Ottawa Savings Bancorp, Inc.
Form 10-Q
May 15, 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 March 31, 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)

| | |
|---|---|
| **United States** | **20-3074627** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **925 LaSalle Street** | **61350** |
| **Ottawa, Illinois** | (Zip Code) |
| (Address of principal executive offices) | |

**(815) 433-2525**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year,

if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

| **Class** | **Outstanding as of May 15, 2015** |
|---|---|
| Common Stock, $0.01 par value | 2,894,123 |

**OTTAWA SAVINGS BANCORP, INC.**

**FORM 10-Q**

**For the quarterly period ended March 31, 2015**

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**Part I – Financial Information**

ITEM 1 – FINANCIAL STATEMENTS

**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Balance Sheets**

**March 31, 2015 and December 31, 2014**

(Unaudited)

| | **March 31, 2015** | **December 31, 2014** |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $2,028,298 | $2,053,117 |
| Interest bearing deposits | 4,256,657 | 3,140,118 |
| **Total cash and cash equivalents** | 6,284,955 | 5,193,235 |
| Time deposits | 754,861 | 854,861 |
| Federal funds sold | 3,035,000 | 1,662,000 |
| Securities available for sale | 48,975,663 | 52,772,108 |
| Non-marketable equity securities | 1,780,674 | 1,780,674 |
| Loans, net of allowance for loan losses of $2,486,825 and $2,314,607 at March 31, 2015 and December 31, 2014, respectively | 142,336,202 | 142,501,513 |
| Loans held for sale | 314,460 | - |
| Premises and equipment, net | 7,045,988 | 7,040,228 |
| Accrued interest receivable | 817,809 | 881,612 |
| Foreclosed real estate | 511,257 | 232,650 |
| Deferred tax assets | 2,872,985 | 3,055,068 |
| Cash value of life insurance | 2,160,227 | 2,148,043 |
| Goodwill | 649,869 | 649,869 |
| Core deposit intangible | 538,000 | 567,000 |
| Other assets | 2,336,418 | 2,386,030 |
| **Total assets** | $220,414,368 | $221,724,891 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | $9,197,595 | $8,198,356 |
| Interest bearing | 174,125,272 | 174,034,663 |
| **Total deposits** | 183,322,867 | 182,233,019 |
| Accrued interest payable | 1,793 | 369 |

| | | |
|---|---|---|
| FHLB advances | 2,690,308 | 5,483,036 |
| Other liabilities | 3,867,468 | 3,876,053 |
| **Total liabilities** | 189,882,436 | 191,592,477 |
| Commitments and contingencies | | |
| Redeemable common stock held by ESOP plan | 507,005 | 424,730 |
| **Stockholders' Equity** | | |
| Common stock, $.01 par value, 12,000,000 shares authorized; 3,001,055 shares issued | 30,010 | 30,010 |
| Additional paid-in-capital | 15,833,767 | 15,830,623 |
| Retained earnings | 15,567,076 | 15,423,412 |
| Unallocated ESOP shares | (241,661) | (254,380) |
| Unearned management recognition plan shares | (10,250) | (12,388) |
| Accumulated other comprehensive income | 565,108 | 327,255 |
| | 31,744,050 | 31,344,532 |
| Less: | | |
| Treasury stock, at cost; 106,932 shares | (1,212,118) | (1,212,118) |
| Maximum cash obligation related to ESOP shares | (507,005) | (424,730) |
| **Total stockholders' equity** | 30,024,927 | 29,707,684 |
| **Total liabilities and stockholders' equity** | $220,414,368 | $221,724,891 |

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Operations**

**Three Months Ended March 31, 2015 and 2014**

(Unaudited)

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2015** | **2014** |
| Interest and dividend income: | | |
| Interest and fees on loans | $1,739,584 | $1,395,784 |
| Securities: | | |
| Residential mortgage-backed and related securities | 157,273 | 145,329 |
| State and municipal securities | 142,027 | 69,578 |
| Dividends on non-marketable equity securities | 1,376 | 791 |
| Interest-bearing deposits | 5,352 | 1,360 |
| **Total interest and dividend income** | 2,045,612 | 1,612,842 |
| Interest expense: | | |
| Deposits | 224,255 | 261,828 |
| Borrowings | 15,868 | - |
| **Total interest expense** | 240,123 | 261,828 |
| **Net interest income** | 1,805,489 | 1,351,014 |
| Provision for loan losses | 165,000 | 225,000 |
| **Net interest income after provision for loan losses** | 1,640,489 | 1,126,014 |
| Other non-interest income: | | |
| Gain on sale of securities | 21,630 | - |
| Gain on sale of loans | 38,608 | 2,021 |
| Gain on sale of OREO | 5,491 | 16,193 |
| Customer service fees | 94,797 | 69,758 |
| Income on bank owned life insurance | 12,184 | 14,049 |
| Other | 26,419 | 25,682 |
| **Total other non-interest income** | 199,129 | 127,703 |
| Other non-interest expenses: | | |
| Salaries and employee benefits | 711,343 | 398,662 |
| Directors fees | 37,800 | 25,200 |
| Occupancy | 153,765 | 131,936 |
| Deposit insurance premium | 44,907 | 32,931 |
| Legal and professional services | 103,660 | 92,758 |
| Data processing | 374,928 | 67,821 |
| Loss on sale of securities | 2,039 | - |
| Valuation adjustments and expenses on foreclosed real estate | 20,098 | 22,821 |
| Loss on sale of OREO | - | 8,400 |
| Loss on sale of repossessed assets | 9,883 | 2,920 |
| Other | 221,187 | 125,523 |

| | | |
|---|---|---|
| **Total other non-interest expenses** | 1,679,610 | 908,972 |
| **Income before income tax expense** | 160,008 | 344,745 |
| Income tax expense | 16,344 | 110,746 |
| **Net income** | $143,664 | $233,999 |
| **Basic earnings per share** | $0.05 | $0.11 |
| **Diluted earnings per share** | $0.05 | $0.11 |

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Comprehensive Income**

**Three Months Ended March 31, 2015 and 2014**

(Unaudited)

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2015** | **2014** |
| Net income | $143,664 | $233,999 |
| Other comprehensive income (loss), before tax: | | |
| Securities available for sale: | | |
| Unrealized holding gains arising during the period | 408,355 | 117,385 |
| Reclassification adjustment for net (gains) included in net income | (19,591 ) | - |
| **Other comprehensive income, before tax** | 388,764 | 117,385 |
| Income tax expense related to items of other comprehensive income | 150,911 | 39,911 |
| **Other comprehensive income, net of tax** | 237,853 | 77,474 |
| **Comprehensive income** | $381,517 | $311,473 |

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Three Months Ended March 31, 2015 and 2014**

(Unaudited)

| | 2015 | 2014 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $143,664 | $233,999 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 56,426 | 44,704 |
| Provision for loan losses | 165,000 | 225,000 |
| Provision for deferred income taxes | 31,172 | (25,337) |
| Net amortization of premiums and discounts on securities | 171,845 | 141,825 |
| Gain on sale of securities, net | (19,591) | - |
| Origination of mortgage loans held for sale | (1,197,400) | (193,800) |
| Proceeds from sale of mortgage loans held for sale | 921,548 | 195,821 |
| Gain on sale of loans, net | (38,608) | (2,021) |
| Origination of mortgage servicing rights, net of amortization | 970 | 2,155 |
| Gain on sale of foreclosed real estate | (5,491) | (7,793) |
| Loss on sale of repossessed assets | 9,883 | 2,920 |
| ESOP compensation expense | 13,287 | 10,981 |
| MRP compensation expense | 2,138 | 2,137 |
| Compensation expense on RRP options granted | 2,576 | 2,575 |
| Amortization of core deposit intangible | 29,000 | - |
| Amortization (accretion) of fair value adjustments on acquired: | | |
| Loans | 6,847 | - |
| Certificates of deposit | (31,000) | - |
| Increase in cash surrender value of life insurance | (12,184) | (14,049) |
| Change in assets and liabilities: | | |
| Decrease in accrued interest receivable | 63,803 | 27,819 |
| Decrease in other assets | 21,925 | 131,800 |
| (Decrease) increase in accrued interest payable and other liabilities | (7,161) | 122,224 |
| **Net cash provided by operating activities** | 328,649 | 900,960 |
| Cash Flows from Investing Activities | | |
| Securities available for sale: | | |
| Purchases | (3,241,338) | (3,809,868) |
| Sales and paydowns | 7,274,293 | 1,626,411 |
| Net decrease in time deposits | 100,000 | - |
| Net (increase) decrease in federal funds sold | (1,373,000) | 2,001,000 |
| Net (increase) decrease in loans | (467,343) | 497,728 |
| Proceeds from sale of foreclosed real estate | 153,091 | 83,329 |
| Proceeds from sale of repossessed assets | 51,434 | 7,891 |
| Purchase of premises and equipment | (62,186) | (2,039) |

| | | |
|---|---|---|
| **Net cash provided by investing activities** | 2,434,951 | 404,452 |
| Cash Flows from Financing Activities | | |
| Net increase (decrease) in deposits | 1,120,848 | (2,830,055) |
| Principal reduction of Federal Home Loan Bank advances | (2,792,728) | - |
| **Net cash used in financing activities** | (1,671,880) | (2,830,055) |
| **Net increase (decrease) in cash and cash equivalents** | 1,091,720 | (1,524,643) |
| Cash and cash equivalents: | | |
| Beginning | 5,193,235 | 6,605,840 |
| Ending | $6,284,955 | $5,081,197 |

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Three Months Ended March 31, 2015 and 2014**

(Unaudited)

| | **2015** | **2014** |
|---|---|---|
| Supplemental Disclosures of Cash Flow Information | | |
| Cash payments for: | | |
| Interest paid to depositors | $ 222,831 | $ 260,725 |
| Interest paid on borrowings | 15,868 | - |
| Income taxes paid, net of (refunds) received | (13,800) | - |
| Supplemental Schedule of Noncash Investing and Financing Activities | | |
| Real estate acquired through or in lieu of foreclosure | 426,207 | 102,560 |
| Other assets acquired in settlement of loans | 34,600 | 16,750 |
| Sale of foreclosed real estate through loan origination | - | 144,000 |
| Increase in ESOP put option liability | 82,275 | 26,337 |

See accompanying notes to these unaudited consolidated financial statements.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

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 $220.4 million at March 31, 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 March 31, 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 March 31, 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.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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.

*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 March 31, 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.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

NOTE 5 – EARNINGS PER SHARE

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

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2015** | **2014** |
| Net income available to common stockholders | $143,664 | $233,999 |
| Basic potential common shares: | | |
| Weighted average shares outstanding | 2,894,123 | 2,117,979 |
| Weighted average unallocated ESOP shares | (25,000) | (30,888) |
| Weighted average unvested MRP shares | (2,795) | (4,539) |
| Basic weighted average shares outstanding | 2,866,328 | 2,082,552 |
| Dilutive potential common shares: | | |
| Weighted average unrecognized compensation on MRP shares | 2,338 | 5,520 |
| Weighted average RRP options outstanding * | 7,660 | - |
| Dilutive weighted average shares outstanding | 2,876,326 | 2,088,072 |
| Basic earnings per share | $0.05 | $0.11 |
| Diluted earnings per share | $0.05 | $0.11 |

* For the three months ended March 31, 2014, the effect of share options was not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 – EMPLOYEE STOCK OWNERSHIP PLAN

On July 11, 2005, the Company adopted an ESOP for the benefit of substantially all employees. Upon adoption of the ESOP, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company's stock in the initial public offering at a price of $10.00 per share.

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

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

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At March 31, 2015, 43,745 shares at a fair value of $11.59 have been classified as mezzanine capital.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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

| | **March 31, 2015** | **December 31, 2014** |
|---|---|---|
| Shares allocated | 52,148 | 50,876 |
| Shares withdrawn from the plan | (8,403) | (8,403) |
| Unallocated shares | 24,166 | 25,438 |
| Total ESOP shares | 67,911 | 67,911 |
| Fair value of unallocated shares | $280,084 | $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 |
|---|---|---|---|---|
| **March 31, 2015:** | | | | |
| **Available for Sale** | | | | |
| State and municipal securities | $19,208,189 | $533,463 | $ 36,069 | $19,705,583 |
| Residential mortgage-backed securities | 28,843,823 | 479,691 | 53,434 | 29,270,080 |
| | $48,052,012 | $1,013,154 | $ 89,503 | $48,975,663 |
| **December 31, 2014:** | | | | |
| **Available for Sale** | | | | |
| 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 |

The amortized cost and fair value at March 31, 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 | $243,041 | $243,571 |
| Due after one year through five years | 690,225 | 710,707 |
| Due after five years through ten years | 7,306,987 | 7,526,979 |
| Due after ten years | 10,967,936 | 11,224,326 |
| Residential mortgage-backed securities | 28,843,823 | 29,270,080 |
| | $48,052,012 | $48,975,663 |

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at March 31, 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 |
| **March 31, 2015** | | | | | | |
| **Securities Available for Sale** | | | | | | |
| State and municipal securities | $1,175,697 | $ 3,060 | $701,632 | $ 33,009 | $1,877,329 | $ 36,069 |
| Residential mortgage-backed securities | 1,922,972 | 7,493 | 4,109,733 | 45,941 | 6,032,705 | 53,434 |
| | $3,098,669 | $ 10,553 | $4,811,365 | $ 78,950 | $7,910,034 | $ 89,503 |
| **December 31, 2014** | | | | | | |
| **Securities Available for Sale** | | | | | | |
| 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 March 31, 2015, 17 securities had unrealized losses with an aggregate depreciation of 1.12% from the Company's amortized cost basis. The Company does not consider these investments to be other than temporarily impaired at March 31, 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 proceeds of $5.6 million from the sale of securities for the three months ended March 31, 2015, resulting in gross realized gains of $21,630 and gross realized losses of $2,039, for a net realized gain of $19,591. The tax provision applicable to this realized gain amounted to $7,605. There were no proceeds from the sales of securities for the three months ended March 31, 2014.

**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:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Mortgage loans: | | |
| One-to-four family residential loans | $97,071,329 | $98,144,990 |
| Multi-family residential loans | 2,919,900 | 3,111,650 |
| **Total mortgage loans** | 99,991,229 | 101,256,640 |
| | | |
| Other loans: | | |
| Non-residential real estate loans | 20,495,053 | 20,928,085 |
| Commercial loans | 14,934,929 | 12,242,145 |
| Consumer direct | 1,627,522 | 1,724,700 |
| Purchased auto | 7,774,294 | 8,664,550 |
| **Total other loans** | 44,831,798 | 43,559,480 |
| **Gross loans** | 144,823,027 | 144,816,120 |
| Less: Allowance for loan losses | (2,486,825 ) | (2,314,607 ) |
| **Loans, net** | $142,336,202 | $142,501,513 |

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.

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Mortgage loans: | | |
| One-to-four family residential loans | $23,054,719 | $23,667,808 |
| Multi-family residential loans | 524,375 | 529,147 |
| **Total mortgage loans** | 23,579,094 | 24,196,955 |

Other loans:

| | | |
|---|---|---|
| Non-residential real estate loans | 3,051,677 | 3,141,438 |
| Commercial loans | 981,952 | 1,450,602 |
| Consumer direct | 877,146 | 1,006,915 |
| Purchased auto | - | - |
| **Total other loans** | 4,910,775 | 5,598,955 |
| **Gross loans** | 28,489,869 | 29,795,910 |
| Less: Allowance for loan losses | - | - |
| **Loans, net** | $28,489,869 | $29,795,910 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Purchased auto loans | $- | $500,972 |

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| One-to-four family | $48,566 | $(106,949) |
| Multi-family | (352) | 4,376 |
| Non-residential | - | (45,754) |
| Commercial | - | - |
| Consumer direct | (23,488) | (947) |
| Purchased auto | (17,508) | (10,034) |
| Net (charge-offs)/recoveries | $7,218 | $(159,308) |

**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 March 31, 2015 and 2014:

| **March 31, 2015** | 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 | 95,169 | 9,714 | (16,925) | 8,019 | 33,626 | 35,397 | 165,000 |
| Loans charged off | - | (4,323) | - | - | (25,025) | (19,661) | (49,009) |
| Recoveries of loans previously charged off | 48,566 | 3,971 | - | - | 1,537 | 2,153 | 56,227 |
| Balance at end of period | $1,956,183 | $ 131,280 | $ 228,173 | $ 43,966 | $20,942 | $106,281 | $2,486,825 |

| **March 31, 2014** | 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 | 80,844 | 528 | 130,753 | 1,620 | 1,531 | 9,724 | 225,000 |
| Loans charged off | (111,400) | - | (45,754) | - | (947) | (13,443) | (171,544) |
| Recoveries of loans previously charged off | 4,451 | 4,376 | - | - | - | 3,409 | 12,236 |
| Balance at end of period | $2,251,220 | $ 146,271 | $ 473,214 | $ 31,585 | $ 2,282 | $71,700 | $2,976,272 |

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

| **March 31, 2015** | One-to-four Family | Multi-family | Non-residential | Commercial | Consumer Direct | Purchased Auto | Total |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $2,534,590 | $136,168 | $1,892,115 | $- | $- | $- | $4,562,873 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Loans acquired with deteriorated credit quality | 1,258,312 | - | 15,139 | - | - | - | 1,273,451 |
| Loans collectively evaluated for impairment | 93,278,427 | 2,783,732 | 18,587,799 | 14,934,929 | 1,627,522 | 7,774,294 | 138,986,703 |
| Ending Balance | $97,071,329 | $2,919,900 | $20,495,053 | $14,934,929 | $1,627,522 | $7,774,294 | $144,823,027 |
| Period-end amount allocated to: | | | | | | | |
| Loans individually evaluated for impairment | $121,365 | $1,168 | $- | $- | $- | $- | $122,533 |
| Loans collectively evaluated for impairment | 1,834,818 | 130,112 | 228,173 | 43,966 | 20,942 | 106,281 | 2,364,292 |
| Balance at end of period | $1,956,183 | $131,280 | $228,173 | $43,966 | $20,942 | $106,281 | $2,486,825 |

| **December 31, 2014** | One-to-four Family | Multi-family | Non-residential | Commercial | Consumer Direct | Purchased Auto | Total |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $2,352,445 | $257,399 | $2,007,871 | $- | $- | $10,971 | $4,628,686 |
| 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 | 1,769,393 | 121,918 | 245,098 | 35,947 | 10,804 | 88,392 | 2,271,552 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| impairment | | | | | | | |
| 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 March 31, 2015 and December 31, 2014:

| **March 31, 2015** | 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 | $6,131,065 | $2,713,002 | $1,079,900 | $3,792,902 | $ 121,365 | $3,621,020 |
| Multi-family | 260,358 | - | 136,168 | 136,168 | 1,168 | - |
| Non-residential | 1,948,256 | 1,907,254 | - | 1,907,254 | - | 2,027,140 |
| Commercial | - | - | - | - | - | - |
| Consumer direct | - | - | - | - | - | - |
| Purchased auto | - | - | - | - | - | - |
| | $8,339,679 | $4,620,256 | $1,216,068 | $5,836,324 | $ 122,533 | $5,648,160 |

| **December 31, 2014** | 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 months ended March 31, 2015 and 2014, the Company recognized no accrued or cash basis interest income on impaired loans.

At March 31, 2015, there were 63 impaired loans totaling approximately $5.8 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 four impaired loans totaling approximately $406,000 to OREO, the pay-off or charge-off of four impaired loans totaling approximately $191,000, returning one loan of approximately $73,000 to accruing, and payments of approximately $87,000, offset by adding five loans totaling approximately $642,000 to the impaired loan list.

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.

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

Impaired loans at March 31, 2015 included $2.7 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 $398,000, offset by writing down and moving two TDRs totaling approximately $311,000 to OREO, and payments of approximately $26,000. 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 months ended March 31, 2015 and 2014.

The troubled debt restructured loans that were restructured during the twelve months prior to March 31, 2015 and 2014 that had payment defaults during the three months ended March 31, 2015 and 2014, segregated by class are shown below.

| | Three Months Ended March 31, 2015 | | Three Months Ended March 31, 2014 | |
|---|---|---|---|---|
| | Number of Defaults (as of period end) | Recorded Investment | Number of Defaults (as of period end) | Recorded Investment |
| One-to-four family | - | $ - | 1 | $ 104,797 |
| Multi-family | - | - | - | - |
| Non-residential | - | - | - | - |
| Commercial | - | - | - | - |
| Consumer direct | - | - | - | - |
| Purchased auto | - | - | - | - |
| | - | $ - | 1 | $ 104,797 |

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 March 31, 2015 and December 31, 2014:

| **March 31, 2015** | Nonaccrual | Loans Past Due Over 90 Days Still Accruing |
|---|---|---|
| One-to-four family | $3,879,225 | $ - |
| Multi-family | 136,168 | - |
| Non-residential | 1,907,254 | - |
| Commercial | - | - |
| Consumer direct | - | - |
| Purchased auto | - | - |
| | $5,922,647 | $ - |

| **December 31, 2014** | Nonaccrual | Loans Past Due Over 90 Days Still Accruing |
|---|---|---|
| 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 | $ - |

**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

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

| **March 31, 2015** | 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 | $2,372,514 | $1,375,642 | $1,230,815 | $4,978,971 | $92,092,358 | $97,071,329 |
| Multi-family | 149,756 | - | 136,168 | 285,924 | 2,633,976 | 2,919,900 |
| Non-residential | 59,158 | 85,591 | 15,139 | 159,888 | 20,335,165 | 20,495,053 |
| Commercial | - | - | - | - | 14,934,929 | 14,934,929 |
| Consumer direct | 4,616 | 20,782 | - | 25,398 | 1,602,124 | 1,627,522 |
| Purchased auto | - | - | - | - | 7,774,294 | 7,774,294 |
| | $2,586,044 | $1,482,015 | $1,382,122 | $5,450,181 | $139,372,846 | $144,823,027 |

| **December 31, 2014** | 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 March 31, 2015 and December 31, 2014, the risk category of loans by class is as follows:

| **March 31, 2015** | Pass | Special Mention | Substandard | Doubtful | Not rated |
|---|---|---|---|---|---|
| One-to-four family | $- | $1,629,617 | $3,792,902 | $ - | $91,648,810 |
| Multi-family | - | - | 136,168 | - | 2,783,732 |
| Non-residential | 18,587,799 | - | 1,907,254 | - | - |
| Commercial | 14,393,556 | 541,373 | - | - | - |
| Consumer direct | - | - | - | - | 1,627,522 |
| Purchased auto | - | - | - | - | 7,774,294 |
| Total | $32,981,355 | $2,170,990 | $5,836,324 | $ - | $103,834,358 |

| **December 31, 2014** | 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 |
| Total | $30,535,501 | $2,082,641 | $5,952,333 | $ - | $106,245,645 |

At March 31, 2015, the Company held approximately $233,000 of foreclosed residential real estate property. In addition, the Company also held approximately $277,000 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 $5,000 both three month periods ended March 31, 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 three months ended March 31, 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, 2017 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 three months ended March 31, 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 March 31, 2015 and December 31, 2014.

| March 31, 2015 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| State and municipal securities available for sale | $ - | $19,705,583 | $ - | $19,705,583 |
| Residential mortgage-backed securities available for sale | - | 29,270,080 | - | 29,270,080 |
| | $ - | $48,975,663 | $ - | $48,975,663 |

| December 31, 2014 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| 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 March 31, 2015 and December 31, 2014.

| March 31, 2015 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Foreclosed assets | $ - | $ - | $547,539 | $547,539 |
| Impaired loans, net | - | - | 1,093,535 | 1,093,535 |

| December 31, 2014 | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Foreclosed assets | $ - | $ - | $295,650 | $295,650 |
| Impaired loans, net | - | - | 1,561,108 | 1,561,108 |

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

| | Carrying Amount | Fair Value Measurements at March 31, 2015 using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial Assets: | | | | | |
| Cash and cash equivalents | $6,284,955 | $6,284,955 | $- | $- | $6,284,955 |
| Time deposits | 754,861 | 754,861 | - | - | 754,861 |
| Federal funds sold | 3,035,000 | 3,035,000 | - | - | 3,035,000 |
| Securities | 50,756,337 | - | 48,975,663 | 1,780,674 | 50,756,337 |
| Net loans | 142,336,202 | - | - | 144,681,000 | 144,681,000 |
| Loans held for sale | 314,460 | 314,460 | - | - | 314,460 |
| Accrued interest receivable | 817,809 | 817,809 | - | - | 817,809 |
| Mortgage servicing rights | 270,849 | - | - | 270,849 | 270,849 |
| Financial Liabilities: | | | | | |
| Non-interest bearing deposits | 9,197,595 | 9,197,595 | - | - | 9,197,595 |
| Interest bearing deposits | 174,125,272 | - | - | 171,757,405 | 171,757,405 |
| Accrued interest payable | 1,793 | 1,793 | - | - | 1,793 |
| FHLB Advances | 2,690,308 | - | 2,690,308 | - | 2,690,308 |

| | Carrying Amount | Fair Value Measurements at December 31, 2014 using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial Assets: | | | | | |
| 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 |
| Financial Liabilities: | | | | | |
| 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 March 31, 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:

| | **2014** |
|---|---|
| **Assets** | |
| 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 |
| **Total assets acquired** | $60,900,209 |
| **Liabilities** | |
| Deposits | $49,610,398 |
| Accrued interest payable | 51 |

| | |
|---|---|
| FHLB Advances | 3,483,036 |
| Other liabilities | 681,724 |
| **Total liabilities assumed** | $53,775,209 |
| | |
| | $7,125,000 |

Total acquisition related costs included in other noninterest expenses in the consolidated statement of operations for the period ended March 31, 2015 and 2014 were approximately $243,000 and $31,000, respectively. For 2015, the acquisition related costs are related to the merge of the core processing systems. In 2014, the costs were mostly 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 three months ended March 31, 2015:

| | |
|---|---|
| Balance, beginning of year | $1,323,648 |
| Payment activity | (38,582 ) |
| Charge-offs | (15,959 ) |
| Recoveries | - |
| Transfer to OREO | - |
| Accretion to income | 4,344 |
| | $1,273,451 |

The accretable discount as of March 31, 2015 is $357,656.

Supplemental Pro Forma Results:

The following table includes pro forma unaudited results for the period ended March 31, 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

| | 2014 (unauaudited) (Dollar amounts in thousands) |
|---|---|
| Net interest income | $ 1,608 |
| Total other income | 165 |
| Total revenue | 1,773 |
| | |
| Net income | $ (37 ) |

A net pro forma adjustment of $8,000 was added to net income to reflect the net effect of purchase accounting adjustments amortized over the appropriate time frame.

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 March 31, 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 MARCH 31, 2015 AND DECEMBER 31, 2014**

The Company's total assets decreased $1.3 million, or 0.6%, to $220.4 million at March 31, 2015, from $221.7 million at December 31, 2014. The decrease in assets was primarily due to a decrease in securities available for sale of $3.8 million, partially offset by an increase in federal funds sold of $1.4 million and an increase in cash and cash equivalents of $1.1 million.

Cash and cash equivalents increased $1.1 million, or 21.0%, to $6.3 million at March 31, 2015 from $5.2 million at December 31, 2014, primarily as a result of cash provided by operating and investing activities exceeding cash used in financing activities.

Federal funds sold increased $1.4 million, or 82.6%, to $3.0 million at March 31, 2015 from $1.7 million at December 31, 2014, primarily as a result of cash provided by operating and investing activities exceeding cash used in financing activities.

Securities available for sale decreased $3.8 million, or 7.2%, to $49.0 million at March 31, 2015 from $52.8 million at December 31, 2014. The decrease was primarily due to sales of $5.6 million and pay-downs of $1.7 million, offset by $3.2 million in purchases and an increase in market values of approximately $0.4 million.

Loans, net of the allowance for loan losses, decreased $0.2 million, or 0.1%, to $142.3 million at March 31, 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 $0.9 million, a reduction of mortgage loans of $1.3 million, a decrease of $0.1 million in consumer direct loans and a decrease in non-residential real estate loans of $0.4 million. Partially offsetting these decreases was a $2.7 million increase in commercial loans. 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.

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Foreclosed real estate increased approximately $0.3 million, or 119.8%, to $0.5 million at March 31, 2015 from $0.2 million at December 31, 2014. The increase was primarily due to the addition of three properties valued at approximately $0.4 million acquired through loan foreclosures offset by the sale of one property with proceeds of $0.1 million.

Total deposits increased $1.1 million, or 0.6%, to $183.3 million at March 31, 2015, from $182.2 million at December 31, 2014. The increase is primarily due to an increase in checking and money market balances of $4.5 million, or 7.5%, and an increase in savings account balances of $0.4 million. These increases were partially offset by a decrease in certificates of deposit of $3.9 million, or 3.4%, from December 31, 2014 to March 31, 2015.

Equity increased approximately $0.3 million, or 1.1%, to $30.0 million at March 31, 2015, from $29.7 million at December 31, 2014. The increase in equity is primarily a result of net income for the three months ended March 31, 2015 of approximately $0.14 million and an increase in other comprehensive income of approximately $0.2 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 4.08% of total gross loan receivables as of March 31, 2015, down slightly 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 three months of 2015, nonaccrual loans decreased 2.0% to $5.9 million from $6.0 million as of December 31, 2014. The decrease was the result of writing down and moving four impaired loans totaling approximately $405,000 to OREO, the pay-off or charge-off of four impaired loans totaling approximately $191,000, returning one loan of approximately $73,000 to accruing, and payments of approximately $88,000, offset by adding five loans totaling approximately $642,000 to the impaired loan list.

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

| March 31, 2015 | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
|---|---|---|---|---|

| Non-accrual: | **(In Thousands)** | | | | |
|---|---|---|---|---|---|
| One-to-four family | $3,880 | $ 3,733 | $ 3,041 | $3,406 | $3,824 |
| Multi-family | 136 | 257 | 441 | 184 | - |
| Non-residential real estate | 1,907 | 2,039 | 1,726 | 2,092 | 2,488 |
| Commercial | - | - | - | - | - |
| Consumer direct | - | - | - | - | - |
| Purchased auto | - | 11 | - | 12 | - |
| Total non-accrual loans | 5,923 | 6,040 | 5,208 | 5,694 | 6,312 |
| Past due greater than 90 days and still accruing: | | | | | |
| One-to-four family | - | - | - | - | 196 |
| Non-residential real estate | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| Consumer direct | - | - | - | - | - |
| Total nonperforming loans | 5,923 | 6,040 | 5,208 | 5,694 | 6,508 |
| Foreclosed real estate | 511 | 233 | 332 | 666 | 468 |
| Other repossessed assets | 36 | 63 | 25 | 17 | 13 |
| Total nonperforming assets | $6,470 | $ 6,336 | $ 5,565 | $6,377 | $6,989 |

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

| | March 31, 2015 | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
|---|---|---|---|---|---|
| Allowance for loan losses as a percent of gross loans receivable | 1.71 % | 1.59 % | 2.60 % | 2.61 % | 2.60 % |
| Allowance for loan losses as a percent of total nonperforming loans | 41.99 % | 38.33 % | 57.89 % | 52.18 % | 45.73 % |
| Nonperforming loans as a percent of gross loans receivable | 4.08 % | 4.15 % | 4.49 % | 5.00 % | 5.69 % |
| Nonperforming loans as a percent of total assets | 2.69 % | 2.72 % | 3.24 % | 3.43 % | 3.87 % |
| Nonperforming assets as a percent of total assets | 2.94 % | 2.86 % | 3.46 % | 3.84 % | 4.15 % |

**COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014**

*General*. Net income for the three months ended March 31, 2015 was $144,000 compared to net income of $234,000 for the three months ended March 31, 2014. Net income during the first quarter of 2015 was lower than the first quarter of 2014, primarily due to higher operating costs associated with combining the IT core processing systems for the Bank and Twin Oaks onto one core processing system in connection with the Merger. This conversion is scheduled to occur during the second quarter of 2015.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the three months ended March 31, 2015 and 2014.

| | 2015 | 2014 | $ change | % change |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Interest and dividend income: | | | | |
| Interest and fees on loans | $1,740 | $1,396 | $ 344 | 24.64 % |
| Securities: | | | | |
| Residential mortgage-backed securities | 157 | 145 | 12 | 8.28 |
| State and municipal securities | 142 | 70 | 72 | 102.86 |
| Dividends on non-marketable equity securities | 1 | 1 | - | - |
| Interest-bearing deposits | 5 | 1 | 4 | 400.00 |
| **Total interest and dividend income** | 2,045 | 1,613 | 432 | 26.78 |
| Interest expense: | | | | |
| Deposits | 224 | 262 | (38 ) | (14.50 ) |
| Borrowings | 16 | - | 16 | 100.00 |

| | | | | |
|---|---|---|---|---|
| **Total interest expense** | 240 | 262 | (22 ) | (8.40 ) |
| **Net interest income** | $1,805 | $1,351 | $ 454 | 33.60 % |

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.

| | **Three Months Ended March 31,** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | | | | **2014** | | | |
| | **AVERAGE BALANCE** | **INTEREST** | **AVERAGE YIELD/ COST** | | **AVERAGE BALANCE** | **INTEREST** | **AVERAGE YIELD/ COST** | |
| | **(Dollars in thousands)** | | | | | | | |
| Interest-earning assets | | | | | | | | |
| Loans receivable, net (1) | $145,801 | $ 1,740 | 4.77 | % | $110,117 | $ 1,396 | 5.07 | % |
| Securities, net (2) | 48,592 | 299 | 2.46 | % | 36,077 | 215 | 2.38 | % |
| Non-marketable equity securities | 1,781 | 1 | 0.22 | % | 1,234 | 1 | 0.32 | % |
| Interest-bearing deposits | 8,182 | 5 | 0.24 | % | 7,591 | 1 | 0.05 | % |
| Total interest-earning assets | 204,356 | 2,045 | 4.00 | % | 155,019 | 1,613 | 4.16 | % |
| Interest-bearing liabilities | | | | | | | | |
| Money Market accounts | $27,590 | $ 14 | 0.20 | % | $21,441 | $ 13 | 0.24 | % |
| Passbook accounts | 22,831 | 4 | 0.07 | % | 18,181 | 3 | 0.07 | % |
| Certificates of Deposit accounts | 96,182 | 203 | 0.85 | % | 85,138 | 244 | 1.15 | % |
| Checking accounts | 24,537 | 3 | 0.05 | % | 15,320 | 2 | 0.05 | % |
| Advances and borrowed funds | 2,683 | 16 | 2.39 | % | - | - | 0.00 | % |
| Total interest-bearing liabilities | 173,823 | 240 | 0.55 | % | 140,080 | 262 | 0.75 | % |
| **NET INTEREST INCOME** | | $ 1,805 | | | | $ 1,351 | | |
| **NET INTEREST RATE SPREAD** (3) | | | 3.45 | % | | | 3.41 | % |
| **NET INTEREST MARGIN** (4) | | | 3.53 | % | | | 3.49 | % |
| **RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES** | | | 117.57 | % | | | 110.66 | % |

(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 March 31, 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 March 31, 2015 Compared to 2014 Increase (Decrease) Due to | | |
|---|---|---|---|
| | VOLUME | RATE | NET |
| | (Dollars in Thousands) | | |
| Interest and dividends earned on | | | |
| Loans receivable, net | $426 | $ (82) | $344 |
| Securities, net | 77 | 7 | 84 |
| Non-marketable equity securities | - | - | - |
| Interest-bearing deposits | - | 4 | 4 |
| Total interest-earning assets | $503 | $ (71) | $432 |
| Interest expense on | | | |
| Money Market accounts | $3 | $ (2) | $1 |
| Passbook accounts | 1 | - | 1 |
| Certificates of Deposit accounts | 23 | (64) | (41) |
| Checking | 1 | - | 1 |
| Advances and borrowed funds | 16 | - | 16 |
| Total interest-bearing liabilities | 44 | (66) | (22) |
| Change in net interest income | $459 | $ (5) | $454 |

Net interest income increased $454,000, or 33.6%, to $1.8 million for the three months ended March 31, 2015 compared to $1.4 million for the three months ended March 31, 2014. Interest and dividend income increased $432,000 due to the increase in average interest earning assets of $49.3 million, offset by the yield decreasing on interest earning assets from 4.16% to 4.00%. 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 first 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 $22,000, or 8.4%, decrease in interest expense. The cost of funds declined 20 basis points, or 26.7%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014, due to the continued low rate environment. Additionally, the average balance of interest bearing liabilities increased by $33.7 million, or 24.1%. Net interest margin improved during the three months ended March 31, 2015 to 3.53% compared to 3.49% at March 31, 2014.

*Provision for Loan Losses.* Management recorded a loan loss provision of $165,000 and $225,000 for the three months periods ended March 31, 2015 and 2014, respectively. The provision is primarily attributed to the reserves required for the one-to-four family, consumer direct 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 7.4%, versus 6.0% for the State of Illinois and the national level of 5.5%. Based on a review of the loans that were in the loan portfolio at March 31, 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 March 31, 2015 and 2014.

| | **Three months ended March 31,** | | | |
|---|---|---|---|---|
| | **2015** | **2014** | **$ change** | **% change** |
| | **(Dollars in thousands)** | | | |
| Other income: | | | | |
| Gain on sale of securities | $22 | $- | $ 22 | 100.00 % |

| | | | | |
|---|---|---|---|---|
| Gain on sale of loans | 39 | 2 | 37 | 1,850.00 |
| Gain on sale of OREO | 5 | 16 | (11) | (68.75) |
| Customer service fees | 95 | 70 | 25 | 35.71 |
| Income on bank owned life insurance | 12 | 14 | (2) | (14.29) |
| Other | 26 | 26 | - | - |
| **Total other income** | $199 | $128 | $ 71 | 55.47 % |

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 due to the increase in deposits of $49.6 million related to the merge with Twin Oaks at December 31, 2014.

*Other Expenses.* The following table summarizes other expenses for the three months ended March 31, 2015 and 2014.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2015 | 2014 | $ change | % change |
| | (Dollars in thousands) | | | |
| Other expenses: | | | | |
| Salaries and employee benefits | $711 | $399 | $ 312 | 78.20 % |
| Directors fees | 38 | 25 | 13 | 52.00 |
| Occupancy | 154 | 132 | 22 | 16.67 |
| Deposit insurance premium | 45 | 33 | 12 | 36.36 |
| Legal and professional services | 104 | 93 | 11 | 11.83 |
| Data processing | 375 | 68 | 307 | 451.47 |
| Loss on sale of securities | 2 | - | 2 | 100.00 |
| Valuation adjustments and expenses on foreclosed real estate | 20 | 23 | (3) | (13.04) |
| Loss on sale of OREO | - | 8 | (8) | (100.00) |
| Loss on sale of repossessed assets | 10 | 3 | 7 | 233.33 |
| Other | 221 | 125 | 96 | 76.80 |
| **Total other expenses** | $1,680 | $909 | $ 771 | 84.82 % |
| | | | | |
| Efficiency ratio (1) | 83.83% | 61.29% | | |

(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 March 31, 2014. Additionally, data processing costs increased because, as of March 31, 2015, we are supporting two core processing systems and have incurred additional costs related to the merger of these two systems, which will occur during the second quarter of 2015. 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 increases were partially offset by a decrease in valuation adjustments and expenses on foreclosed real estate and a decrease in losses on sale of OREO. Valuation adjustments and expenses on foreclosed real estate were lower due to the significantly reduced number of OREO properties held during the first quarter of 2015 as compared to the first quarter of 2014. The efficiency ratio decreased due to increased other expenses for the current period.

*Income Taxes.* The Company recorded income tax expenses of $16,000 and $111,000 for the three months ended March 31, 2015 and 2014, respectively. The effective tax rates for the quarters ended March 31, 2015 and 2014 were 10.21% and 32.12%, respectively. The decrease in 2015 is primarily due to higher tax exempt interest and other income.

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 March 31, 2015 the Bank had outstanding commitments to originate $0.2 million in loans, unfunded lines of credit of $11.7 million, a commitment to purchase $1.5 million in auto loans, and $0.4 million in commitments to fund construction loans. In addition, as of March 31, 2015, the total amount of certificates of deposit that were scheduled to mature in the next 12 months was $43.7 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 March 31, 2015, the Bank had $58.1 million of available credit from the FHLBC and there were $2.7 million in FHLBC advances outstanding. In addition, as of March 31, 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 March 31, 2015, the Company had cash and cash equivalents of $308,000.

*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 March 31, 2015 of 12.87%, 20.74% and 22.01%, respectively, compared to ratios at December 31, 2014 of 11.59%, 19.03% and 20.28%, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

For the three months ended March 31, 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 March 31, 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 Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended) |
| 3.2 | Bylaws of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended) |
| 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 quarter ended March 31, 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: May 15, 2015

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

Date: May 15, 2015

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