ 32,650	\$ 29,199	\$ 93,112	\$ 2,528,216

<b>June 30, 2014</b>	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	\$ 2,251,220	\$ 146,271	\$ 473,214	\$ 31,585	\$ 2,282	\$ 71,700	\$ 2,976,272
Provision charged to income	352,224	61,342	(184,371 )	2,749	(4,782 )	17,838	245,000
Loans charged off	(139,603 )	-	(108,493 )	-	-	(17,760 )	(265,856 )
Recoveries of loans previously charged off	8,712	3,972	-	-	2,500	607	15,791
Balance at end of period	\$ 2,472,553	\$ 211,585	\$ 180,350	\$ 34,334	\$ -	\$ 72,385	\$ 2,971,207

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2015 and 2014:

<b>June 30, 2015</b>	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	\$ 1,812,448	\$ 121,918	\$ 245,098	\$ 35,947	\$ 10,804	\$ 88,392	\$ 2,314,607
Provision charged to income	89,868	48,001	(2,088 )	(3,297 )	62,066	25,450	220,000
Loans charged off	(10,057 )	(33,892 )	-	-	(46,408 )	(24,290 )	(114,647 )



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Recoveries of loans previously charged off	94,016	7,943	-	-	2,737	3,560	108,256
Balance at end of period	\$ 1,986,275	\$ 143,970	\$ 243,010	\$ 32,650	\$ 29,199	\$ 93,112	\$ 2,528,216

<b>June 30, 2014</b>	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	\$ 2,277,325	\$ 141,367	\$ 388,215	\$ 29,965	\$ 1,698	\$ 72,010	\$ 2,910,580
Provision charged to income	433,068	61,870	(53,618 )	4,369	(3,251 )	27,562	470,000
Loans charged off	(251,003 )	-	(154,247 )	-	(947 )	(31,203 )	(437,400 )
Recoveries of loans previously charged off	13,163	8,348	-	-	2,500	4,016	28,027
Balance at end of period	\$ 2,472,553	\$ 211,585	\$ 180,350	\$ 34,334	\$ -	\$ 72,385	\$ 2,971,207

**OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements****(continued)**

The following table presents the recorded investment in loans and the related allowances allocated by portfolio segment and based on impairment method as of June 30, 2015 and December 31, 2014:

<b>June 30, 2015</b>	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	\$2,803,894	\$-	\$2,090,889	\$90,287	\$-	\$10,392	\$4,995,462
Loans acquired with deteriorated credit quality	1,186,019	-	15,139	-	-	-	1,201,158
Loans collectively evaluated for impairment	94,221,125	2,805,396	18,221,620	10,548,401	1,471,310	6,838,094	134,105,946
Ending Balance	\$98,211,038	\$2,805,396	\$20,327,648	\$10,638,688	\$1,471,310	\$6,848,486	\$140,302,566
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$216,454	\$-	\$19,987	\$-	\$-	\$-	\$236,441
Loans collectively evaluated for impairment	1,769,821	143,970	223,023	32,650	29,199	93,112	2,291,775
Balance at end of period	\$1,986,275	\$143,970	\$243,010	\$32,650	\$29,199	\$93,112	\$2,528,216
<b>December 31, 2014</b>	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
	\$2,352,445	\$257,399	\$2,007,871	\$-	\$-	\$10,971	\$4,628,686

Loans individually evaluated for impairment							
Loans acquired with deteriorated credit quality	1,292,549	-	31,098	-	-	-	1,323,647
Loans collectively evaluated for impairment	94,499,996	2,854,251	18,889,116	12,242,145	1,724,700	8,653,579	138,863,787
Ending Balance	\$98,144,990	\$3,111,650	\$20,928,085	\$12,242,145	\$1,724,700	\$8,664,550	\$144,816,120
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$43,055	\$-	\$-	\$-	\$-	\$-	\$43,055
Loans collectively evaluated for impairment	1,769,393	121,918	245,098	35,947	10,804	88,392	2,271,552
Balance at end of period	\$1,812,448	\$121,918	\$245,098	\$35,947	\$10,804	\$88,392	\$2,314,607

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

The following table presents loans individually evaluated for impairment, by class of loans, as of June 30, 2015 and December 31, 2014:

<b>June 30, 2015</b>	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	\$ 6,302,491	\$ 2,988,663	\$ 1,001,250	\$ 3,989,913	\$ 216,454	\$ 3,842,872
Multi-family	-	-	-	-	-	-
Non-residential	2,148,390	2,066,222	39,806	2,106,028	19,987	2,045,638
Commercial	90,287	90,287	-	90,287	-	43,578
Consumer direct	-	-	-	-	-	6,927
Purchased auto	10,392	10,392	-	10,392	-	3,464
	\$ 8,551,560	\$ 5,155,564	\$ 1,041,056	\$ 6,196,620	\$ 236,441	\$ 5,942,479

  

<b>December 31, 2014</b>	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	\$ 6,321,593	\$ 3,364,478	\$ 280,516	\$ 3,644,994	\$ 43,055	\$ 3,232,026
Multi-family	440,669	257,399	-	257,399	-	196,499
Non-residential	2,220,498	2,038,969	-	2,038,969	-	2,030,582
Commercial	-	-	-	-	-	-
Consumer direct	3,851	-	-	-	-	-
Purchased auto	10,971	10,971	-	10,971	-	4,179
	\$ 8,997,582	\$ 5,671,817	\$ 280,516	\$ 5,952,333	\$ 43,055	\$ 5,463,286

For the three and six months ended June 30, 2015 and 2014, the Company recognized no accrued or cash basis interest income on impaired loans.

At June 30, 2015, there were 67 impaired loans totaling approximately \$6.2 million, compared to 67 impaired loans totaling approximately \$6.0 million at December 31, 2014. The change in impaired loans was a result of writing down and moving seven impaired loans totaling approximately \$595,000 to OREO, the pay-off or charge-off of six impaired loans totaling approximately \$343,000, returning one loan of approximately \$73,000 to accruing, and payments of approximately \$89,000, offset by adding seven loans totaling approximately \$1.2 million to the impaired loan list and principal advances of approximately \$0.2 million.

Our loan portfolio also includes certain loans that have been modified in a troubled debt restructuring (“TDR”), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions

typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When we modify loans in a TDR, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use the current fair value of the collateral, less estimated selling costs, for collateral dependent loans. If we determine that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

Impaired loans at June 30, 2015 included \$2.8 million of loans whose terms have been modified in troubled debt restructurings, compared to \$2.6 million at December 31, 2014. The amount of TDR loans included in impaired loans increased as a result of the re-default of one TDR (originally restructured in 2010) totaling approximately \$388,000 and principal advances on two TDRs of approximately \$0.2 million, offset by writing down and moving two TDRs totaling approximately \$311,000 to OREO, and payments of approximately \$39,000. The remaining restructured loans are being monitored by management and remain on nonaccrual status as they have not, per accounting guidelines, performed in accordance with their restructured terms for the requisite period of time (generally at least six consecutive months) to be returned to accrual status.

There were no new loans classified as troubled debt restructurings during the three or six months ended June 30, 2015 and 2014.

There were no troubled debt restructured loans that were restructured during the twelve months prior to June 30, 2015 and 2014 that had payment defaults (i.e., 60 days or more past due following a modification), during the three months ended June 30, 2015 and 2014. The troubled debt restructured loans that were restructured during the twelve months prior to June 30, 2015 and 2014 that had payment defaults during the six months ended June 30, 2015 and 2014, segregated by class are shown below.

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	Number of Recorded Defaults (as of period end)	Number of Recorded Defaults (as of period end)
	Investment	Investment
One-to-four family	- \$ -	1 \$ 60,772
Multi-family	- -	- -
Non-residential	- -	- -
Commercial	- -	- -
Consumer direct	- -	- -
Purchased auto	- -	- -
	- \$ -	1 \$ 60,772

All TDRs are evaluated for possible impairment and any impairment identified is recognized through the allowance. Additionally, the qualitative factors are updated quarterly for trends in economic and nonperforming factors, including collateral securing TDRs.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual status, by class of loans, as June 30, 2015 and December 31, 2014:

	Loans Past Due Over 90 Days Still Accruing
<b>June 30, 2015</b>	Nonaccrual
One-to-four family	\$4,081,322 \$ -
Multi-family	- -

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Non-residential	2,106,028	-
Commercial	90,287	-
Consumer direct	-	-
Purchased auto	10,392	-
	\$6,288,029	\$ -

		Loans Past Due Over 90 Days Still Accruing
<b>December 31, 2014</b>	Nonaccrual	
One-to-four family	\$3,732,833	\$ -
Multi-family	257,399	-
Non-residential	2,038,969	-
Commercial	-	-
Consumer direct	-	-
Purchased auto	10,971	-
	\$6,040,172	\$ -

The following table presents the aging of the recorded investment in loans, by class of loans, as of June 30, 2015 and December 31, 2014:

<b>June 30, 2015</b>	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	\$2,355,284	\$779,357	\$1,447,797	\$4,582,438	\$93,628,600	\$98,211,038
Multi-family	-	-	-	-	2,805,396	2,805,396
Non-residential	667,656	-	37,092	704,748	19,622,900	20,327,648
Commercial	-	-	-	-	10,638,688	10,638,688
Consumer direct	2,043	-	-	2,043	1,469,267	1,471,310
Purchased auto	-	-	10,392	10,392	6,838,094	6,848,486
	\$3,024,983	\$779,357	\$1,495,281	\$5,299,621	\$135,002,945	\$140,302,566

<b>December 31, 2014</b>	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	\$2,622,762	\$309,909	\$1,741,415	\$4,674,086	\$93,470,904	\$98,144,990
Multi-family	150,418	-	257,399	407,817	2,703,833	3,111,650
Non-residential	526,713	419,697	114,573	1,060,983	19,867,102	20,928,085
Commercial	96,525	-	-	96,525	12,145,620	12,242,145
Consumer direct	9,172	-	-	9,172	1,715,528	1,724,700
Purchased auto	-	-	10,971	10,971	8,653,579	8,664,550
	\$3,405,590	\$729,606	\$2,124,358	\$6,259,554	\$138,556,566	\$144,816,120

#### Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. For commercial and non-residential real estate loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial and non-residential real estate loan is assigned a risk rating upon origination. The risk rating is reviewed annually, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

For residential real estate loans, multi-family, consumer direct and purchased auto loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated regularly by



the Company's loan system for real estate loans, multi-family and consumer direct loans. The Company receives monthly reports on the delinquency status of the purchased auto loan portfolio from the servicing company.

The Company uses the following definitions for risk ratings:

Pass – loans classified as pass are of a higher quality and do not fit any of the other “rated” categories below (e.g., special mention, substandard or doubtful). The likelihood of loss is considered remote.

Special Mention – loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Not Rated – loans in this bucket are not evaluated on an individual basis.

As of June 30, 2015 and December 31, 2014, the risk category of loans by class is as follows:

<b>June 30, 2015</b>	Pass	Special Mention	Substandard	Doubtful	Not rated
One-to-four family	\$-	\$1,240,141	\$3,989,913	\$ -	\$92,980,984
Multi-family	-	-	-	-	2,805,396
Non-residential	17,976,089	245,531	2,106,028	-	-
Commercial	10,009,731	538,670	90,287	-	-
Consumer direct	-	-	-	-	1,471,310
Purchased auto	-	-	10,392	-	6,838,094
<b>Total</b>	<b>\$27,985,820</b>	<b>\$2,024,342</b>	<b>\$6,196,620</b>	<b>\$ -</b>	<b>\$104,095,784</b>

<b>December 31, 2014</b>	Pass	Special Mention	Substandard	Doubtful	Not rated
One-to-four family	\$-	\$1,486,881	\$3,644,994	\$ -	\$93,013,115
Multi-family	-	-	257,399	-	2,854,251
Non-residential	18,889,116	-	2,038,969	-	-
Commercial	11,646,385	595,760	-	-	-
Consumer direct	-	-	-	-	1,724,700
Purchased auto	-	-	10,971	-	8,653,579
<b>Total</b>	<b>\$30,535,501</b>	<b>\$2,082,641</b>	<b>\$5,952,333</b>	<b>\$ -</b>	<b>\$106,245,645</b>

At June 30, 2015, the Company held approximately \$285,000 of foreclosed residential real estate property. In addition, the Company also held approximately \$515,000 in consumer mortgage loans collateralized by residential real estate properties that are in the process of foreclosure.

#### NOTE 9 – STOCK COMPENSATION

Total stock-based compensation expense was approximately \$9,000 both six month periods ended June 30, 2015 and 2014, respectively. In accordance with FASB ASC 718, *Compensation-Stock Compensation*, compensation expense is recognized on a straight-line basis over the grantees' vesting period or to the grantees' retirement eligibility date, if earlier. During the six months ended June 30, 2015 and 2014, the Company did not grant additional options or shares under the MRP.

#### NOTE 10 – RECENT ACCOUNTING DEVELOPMENTS

In January 2014, the FASB issued ASU No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar agreement. In addition, the update requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. The Company adopted this guidance effective January 1, 2015. The adoption of this update did not have an impact on the Company's financial position, results of operation or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should 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. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective on January 1, 2018 and is not expected to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The objective of this guidance is to reduce diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. Some creditors reclassify those loans to real estate consistent with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments in ASU 2014-14 require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure; (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The Company adopted this guidance effective January 1, 2015. The adoption of this update did not have an impact on the Company's financial position, results of operation or cash flows.

#### NOTE 11 – FAIR VALUE MEASUREMENT AND DISCLOSURE

FASB ASC Topic 820, Fair Value Measurements and Disclosures, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

##### Basis of Fair Value Measurement:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.
  
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.
  
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

### Securities Available for Sale

Securities classified as available for sale are recorded at fair value on a recurring basis using pricing obtained from an independent pricing service. Where quoted market prices are available in an active market, securities are classified within Level 1. The Company has no securities classified within Level 1. If quoted market prices are not available, the pricing service estimates the fair values by using pricing models or quoted prices of securities with similar characteristics. For these securities, the inputs used by the pricing service to determine fair value consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and bonds' terms and conditions, among other things resulting in classification within Level 2. Level 2 securities include state and municipal securities, and residential mortgage-backed securities. In cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3. The Company has no securities classified within Level 3.

### Foreclosed Assets

Foreclosed assets consisting of foreclosed real estate and repossessed assets, are adjusted to fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as non-recurring Level 3.

### Impaired Loans

Impaired loans are evaluated and adjusted to the lower of carrying value or fair value less estimated costs to sell at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as non-recurring Level 3.

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the six months ended June 30, 2015 and the year ended December 31, 2014. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfers between levels.

The tables below present the recorded amount of assets measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>June 30, 2015</b>				
State and municipal securities available for sale	\$ -	\$ 19,207,969	\$ -	\$ 19,207,969
Residential mortgage-backed securities available for sale	-	31,268,554	-	31,268,554
	\$ -	\$ 50,476,523	\$ -	\$ 50,476,523

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>December 31, 2014</b>				
State and municipal securities available for sale	\$ -	\$ 20,225,192	\$ -	\$ 20,225,192
Residential mortgage-backed securities available for sale	-	32,546,916	-	32,546,916
	\$ -	\$ 52,772,108	\$ -	\$ 52,772,108

The tables below present the recorded amount of assets measured at fair value on a non-recurring basis at June 30, 2015 and December 31, 2014.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>June 30, 2015</b>				
Foreclosed assets	\$ -	\$ -	\$ 404,776	\$ 404,776
Impaired loans, net	-	-	804,615	804,615

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>December 31, 2014</b>				
Foreclosed assets	\$ -	\$ -	\$ 295,650	\$ 295,650
Impaired loans, net	-	-	1,561,108	1,561,108

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In accordance with accounting pronouncements, the carrying value and estimated fair value of the Company's financial instruments as of June 30, 2015 and December 31, 2014 are as follows:

	Carrying Amount	Fair Value Measurements at June 30, 2015 using:			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$4,948,346	\$4,948,346	\$-	\$-	\$4,948,346
Time deposits	649,000	649,000	-	-	649,000
Federal funds sold	4,738,000	4,738,000	-	-	4,738,000
Securities	51,834,644	-	50,476,523	1,358,121	51,834,644
Net loans	137,774,350	-	-	140,737,000	140,737,000
Accrued interest receivable	869,962	869,962	-	-	869,962
Mortgage servicing rights	282,655	-	-	282,655	282,655
Financial Liabilities:					
Non-interest bearing deposits	9,118,809	9,118,809	-	-	9,118,809
Interest bearing deposits	171,216,048	-	-	168,387,191	168,387,191
Accrued interest payable	1,744	1,744	-	-	1,744
FHLB Advances	2,672,003	-	2,672,003	-	2,672,003

	Carrying Amount	Fair Value Measurements at December 31, 2014 using:			Total
		Level 1	Level 2	Level 3	
<b>Financial Assets:</b>					
Cash and cash equivalents	\$5,193,235	\$5,193,235	\$-	\$-	\$5,193,235
Time deposits	854,861	854,861	-	-	854,861
Federal funds sold	1,662,000	1,662,000	-	-	1,662,000
Securities	54,552,782	-	52,772,108	1,780,674	54,552,782
Net loans	142,501,513	-	-	144,682,000	144,682,000
Accrued interest receivable	881,612	881,612	-	-	881,612
Mortgage servicing rights	271,819	-	-	271,819	271,819
<b>Financial Liabilities:</b>					
Non-interest bearing deposits	8,198,356	8,198,356	-	-	8,198,356
Interest bearing deposits	174,034,663	-	-	172,789,644	172,789,644
Accrued interest payable	369	369	-	-	369
FHLB Advances	5,483,036	-	5,483,036	-	5,483,036

The following methods and assumptions were used by the Bank in estimating the fair value of financial instruments:

*Cash and Cash Equivalents:* The carrying amounts reported in the balance sheets for cash and cash equivalents approximate fair values.

*Federal Funds Sold:* The carrying amounts reported in the balance sheets for federal funds sold approximate fair values.

*Securities:* The Company obtains fair value measurements of available for sale securities from an independent pricing service. See Note 11 - Fair Value Measurement and Disclosure for further detail on how fair values of securities available for sale are determined. The carrying value of non-marketable equity securities approximates fair value.

*Loans:* For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using underlying collateral values, where applicable or discounted cash flows.



*Loans held for sale:* The carrying amounts reported in the balance sheets for loans held for sale approximate fair values, as usually these loans are originated with the intent to sell and funding of the sales usually occurs within three days.

*Accrued Interest Receivable and Payable:* The carrying amounts of accrued interest receivable and payable approximate fair values.

*Mortgage Servicing Rights:* The carrying amounts of mortgage servicing rights approximate their fair values.

*Deposits:* The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

*Loan Commitments:* Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter-parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The Bank does not charge fees to enter into these agreements. As of June 30, 2015 and December 31, 2014, the fair values of the commitments are immaterial in nature.

In addition, other assets and liabilities of the Bank that are not defined as financial instruments, such as property and equipment are not included in the above disclosures. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

#### NOTE 12 – ACQUISITION

On December 31, 2014, the Company completed its previously announced the merger of Twin Oaks into the Bank pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of June 30, 2014. As part of the transaction, the Company issued 776,144 shares of its common stock to the Ottawa Savings Bancorp, MHC, based on a \$9.18 per share stock valuation of the Company's stock, as determined by an independent appraisal based primarily on the price to book value valuation method and to a lesser extent the price to earnings valuation method, and a market value of \$7.125 million determined by an independent appraiser of Twin Oaks. As a result of the issuance of 776,144 shares in connection with the merger, the Ottawa Savings Bancorp, MHC's ownership interest in the Company increased from 57.8% to 69.1%.

The Merger is accounted for using the acquisition method of accounting, and accordingly, the assets acquired and liabilities assumed were recognized at fair value on the date the transaction was completed. Under this method of accounting, the Bank and Twin Oaks are treated as one company from the merger date forward, and we have recorded the fair value of Twin Oaks' assets (including intangible assets which arise from either contractual or other legal rights) and liabilities on our consolidated financial statements. Since the merger was completed at the close of business on December 31, 2014, there was no effect on the consolidated statement of operations for the year ending December 31, 2014. Beginning January 1, 2015, operations of Twin Oaks are included in the Consolidated Statements of Operations.

The following table summarizes the fair value of the acquired assets and liabilities as of December 31, 2014:

	<b>2014</b>
<b>Assets</b>	
Total cash and cash equivalents	\$2,031,791
Time deposits	854,861
Federal funds sold	440,000
Securities available for sale	23,856,673
Non-marketable equity securities	547,138
Loans	29,795,910
Premises and equipment, net	759,064
Accrued interest receivable	243,972
Deferred tax assets	869,186
Income tax refunds receivable	48,000
Goodwill	649,869

Core deposit intangible	567,000
Other assets	236,745
<b>Total assets acquired</b>	<b>\$60,900,209</b>
<b>Liabilities</b>	
Deposits	\$49,610,398
Accrued interest payable	51
FHLB Advances	3,483,036
Other liabilities	681,724
<b>Total liabilities assumed</b>	<b>\$53,775,209</b>
	\$7,125,000

Total acquisition related costs included in other noninterest expenses in the consolidated statement of operations for the period ended June 30, 2015 and 2014 were approximately \$850,000 and \$119,000, respectively. For 2015, the acquisition related costs are related to the merge of the core processing systems and include a one-time early termination fee paid to Twin Oak's former processor of \$485,000. In 2014, the costs were primarily legal expenses.

Based on the acquisition date fair values of the assets acquired and the fair values of the assumed liabilities, the Company recorded goodwill of \$649,869, none of which is expected to be tax deductible. The goodwill resulting from the acquisition primarily consists of the economies of scale expected from combining operations.

Total loans acquired in the acquisition were recorded at a fair value of \$29,795,910 and had a contractual amount due of \$31,831,910 as of the acquisition date which was December 31, 2014. *FASB ASC 310-20, Nonrefundable Fees and Other Costs*, specifies the approach that needs to be used when the Bank expects to receive all of the contractual principal and interest payments due under an individual loan. Loans not considered to have deteriorated credit quality at the acquisition date had a contractual balance due of approximately \$28,638,000 and an estimated fair value of approximately \$28,472,000. The loan discount recorded at the date of the acquisition consisted of an accretable yield component of approximately \$407,000 and an accretable credit component of approximately \$(573,000), for a net fair value adjustment of approximately \$(166,000).

Loans acquired with deteriorated credit quality and accounted for under FASB ASC Topic 310-30 as of the acquisition date had a contractual balance due of approximately \$3,194,000 and an estimated fair value of approximately \$1,324,000. The estimate of the contractual cash flows not expected to be collected due to credit quality was approximately \$1,870,000 which consists of an accretable discount of \$(362,000) and non-accretable discount of \$(1,508,000).

The following table reflects activity for the loans acquired with deteriorated credit quality for the six months ended June 30, 2015:

Balance, beginning of year	\$1,323,647
Payment activity	(113,141 )
Charge-offs	(68,973 )
Recoveries	-
Transfer to OREO	-
Accretion to income	59,625
	\$1,201,158

The accretable discount as of June 30, 2015 is \$302,375.

#### Supplemental Pro Forma Results:

The following table includes pro forma unaudited results for the three and six month periods ended June 30, 2014, as if the acquisition had occurred as of January 1, 2014. The pro forma information is provided for illustrative purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the

acquisition would have taken place at the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition.

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
	(unaudited)	
	(Dollar amounts in thousands)	
Net interest income after provision for loan losses	\$ 1,599	\$ 2,688
Total other income	200	365
Total revenue	2,433	4,800
Net income	\$ 164	\$ 127

Net pro forma adjustments of \$8,000 and \$17,000, respectively were added to net income for the three and six months ended June 30, 2014 to reflect the net effect of purchase accounting adjustments amortized over the appropriate time frames.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of the financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and footnotes appearing in Part I, Item 1 of this document.

## FORWARD-LOOKING INFORMATION

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “plan,” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company’s actual results subsequent to June 30, 2015 to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing, changes in the securities or financial market, a deterioration of general economic conditions either nationally or locally, our ability to realize estimated benefits (including, but not limited to, cost savings, synergies and growth) from acquired or merged entities, our ability to successfully integrate acquired or merged entities with us (including Twin Oaks), legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company’s approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. The consequence of these factors, many of which could hurt our business, could include, among other things, increased loan delinquencies, an escalation in problem assets and foreclosures, a decline in demand for our products and services a reduction in the value of certain assets held by us, an inability to meet our liquidity needs and in inability to engage in certain lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements. Additionally, other risks and uncertainties may be described in the Company’s Annual Report on form 10-K as filed with the Securities and Exchange Commission on March 30, 2015.

## GENERAL

The Bank is a community and customer-oriented savings bank. The Bank's business has historically consisted of attracting deposits from the general public and using 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. The Bank completed its reorganization pursuant to its Plan of Conversion on July 11, 2005, upon which the Bank converted from an Illinois-chartered mutual savings bank to a federally-chartered mutual savings bank, and on that same date, converted from a federally-chartered mutual savings bank to a federally-chartered stock savings bank, all of the outstanding stock of which was issued to the Company. As part of the reorganization, the Company issued 1,001,210 shares to the public and 1,223,701 shares to Ottawa Savings Bancorp MHC, a mutual holding company.

On December 31, 2014, the Company acquired Twin Oaks and merged Twin Oaks with and into the Bank, with the Bank being the surviving entity in the Merger. As the Merger occurred at the close of business on December 31, 2014, there are no operating results of the former Twin Oaks included in the consolidated financial statements for 2014, however, beginning January 1, 2015 they are included going forward. As a result of the Merger, the Company increased its market share in the La Salle County market and expanded into Grundy County. In connection with the Merger, the Company issued 776,144 shares of common stock to Ottawa Savings Bancorp, MHC. As of December 31, 2014, Ottawa Savings Bancorp MHC holds 1,999,845 shares of common stock, representing 69.1% of the Company's common shares outstanding.

#### **COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2015 AND DECEMBER 31, 2014**

The Company's total assets decreased \$5.0 million, or 2.3%, to \$216.7 million at June 30, 2015, from \$221.7 million at December 31, 2014. The decrease in assets was primarily due to a decrease in loans of \$4.7 million and a decrease in securities available for sale of \$2.3 million, partially offset by an increase in federal funds sold of \$3.1 million.

Cash and cash equivalents decreased \$0.2 million, or 4.7%, to \$4.9 million at June 30, 2015 from \$5.2 million at December 31, 2014, primarily as a result of cash used in financing activities of \$4.6 million exceeding cash provided by operating activities of \$0.6 million and investing activities of \$3.8 million. In addition to a decrease in deposits, the cash used in financing activities includes a principal reduction in Federal Home Loan Bank advances of \$2.8 million.

Federal funds sold increased \$3.1 million, or 185.1%, to \$4.7 million at June 30, 2015 from \$1.7 million at December 31, 2014, primarily as a result of cash provided by operating and investing activities.

Securities available for sale decreased \$2.3 million, or 4.4%, to \$50.5 million at June 30, 2015 from \$52.8 million at December 31, 2014. The decrease was primarily due to sales and maturities of \$5.8 million and pay-downs of \$3.5 million, offset by \$7.4 million in purchases.

Loans, net of the allowance for loan losses, decreased \$4.7 million, or 3.3%, to \$137.8 million at June 30, 2015 from \$142.5 million at December 31, 2014. The decrease in loans, net of the allowance for loan losses, was primarily due to a decrease in the purchased auto loan portfolio of \$1.8 million, a decrease of commercial loans of \$1.6 million, decrease of mortgage loans of \$0.1 million, a decrease of \$0.3 million in consumer direct loans, a decrease in non-residential real estate loans of \$0.6 million, and an increase in the allowance for loan losses of \$0.2 million. Additionally, there were the normal pay-downs and principal reductions. The Company is focusing its lending efforts on customers based primarily in its local market and purchased auto loans from regulated financial institutions.

Foreclosed real estate increased approximately \$0.1 million, or 62.3%, to \$0.4 million at June 30, 2015 from \$0.2 million at December 31, 2014. The increase was primarily due to the addition of five properties valued at approximately \$0.6 million acquired through loan foreclosures offset by the sale of two properties with proceeds of \$0.4 million and additional valuation adjustments on two properties of approximately \$0.1 million.

Total deposits decreased \$1.9 million, or 1.0%, to \$180.3 million at June 30, 2015, from \$182.2 million at December 31, 2014. The decrease is primarily due to a decrease in certificates of deposit of \$5.7 million, or 5.7% and a decrease in savings account balances of \$0.1 million, partially offset by an increase in checking and money market balances of \$3.9 million, or 6.4% from December 31, 2014 to June 30, 2015.

Equity decreased slightly, to just under \$29.7 million at June 30, 2015, from \$29.7 million at December 31, 2014. The decrease in equity is primarily a result of an increase in the maximum cash obligation related to ESOP shares of \$0.1 million and a slight decrease in other comprehensive income offset by net income for the six months ended June 30, 2015 and other increases totaling approximately \$0.1 million.

The ongoing state of economic uncertainty continues to affect our asset quality. We continue to experience a decline in the market values of homes in our market area in general and also on specific properties held as collateral. While local economic conditions are improving, they continue to lag national indicators including higher levels of unemployment. Higher unemployment locally continues to affect some of our borrowers' ability to timely repay their obligations to the Company. These conditions have collectively resulted in nonperforming loans totaling 4.45% of total gross loan receivables as of June 30, 2015, up from 4.15% at December 31, 2014.

The Company's nonperforming assets consist of non-accrual loans and foreclosed real estate. Loans are generally placed on non-accrual status when it is apparent all of the contractual payments (i.e. principal and interest) will not be



received; however, they may be placed on non-accrual status sooner if management has significant doubt as to the collection of all amounts due. Interest previously accrued but uncollected is reversed and charged against interest income. During the first six months of 2015, nonaccrual loans increased 4.1% to \$6.3 million from \$6.0 million as of December 31, 2014. The increase was the result of writing down and moving seven impaired loans totaling approximately \$595,000 to OREO, the pay-off or charge-off of six impaired loans totaling approximately \$343,000, returning one loan of approximately \$73,000 to accruing, and payments of approximately \$89,000, offset by adding seven loans totaling approximately \$1.2 million to the impaired loan list and principal advances of approximately \$0.2 million.

The following table summarizes nonperforming assets for the prior five quarters.

	<b>June 30, 2015</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>	<b>September 30, 2014</b>	<b>June 30, 2014</b>
	<b>(In Thousands)</b>				
Non-accrual:					
One-to-four family	\$4,082	\$3,880	\$ 3,733	\$ 3,041	\$3,406
Multi-family	-	136	257	441	184
Non-residential real estate	2,106	1,907	2,039	1,726	2,092
Commercial	90	-	-	-	-
Consumer direct	10	-	-	-	-
Purchased auto	-	-	11	-	12
Total non-accrual loans	6,288	5,923	6,040	5,208	5,694
Past due greater than 90 days and still accruing:					
One-to-four family	-	-	-	-	-
Non-residential real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer direct	-	-	-	-	-
Total nonperforming loans	6,288	5,923	6,040	5,208	5,694
Foreclosed real estate	377	511	233	332	666
Other repossessed assets	27	36	63	25	17
Total nonperforming assets	\$6,692	\$6,470	\$ 6,336	\$ 5,565	\$6,377

The table below presents selected asset quality ratios for the prior five quarters.

	<b>June 30, 2015</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>	<b>September 30, 2014</b>	<b>June 30, 2014</b>
Allowance for loan losses as a percent of gross loans receivable	1.79 %	1.71 %	1.59 %	2.60 %	2.61 %
Allowance for loan losses as a percent of total nonperforming loans	40.21 %	41.99 %	38.33 %	57.89 %	52.18 %
Nonperforming loans as a percent of gross loans receivable	4.45 %	4.08 %	4.15 %	4.49 %	5.00 %
Nonperforming loans as a percent of total assets	2.90 %	2.69 %	2.72 %	3.24 %	3.43 %
Nonperforming assets as a percent of total assets	3.09 %	2.94 %	2.86 %	3.46 %	3.84 %

#### **COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2015 AND 2014**

*General.* Net loss for the three months ended June 30, 2015 was \$77,000 compared to net income of \$198,000 for the three months ended June 30, 2014. Net income during the second quarter of 2015 was lower than the second quarter of 2014, primarily due to one-time conversion and de-conversion costs charged by the Bank's core processor to migrate and convert the Twin Oak's accounts to our systems, and costs charged by Twin Oak's core processor to work with the Bank's processor and conversion teams to migrate and convert accounts. Additionally, the bank paid

approximately \$0.5 million in early termination fees to Twin Oak's former processor. These higher costs during the second quarter of 2015 were partially offset by an increase in interest income, an increase in other income, a decrease in allowance for loan losses, and a decrease in income taxes as compared to the second quarter of 2014.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the three months ended June 30, 2015 and 2014.

	<b>Three Months Ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
	<b>(Dollars in thousands)</b>			
Interest and dividend income:				
Interest and fees on loans	\$1,717	\$1,451	\$ 266	18.33 %
Securities:				
Residential mortgage-backed securities	157	136	21	15.44
State and municipal securities	141	72	69	95.83
Dividends on non-marketable equity securities	2	1	1	100.00
Interest-bearing deposits	2	1	1	100.00
<b>Total interest and dividend income</b>	<b>2,019</b>	<b>1,661</b>	<b>358</b>	<b>21.55</b>
Interest expense:				
Deposits	219	245	(26 )	(10.61 )
Borrowings	16	-	16	100.00
<b>Total interest expense</b>	<b>235</b>	<b>245</b>	<b>(10 )</b>	<b>(4.08 )</b>
<b>Net interest income</b>	<b>\$1,784</b>	<b>\$1,416</b>	<b>\$ 368</b>	<b>25.99 %</b>

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances are monthly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield. The amortization of loan fees is included in computing interest income; however, such fees are not material.

	<b>Three Months Ended June 30,</b>							
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
	<b>AVERAGE</b>	<b>AVERAGE</b>	<b>YIELD/</b>	<b>AVERAGE</b>	<b>AVERAGE</b>	<b>YIELD/</b>	<b>AVERAGE</b>	<b>YIELD/</b>
	<b>BALANCE</b>	<b>INTEREST</b>	<b>COST</b>	<b>BALANCE</b>	<b>INTEREST</b>	<b>COST</b>	<b>BALANCE</b>	<b>INTEREST</b>
	<b>(Dollars in thousands)</b>							
Interest-earning assets								
Loans receivable, net (1)	\$ 137,840	\$ 1,717	4.98	% \$ 110,045	\$ 1,451	5.27	%	
Securities, net (2)	50,624	298	2.35	% 35,848	208	2.32	%	
Non-marketable equity securities	1,499	2	0.53	% 1,234	1	0.32	%	
Interest-bearing deposits	7,165	2	0.11	% 4,894	1	0.08	%	
Total interest-earning assets	197,128	2,019	4.10	% 152,021	1,661	4.37	%	
Interest-bearing liabilities								
Money Market accounts	\$ 29,872	\$ 16	0.21	% \$ 20,001	\$ 12	0.24	%	
Passbook accounts	22,965	4	0.07	% 18,683	3	0.06	%	
Certificates of Deposit accounts	93,910	197	0.84	% 82,857	228	1.10	%	
Checking accounts	23,921	2	0.30	% 15,479	2	0.05	%	
Advances and borrowed funds	2,677	16	2.39	% -	-	0.00	%	
Total interest-bearing liabilities	173,345	235	0.54	% 137,020	245	0.72	%	
<b>NET INTEREST INCOME</b>		\$ 1,784			\$ 1,416			
<b>NET INTEREST RATE SPREAD (3)</b>			3.55	%		3.66	%	
<b>NET INTEREST MARGIN (4)</b>			3.62	%		3.73	%	
<b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b>			113.72	%		110.95	%	

(1) Amount is net of deferred loan origination (costs) fees, undisbursed loan funds, unamortized discounts and allowance for loan losses and includes non-performing loans.

(2) Includes unamortized discounts and premiums.

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

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

The following table summarizes the changes in net interest income due to rate and volume for the three months ended June 30, 2015 and 2014. The column "Net" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

**Three Months  
Ended June 30,  
2015 Compared to  
2014  
Increase (Decrease)  
Due to  
VOLUME RATE NET  
(Dollars in  
Thousands)**

Interest and dividends earned on			
Loans receivable, net	\$346	\$ (80 )	\$266
Securities, net	87	3	90
Non-marketable equity securities	-	1	1
Interest-bearing deposits	1	-	1
Total interest-earning assets	\$434	\$ (76 )	\$358
Interest expense on			
Money Market accounts	\$5	\$ (1 )	\$4
Passbook accounts	1	-	1
Certificates of Deposit accounts	23	(54 )	(31 )
Checking	1	(1 )	-
Advances and borrowed funds	16	-	16
Total interest-bearing liabilities	46	(56 )	(10 )
Change in net interest income	\$388	\$ (20 )	\$368

Net interest income increased \$368,000, or 26.0%, to \$1.8 million for the three months ended June 30, 2015 compared to \$1.4 million for the three months ended June 30, 2014. Interest and dividend income increased \$358,000 due to the increase in average interest earning assets of \$45.1 million, offset by the yield decreasing on interest earning assets from 4.37% to 4.10%. The increase in earning assets is primarily attributable to the merger with Twin Oaks. The yield on the loan portfolio declined slightly as the low rate environment continued during the second quarter of 2015. In addition, loans increased \$29.8 million as a result of loans added to the Bank's portfolio in connection with the Merger. The increase in net interest income also included a \$10,000, or 4.1%, decrease in interest expense. The cost of funds declined 18 basis points, or 25.0%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014, due to the continued low rate environment. Additionally, the average balance of interest bearing liabilities increased by \$36.3 million, or 26.5%. Net interest margin decreased slightly during the three months ended June 30, 2015 to 3.55% compared to 3.66% at June 30, 2014.

*Provision for Loan Losses.* Management recorded a loan loss provision of \$55,000 and \$245,000 for the three months periods ended June 30, 2015 and 2014, respectively. The provision is primarily attributed to the reserves required for the one-to-four family, non-residential and purchased auto segments as the economic conditions in the local market continue to negatively impact collateral values of real estate and the ability of borrowers to keep current per terms of their obligations. The slow payment activity and continued decline of property values are the result of local economic conditions that are improving, but continue to lag national indicators, including higher levels of unemployment locally of 5.7%, versus 6.0% for the State of Illinois and the national level of 5.3%. Based on a review of the loans that were in the loan portfolio at June 30, 2015, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

Management uses available information to establish the appropriate level of the allowance for loan losses. Future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect the Company's operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

*Other Income.* The following table summarizes other income for the three months ended June 30, 2015 and 2014.

	<b>Three months ended</b>			
	<b>June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
	<b>(Dollars in thousands)</b>			
Other income:				
Gain on sale of securities	\$-	\$-	\$ -	-
Gain on sale of loans	52	5	47	940.00

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Gain on sale of OREO	41	5	36	720.00
Gain on sale of repossessed assets	2	4	(2 )	(50.00 )
Origination of mortgage servicing rights, net of amortization	11	(1 )	12	1,200.00
Customer service fees	111	74	37	(50.00 )
Income on bank owned life insurance	12	12	-	-
Other	26	27	(1 )	(3.70 )
<b>Total other income</b>	<b>\$255</b>	<b>\$126</b>	<b>\$ 129</b>	<b>102.38 %</b>

The increase in total other income was primarily due to increases on gain on sale of loans, increases in customer service fees, and gains on sales of OREO properties. The increase in customer service fees is primarily due to the increase in deposits related to the merge with Twin Oaks at December 31, 2014.

*Other Expenses.* The following table summarizes other expenses for the three months ended June 30, 2015 and 2014.

	<b>Three months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
	<b>(Dollars in thousands)</b>			
Other expenses:				
Salaries and employee benefits	\$700	\$426	\$274	64.32 %
Directors fees	38	25	13	52.00
Occupancy	177	128	49	38.28
Deposit insurance premium	44	36	8	22.22
Legal and professional services	82	128	(46 )	(35.94 )
Data processing	797	71	726	1,022.54
Loss on sale of securities	-	-	-	-
Valuation adjustments and expenses on foreclosed real estate	90	19	71	373.68
Loss on sale of OREO	-	2	(2 )	(100.00 )
Loss on sale of repossessed assets	2	-	2	100.00
Other	254	183	71	38.80
<b>Total other expenses</b>	<b>\$2,184</b>	<b>\$1,018</b>	<b>\$1,166</b>	<b>114.54 %</b>
Efficiency ratio (1)	107.11 %	66.02 %		

(1) Computed as other expenses divided by the sum of net interest income and other income.

The increase in other expenses was primarily due to the merge with Twin Oaks as of December 31, 2014 as there are now three branch locations to support rather than the one facility that existed as of June 30, 2014. Additionally, data processing costs increased because, until mid-May of 2015, we were supporting two core processing systems and have also incurred additional costs related to data conversion, including approximately \$0.5 million in early termination fees. The increase also includes increases in salaries and employee benefits, resulting from additional staff and directors in connection with the Merger and in the lending area, as well as annual merit increases. The efficiency ratio increased due to increased other expenses for the current period primarily related to the Merger.

*Income Taxes.* The Company recorded an income tax benefit of \$122,000 and an income tax expense of \$82,000 for the three months ended June 30, 2015 and 2014, respectively. The difference in effective tax rates between the periods is primarily a result of higher levels of tax exempt income during 2015. For the three months ended June 30, 2015 the Company had approximately \$146,000 in tax exempt income, compared to approximately \$77,000 for the three months ended June 30, 2014.



**COMPARISON OF RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

*General.* Net income for the six months ended June 30, 2015 was \$67,000 compared to net income of \$432,000 for the six months ended June 30, 2014. Net income during the first six months of 2015 was lower than the first six months of 2014, primarily due to one-time conversion and de-conversion costs charged by the Bank's core processor to migrate and convert the Twin Oak's accounts to our systems, and costs charged by Twin Oak's core processor to work with the Bank's processor and conversion teams to migrate and convert accounts. Additionally, the bank paid approximately \$0.5 million in early termination fees to Twin Oak's former processor.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the six months ended June 30, 2015 and 2014.

	<b>Six Months Ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
	<b>(Dollars in thousands)</b>			
<b>Interest and dividend income:</b>				
Interest and fees on loans	\$3,457	\$2,847	\$ 610	21.43 %
<b>Securities:</b>				
Residential mortgage-backed securities	314	281	33	11.74
State and municipal securities	283	142	141	99.30
Dividends on non-marketable equity securities	3	2	1	50.00
Interest-bearing deposits	8	2	6	300.00
<b>Total interest and dividend income</b>	<b>4,065</b>	<b>3,274</b>	<b>791</b>	<b>24.16</b>
<b>Interest expense:</b>				
Deposits	443	507	(64 )	(12.62 )
Borrowings	32	-	32	100.00
<b>Total interest expense</b>	<b>475</b>	<b>507</b>	<b>(32 )</b>	<b>(6.31 )</b>
<b>Net interest income</b>	<b>\$3,590</b>	<b>\$2,767</b>	<b>\$ 823</b>	<b>29.74 %</b>

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances are monthly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield. The amortization of loan fees is included in computing interest income; however, such fees are not material.

	<b>Six Months Ended June 30,</b>							
	<b>2015</b>		<b>AVERAGE</b>		<b>2014</b>		<b>AVERAGE</b>	
	<b>AVERAGE</b>	<b>INTEREST</b>	<b>YIELD/</b>	<b>COST</b>	<b>AVERAGE</b>	<b>INTEREST</b>	<b>YIELD/</b>	<b>COST</b>
	<b>(Dollars in thousands)</b>							
<b>Interest-earning assets</b>								
Loans receivable, net (1)	\$139,788	\$ 3,457	4.95	%	\$110,081	\$ 2,847	5.17	%
Securities, net (2)	49,608	597	2.41	%	35,963	423	2.35	%
Non-marketable equity securities	1,640	3	0.37	%	1,234	2	0.32	%
Interest-bearing deposits	7,673	8	0.21	%	6,242	2	0.06	%
<b>Total interest-earning assets</b>	<b>198,709</b>	<b>4,065</b>	<b>4.09</b>	<b>%</b>	<b>153,520</b>	<b>3,274</b>	<b>4.27</b>	<b>%</b>
<b>Interest-bearing liabilities</b>								
Money Market accounts	\$28,731	\$ 30	0.21	%	\$20,721	\$ 25	0.24	%
Passbook accounts	22,898	8	0.07	%	18,432	7	0.08	%

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Certificates of Deposit accounts	95,046	400	0.84	%	83,997	472	1.12	%
Checking accounts	24,229	5	0.04	%	15,399	3	0.04	%
Advances and borrowed funds	2,680	32	2.39	%	-	-	0.00	%
Total interest-bearing liabilities	173,584	475	0.55	%	138,549	507	0.73	%
<b>NET INTEREST INCOME</b>		\$ 3,590				\$ 2,767		
<b>NET INTEREST RATE SPREAD (3)</b>			3.54	%			3.53	%
<b>NET INTEREST MARGIN (4)</b>			3.61	%			3.60	%
<b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b>			114.47	%			110.81	%

(1) Amount is net of deferred loan origination (costs) fees, undisbursed loan funds, unamortized discounts and allowance for loan losses and includes non-performing loans.

(2) Includes unamortized discounts and premiums.

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

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

The following table summarizes the changes in net interest income due to rate and volume for the six months ended June 30, 2015 and 2014. The column "Net" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

	<b>Six Months Ended June 30, 2015 Compared to 2014 Increase (Decrease) Due to VOLUME RATE NET (Dollars in Thousands)</b>		
Interest and dividends earned on			
Loans receivable, net	\$734	\$(124 )	\$610
Securities, net	164	10	174
Non-marketable equity securities	1	-	1
Interest-bearing deposits	1	5	6
Total interest-earning assets	\$900	\$(109 )	\$791
Interest expense on			
Money Market accounts	\$8	\$(3 )	\$5
Passbook accounts	2	(1 )	1
Certificates of Deposit accounts	46	(118 )	(72 )
Checking	2	-	2
Advances and borrowed funds	32	-	32
Total interest-bearing liabilities	90	(122 )	(32 )
Change in net interest income	\$810	\$ 13	\$823

Net interest income increased \$823,000, or 29.7%, to \$3.6 million for the six months ended June 30, 2015 compared to \$2.8 million for the six months ended June 30, 2014. Interest and dividend income increased \$791,000 due to the increase in average interest earning assets of \$45.2 million, offset by the yield decreasing on loans from 5.17% to 4.95%. The increase in earning assets is primarily attributable to the merger with Twin Oaks. The yield on the loan portfolio declined slightly as the low rate environment continued during the second quarter of 2015. In addition, loans increased \$29.7 million as a result of loans added to the Bank's portfolio in connection with the Merger. The increase in net interest income also included a \$32,000, or 6.3%, decrease in interest expense. The cost of funds declined 18 basis points, or 24.7%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014, due to the continued low rate environment. Additionally, the average balance of interest bearing liabilities increased by \$35.0 million, or 25.3%, primarily due to the Merger. Net interest margin improved slightly during the six months ended June 30, 2015 to 3.61% compared to 3.60% at June 30, 2014.

*Provision for Loan Losses.* Management recorded a loan loss provision of \$220,000 and \$470,000 for the six months periods ended June 30, 2015 and 2014, respectively. The provision is primarily attributed to the reserves required for the one-to-four family, non-residential and purchased auto segments as the economic conditions in the local market continue to negatively impact collateral values of real estate and the ability of borrowers to keep current per terms of

their obligations. The slow payment activity and continued decline of property values are the result of local economic conditions that are improving, but continue to lag national indicators, including higher levels of unemployment locally of 5.7%, versus 6.0% for the State of Illinois and the national level of 5.3%. Based on a review of the loans that were in the loan portfolio at June 30, 2015, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable

Management uses available information to establish the appropriate level of the allowance for loan losses. Future additions or reductions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. As a result, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect the Company's operating results. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

*Other Income.* The following table summarizes other income for the six months ended June 30, 2015 and 2014.

	<b>Six months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
<b>(Dollars in thousands)</b>				
Other income:				
Gain on sale of securities	\$22	\$-	\$ 22	100.00 %
Gain on sale of loans	90	7	83	1,185.71
Gain on sale of OREO	47	21	26	123.81
Gain on sale of repossessed assets	2	4	(2 )	(50.00 )
Origination of mortgage servicing rights, net of amortization	11	(3 )	14	466.67
Customer service fees	206	144	62	43.06
Income on bank owned life insurance	24	26	(2 )	(7.69 )
Other	53	55	(2 )	(3.64 )
<b>Total other income</b>	<b>\$455</b>	<b>\$254</b>	<b>\$ 201</b>	<b>79.13 %</b>

The increase in total other income was primarily due to gains on the sales of securities, increases on gain on sale of loans, and increases in customer service fees. The increase in customer service fees is primarily due to the increase in deposits related to the merger with Twin Oaks at December 31, 2014.

*Other Expenses.* The following table summarizes other expenses for the six months ended June 30, 2015 and 2014.

	<b>Six months ended June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>\$ change</b>	<b>% change</b>
<b>(Dollars in thousands)</b>				
Other expenses:				
Salaries and employee benefits	\$1,412	\$824	\$ 588	71.36 %
Directors fees	76	50	26	52.00
Occupancy	331	260	71	27.31
Deposit insurance premium	89	69	20	28.99
Legal and professional services	185	221	(36 )	(16.29 )
Data processing	1,172	139	1,033	743.17
Loss on sale of securities	2	-	2	100.00
Valuation adjustments and expenses on foreclosed real estate	110	42	68	161.90
Loss on sale of OREO	-	10	(10 )	(100.00)
Loss on sale of repossessed assets	12	3	9	300.00
Other	475	308	167	54.22
<b>Total other expenses</b>	<b>\$3,864</b>	<b>\$1,926</b>	<b>\$ 1,938</b>	<b>100.62 %</b>
Efficiency ratio (1)	95.53 %	63.75 %		

(1) Computed as other expenses divided by the sum of net interest income and other income.

The increase in other expenses was primarily due to the merger with Twin Oaks as of December 31, 2014 as there are now three branch locations to support rather than the one facility that existed as of June 30, 2014. Additionally, data processing costs increased because, until mid-May of 2015, we were supporting two core processing systems and have also incurred additional costs related to data conversion, including approximately \$0.5 million in early termination fees. The increase also includes increases in salaries and employee benefits, resulting from additional staff and directors in connection with the Merger, as well as annual merit increases. The efficiency ratio increased due to increased other expenses for the current period primarily related to the Merger.

*Income Taxes.* The Company recorded an income tax benefit of \$106,000 and an income tax expense of \$193,000 for the six months ended June 30, 2015 and 2014, respectively. The difference in effective tax rates between the periods is primarily a result of higher levels of tax exempt income during 2015. For the six months ended June 30, 2015 the Company had approximately \$291,000 in tax exempt income, compared to approximately \$155,000 for the six months ended June 30, 2014.

## LIQUIDITY AND CAPITAL RESOURCES

*Liquidity.* Liquidity management for the Bank is measured and monitored on both a short and long-term basis, allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to the Bank. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short-term investments, and funds provided from operations. While scheduled payments from amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We invest excess funds in short-term interest-earning assets, including federal funds sold, which enable us to meet lending requirements or long-term investments when loan demand is low.

At June 30, 2015 the Bank had outstanding commitments to originate \$1.4 million in loans, unfunded lines of credit of \$11.4 million, a commitment to purchase \$1.5 million in auto loans, and \$1.0 million in commitments to fund construction loans. In addition, as of June 30, 2015, the total amount of certificates of deposit that were scheduled to mature in the next 12 months was \$41.5 million. Based on prior experience, management believes that a majority 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 (“FHLBC”) advances, in order to maintain our level of assets. Alternatively, we could reduce our level of liquid assets, such as our cash and cash equivalents. As of June 30, 2015, the Bank had \$62.5 million of available credit from the FHLBC and there were \$2.7 million in FHLBC advances outstanding. In addition, as of June 30, 2015 the Bank had \$5.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders and for any repurchased shares of its common stock. Whether dividends are declared, and the timing and amount of any dividends declared, is subject to the discretion of our Board of Directors and depends on various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors that our Board of Directors deems relevant to its analysis and decision making. The Company’s primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the regulatory agencies but with prior notice to the regulatory agencies, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At June 30, 2015, the Company had cash and cash equivalents of \$277,000.

*Capital.* The Bank is required to maintain regulatory capital sufficient to meet Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. The Bank exceeded each of its minimum capital requirements and was considered “well capitalized” within the meaning of federal regulatory requirements with ratios at June 30, 2015 of 12.51%, 21.69% and 22.96%, respectively, compared to ratios at December 31, 2014 of



11.59%, 19.03% and 20.28%, respectively.

#### OFF-BALANCE SHEET ARRANGEMENTS

For the six months ended June 30, 2015, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This Item is not applicable as the Company is a smaller reporting company.

#### ITEM 4. CONTROLS AND PROCEDURES

##### *Controls and Procedures*

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including, its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, there have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II – Other Information**

### **ITEM 1 - LEGAL PROCEEDINGS**

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business that, in the aggregate, are believed by management to be material to the financial condition and results of operations of the Company.

### **ITEM 1A - RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. As of June 30, 2015, the risk factors of the Company have not changed materially from those reported in the Company's Annual Report on Form 10-K. However, the risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

### **ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

Exhibit No.      Description

- 3.1 Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed with the Securities and Exchange Commission on December 17, 2014)
- 3.2 Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company's Form 8-K filed on January 7, 2015)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certifications
- 101.0 The following materials from the Ottawa Savings Bancorp, Inc. Quarterly Report on Form 10-Q for the six months ended June 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) related notes.

Signature

Pursuant to the requirements 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.

OTTAWA SAVINGS BANCORP, INC.  
Registrant

Date: August 14, 2015

/s/ Jon L. Kranov  
Jon L. Kranov  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2015

/s/ Marc N. Kingry  
Marc N. Kingry  
Chief Financial Officer  
(Principal Financial Officer)