Ottawa Savings Bancorp, Inc.
Form 10-K
March 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For transition period from ______ to ______

Commission File Number 0-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact Name of Registrant as Specified in Charter)

United States	**20-3074627**
(State or other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**

925 LaSalle Street, Ottawa, Illinois	**61350**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's telephone number, including area code: (815) 433-2525

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

Indicate by check mark whether the issuer (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 (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 .

As of June 30, 2014, the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $6,403,696 (based on the last sale price of the common stock on the OTC Bulletin Board of $8.50 per share).

The number of shares of Common Stock of the registrant issued and outstanding as of March 30, 2015 was 2,894,123.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference into Part III.

OTTAWA SAVINGS BANCORP, INC.

Form 10-K for Fiscal Year Ended

December 31, 2014

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PART I

Forward-Looking Statements

This report includes forward-looking statements, including statements regarding our strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, future operations, market position, financial position, and prospects, plans and objectives of management. These forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ materially from those predicted in such forward-looking statements. A number of factors, some of which are beyond our ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to: recent and future bail out actions by the government; a further slowdown in the national and Illinois economies; a further deterioration in asset values locally and nationwide; volatility of rate sensitive deposits; changes in the regulatory environment; increasing competitive pressure in the banking industry; our ability to realize estimated cost savings from acquired or merged entities; our ability to successfully integrate acquired or merged entities with us; operational risks; *asset/liability matching risks and liquidity risks; continued access to liquidity sources; changes in the securities markets; changes in our borrowers' performance on loans; changes in critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies; changes in the equity and debt securities markets; effect of additional provision for loan losses; fluctuations of our stock price; success and timing of our business strategies; impact of reputation risk created by these developments on such matters as business generation and retention, funding and liquidity; and political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions. The consequences of these factors, any of which could hurt our business, could include, among others: 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 the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers' borrowing power and the value of assets and collateral associated with our existing loans; a reduction in the value of certain assets held by our company; an inability to meet our liquidity needs and an inability to engage in certain lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. Except to the extent required by applicable law or regulation the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made. See also "Item 1A. Risk Factors" and other risk factors discussed elsewhere in this Annual Report.*

ITEM 1.BUSINESS

General

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 $221.7 million at year-end 2014 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 occured 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, going forward they will be included. As a result of the Merger, the Company increased its market share in the La Salle County market and expanded into Grundy County. The Merger is expected to expand our customer base allowing us to enhance income by marketing additional products and services to new customers. We also expect reduced operating costs through economies of scale.

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.

Business Strategy

The Company's business strategy is to operate as a well-capitalized and profitable community savings bank dedicated to providing high quality customer service and innovative new products. The Bank operates three branches in Ottawa, Marseilles and Morris, Illinois. Each facility has an ATM and drive-up lanes to provide quality customer service to customers in the community.

Highlights of our business strategy are as follows:

- Continue to emphasize the origination of one-to four-family mortgage loans;
- Aggressively market core deposits;
- Offer a broad range of financial products and services to both retail and commercial customers in the Bank's market area;
- Pursue opportunities to increase non-residential real estate and multi-family lending in the Bank's market area;
- Continue to utilize conservative underwriting guidelines to limit credit risk in the Bank's loan portfolio to achieve a high level of asset quality; and
- Consider expanding into new market areas to grow the Bank's business through the addition of new branch locations and/or through possible acquisitions.

Market Area and Competition

The Company is headquartered in Ottawa, Illinois, which is located in north-central Illinois approximately 80 miles southwest of Chicago. Its market area, which benefits from its proximity to Chicago, includes all of LaSalle County and parts of Grundy County.

The Bank faces significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits and loans has historically come from the several financial institutions operating in our market area and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions, mortgage companies and mortgage brokers. Our main competitors include a number of significant independent banks. In addition, the Bank faces competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial

service companies entering the mortgage and consumer credit market, such as securities companies and specialty finance companies. The Bank believes that its long-standing presence in Ottawa, Illinois, its recent expansion into Grundy County as a result of the Twin Oaks acquisition, and its personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

Lending Activities

General. Our loan portfolio consists primarily of one-to-four family residential mortgage loans. To a lesser extent, our loan portfolio includes multi-family and non-residential real estate, commercial, construction and consumer loans. Substantially all of our loans are made within our local market, excluding our purchased loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan as of the dates indicated, including a reconciliation of gross loans receivable after consideration of the undisbursed portion of construction loan funds, the allowance for loan losses and net deferred costs (fees).

	At December 31,									
	2014		2013		2012		2011		2010	
	(Dollars in Thousands)									
	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total
One-to-four family	$87,800	60.29 %	$71,314	61.83 %	$75,609	60.24 %	$80,334	60.41 %	$82,442	58.75
Multi-family	2,869	1.97 %	2,507	2.17 %	4,629	3.69 %	5,580	4.20 %	6,237	4.44
Lines of credit	16,753	11.50 %	10,941	9.49 %	13,209	10.52 %	14,219	10.69 %	15,325	10.92
Non-residential real estate	20,016	13.74 %	15,842	13.73 %	18,897	15.06 %	20,058	15.08 %	20,362	14.51
Commercial	6,261	4.30 %	4,075	3.53 %	4,717	3.76 %	5,965	4.49 %	9,795	6.98
Construction	1,560	1.07 %	2,111	1.83 %	105	0.08 %	982	0.74 %	531	0.38
Consumer	10,389	7.13 %	8,554	7.42 %	8,353	6.65 %	5,832	4.39 %	5,637	4.02
Total loans, gross	145,648	100.00%	115,344	100.00%	125,519	100.00%	132,970	100.00%	140,329	100.00
Undisbursed portion of loan funds	(756)		(1,696)		(56)		(171)		(178)	
Allowance for loan losses	(2,315)		(2,910)		(3,381)		(4,747)		(4,703)	
Deferred loan costs (fees), net	(76)		(65)		(87)		(80)		(97)	
Total loans, net	$142,501		$110,673		$121,995		$127,972		$135,351	

Listed below are the outstanding balances of purchased loans, which have been included in the table above.

	At December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
One-to-four family	$212	$648	$697	$754	$796
Multi-family	623	645	2,332	2,405	2,465
Non-residential real estate	665	680	2,020	3,353	5,399
Purchased auto loans (included in consumer loans above)	8,665	8,162	7,810	5,179	4,658
Total	$10,165	$10,135	$12,859	$11,691	$13,318

Maturity of Loan Portfolio. The following tables show the remaining contractual maturity of our loans at December 31, 2014. The tables do not include the effect of possible prepayments or due on sale clause payments.

	At December 31, 2014							
	One-to-four family	**Multi-family**	**Lines of credit**	**Non-residential real estate**	**Commercial**	**Construction**	**Consumer**	**Total**
	(In Thousands)							
Amounts due one year or less	$1,146	$ 622	$4,405	$ 971	$ 1,384	$ 1,560	$ 190	$10,278
After one year								
More than one year to three years	829	-	984	2,158	1,342	-	1,970	7,283
More than three years to five years	1,538	363	2,319	318	2,143	-	4,827	11,508
More than five years to ten years	7,443	915	2,914	4,567	1,135	-	3,101	20,075
More than ten years to twenty years	33,189	652	6,131	7,639	257	-	301	48,169
More than twenty years	43,655	317	-	4,363	-	-	-	48,335
Total due after December 31, 2015	86,654	2,247	12,348	19,045	4,877	-	10,199	135,370
Gross loans receivable	$87,800	$ 2,869	$16,753	$ 20,016	$ 6,261	$ 1,560	$ 10,389	$145,648
Less:								
Undisbursed portion of loan funds								(756)
Allowance for loan losses								(2,315)
Deferred loan costs (fees), net								(76)
Total loans, net								$142,501

	Due After December 31, 2015		
	Fixed	**Adjustable**	**Total**
	(In Thousands)		
One-to-four family	$45,552	$ 41,102	$86,654
Multi-family	742	1,505	2,247
Lines of credit	1,371	10,977	12,348
Non-residential real estate	5,930	13,115	19,045
Commercial	4,521	356	4,877
Consumer	10,199	-	10,199
Total	$68,315	$ 67,055	$135,370

Asset Quality. Within our investment portfolio we have no subprime or Alt-A backed instruments among our securities. Historically, our lending activity has promoted home ownership in the communities we serve. Our consumer and residential mortgage loans are originated consistent with the underwriting approach described herein. This includes an assessment of each borrower's personal financial condition, including a review of credit reports and related FICO scores as well as verification of income and assets. The Company does not conduct lending programs that target the subprime market. During the ordinary course of business to achieve our goal of being a community bank, we originate and manage loans in our portfolio to some borrowers with a risk of default higher than customers considered prime. Thus, the extended economic downturn may affect us indirectly, albeit to a lesser extent than it will likely impact those banks and thrifts that produced and retained significant portfolios that targeted such loans and securities. While we believed that the nature of our one-to-four family lending niche and our underwriting standards would limit the impact of the downward turn in the credit cycle on the quality of our assets—particularly in comparison with those institutions that were directly targeting subprime and Alt-A lending—the downturn in the credit cycle resulted in our experiencing higher levels of charge-offs and/or provisions for loan losses, which impacted our results of operations.

One- to-Four Family Residential Loans. Our primary lending activity is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in our market area. We offer fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated or purchased at any time is largely determined by the demand for each in a competitive environment and the effect each has on our interest rate risk. The loan fees charged, interest rates, and other provisions of mortgage loans are determined by us on the basis of our own pricing criteria and competitive market conditions.

We offer fixed rate loans with terms of either 15, 20 or up to 30 years. We traditionally sell 30-year fixed rate loans into the secondary market, resulting in a fixed rate loan portfolio primarily composed of loans with less than 15 to 20 year terms. Our adjustable-rate mortgage loans are based on either a 15, 20 or up to 30 year amortization schedule and interest rates and payments on our adjustable-rate mortgage loans adjust every one, three or five years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the respective one, three, and five year monthly Constant Maturity Treasury indices (CMT). The maximum amount by which the interest rate may be increased or decreased is generally 1% to 2% per adjustment period, depending on the type of loan, and the lifetime interest rate ceiling is generally 5% over the initial interest rate of the loan. The initial and floor rates for owner occupied properties are 1.875%, 2.875% and 3.125% for the one, three and five year adjustable rate loans, respectively, and range of 4.5% to 6.50% for non-owner occupied one-to-four family properties, respectively, at this time.

Due to historically low interest rate levels, borrowers generally have preferred fixed-rate loans in recent years. While we anticipate that our adjustable-rate loans will better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loans in a rising interest rate environment could cause an increase in delinquencies and defaults. The

marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

While one-to-four family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

We originate loans to individuals and purchase loans that finance the construction of residential dwellings for personal use. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually ten months. At the end of the construction phase, most of our loans automatically convert to permanent mortgage loans. Construction loans generally can be made with a maximum loan to value ratio of 80% of the appraised value with maximum terms of 30 years. The largest outstanding residential construction loan at December 31, 2014 was $824,000, of which $400,000 was disbursed. We also require periodic inspections of the property during the term of the construction.

We generally do not make conventional loans with loan-to-value ratios exceeding 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance, government guarantee or additional collateral. We require all properties securing mortgage loans to be appraised by an independent appraiser approved by our Board of Directors and licensed by the State of Illinois. We require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, or flood insurance for loans on property located in a flood zone, before closing the loan.

We participate with the USDA Rural Development Company to offer loans to qualifying customers. Loans are granted up to 100% of appraised value and the USDA guarantees up to 80% of the loan. These loans require no down payment but are subject to maximum income limitations.

Lines of Credit. We offer lines of credit, principally home equity lines of credit, which have adjustable rates of interest that are indexed to the prime rate as published in *The Wall Street Journal* for terms of up to 20 years. These loans are originated with maximum loan-to-value ratios of 80% of the appraised value of the property, and we require that we have a second lien position on the property. We also offer secured and unsecured lines of credit for well-qualified individuals and small businesses. Management includes these loans based on the collateral supporting the line of credit in either the non-residential, multi-family, commercial or one-to-four family categories for the purposes of monitoring and evaluating the portfolio.

Multi-Family and Non-Residential Real Estate Loans. We offer fixed rate balloon and adjustable-rate mortgage loans secured by multi-family and non-residential real estate. Our multi-family and non-residential real estate loans are generally secured by condominiums, apartment buildings, single-family subdivisions and owner-occupied properties used for businesses.

We originate and purchase multi-family and non-residential real estate loans with terms generally up to 25 years. Interest rates and payments on adjustable-rate loans adjust every one, three and five years. Interest rates and payments on our adjustable rate loans generally are adjusted to a rate typically equal to the interest rate used for one- to- four family loan products, plus 50 basis points to 100 basis points based on credit-worthiness and risk. Loan amounts generally do not exceed 80% of the appraised value for well-qualified borrowers.

We originate and purchase land loans to individuals on approved residential building lots for personal use for terms of up to 15 years and to a maximum loan to value ratio of 80% of the appraised value. Our land loans are adjustable loans with adjustments occurring every one, three and five years, based on the original contract. Interest rate adjustments are based on the CMT plus a spread. For adjustable loans in this class, the loans generally have a floor ranging from the initial rate up to 4.875%.

We also make non-residential loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent mortgage loan. In the case of a single family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 70% of the appraised value as determined by an appraisal of the property made by an independent licensed appraiser. We also require periodic inspections of the property during the term of the construction loan. The largest non-residential loan at December 31, 2014 was a troubled debt

restructured loan from 2012 with a restructured balance of $1.8 million, of which $1.6 million is outstanding. This loan has been performing per its modified terms and will be returned to a performing status once scheduled principal payments begin. For adjustable loans in this category, there generally is an interest rate floor ranging from 3.75% to 6.00%.

Loans secured by multi-family and non-residential real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential mortgage loans. Of primary concern in multi-family and non-residential real estate lending is the borrower's credit-worthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. In reaching a decision on whether to make a multi-family or non-residential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property.

Commercial Loans. These loans consist of operating lines of credit secured by general business assets and equipment. We loan primarily to businesses with less than $5,000,000 in annual revenues. The operating lines of credit are generally short term in nature with interest rates tied to short term rates and adjustments occurring daily, monthly, or quarterly based on the original contract. For adjustable loans, there is an interest rate floor built in to them ranging from 3.75% to 6.00%. The equipment loans are typically made with maturities of less than five years and are priced with a fixed interest rate. The Bank has originated commercial loans from Bankers Healthcare Group in prior years. Bankers Healthcare Group specializes in loans to healthcare professionals of all specialties throughout the United States. These loans are primarily comprised of working capital and equipment loans. We underwrite these loans based on our criteria and service the loans in-house.

Consumer Loans. We offer a variety of consumer loans, which include auto, share loans and personal unsecured loans to our customer base and related individuals. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant’s payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant’s credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower’s continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws may limit the amount which can be recovered on such loans.

Purchased Auto Loans. The Bank purchases auto loans from regulated financial institutions. At December 31, 2014 and 2013, we had $8.7 million and $8.2 million of loans outstanding, respectively. These types of loans are primarily low balance individual auto loans. We have the opportunity to review the loans at least three days prior to our purchase and we have a right to refuse any specific loan within thirty days of the purchase of any given loan pool. During 2014, we purchased $4.0 million of auto loans.

Loan Origination, Purchases and Sales. Loan originations come from a number of sources. The primary source of loan originations are our in-house loan originators, and to a lesser extent, advertising and referrals from customers. We occasionally purchase loans or participation interests in loans. As of December 31, 2014, we had an aggregate of $10.2 million in purchased loan participations outstanding, including the auto loans purchased as discussed in the previous paragraph. The largest outstanding loan participation as of December 31, 2014 was a non-residential real estate loan for $0.7 million. This loan is performing in accordance with its terms.

We sell some of the longer-term fixed-rate one-to-four family mortgage loans that we originate in the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold without recourse and with servicing retained. We sold $3.1 million and $5.4 million of loans in the years ended December 31, 2014 and 2013, respectively. We occasionally sell participation interests in loans and may sell loan participations in the future.

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The following table shows our loan originations, purchases, sales and repayment activities for the periods indicated.

	For The Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In Thousands)				
Beginning balance, net	$110,673	$121,995	$127,972	$135,351	$148,700
Loans originated					
One-to-four family	8,725	9,686	12,924	5,666	19,872
Multi-family	-	19	77	129	562
Lines of credit	470	987	381	1,799	530
Non-residential real estate	2,775	3,182	3,888	4,015	1,085
Commercial	3,513	458	285	335	8,287
Construction	412	2,111	105	982	668
Consumer	505	248	265	190	481
Total loans originated	16,400	16,691	17,925	13,116	31,485
Loans acquired in Twin Oaks merger	29,796	-	-	-	-
Loans purchased					
One-to-four family	-	-	-	-	-
Multi-family	-	-	-	-	-
Non-residential real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	4,038	4,048	5,847	3,050	2,003
Total loans purchased	4,038	4,048	5,847	3,050	2,003
Loan sales(1)	(3,057)	(5,324)	(8,333)	(598)	(8,713)
Principal payments	(16,873)	(25,590)	(22,890)	(22,927)	(36,912)
Change in allowance for loan losses	595	471	1,366	(44)	(1,188)
Change in undisbursed loan funds	940	(1,640)	115	7	(26)
Change in deferred loan costs (fees), net	(11)	22	(7)	17	2
Ending balance, net	$142,501	$110,673	$121,995	$127,972	$135,351

(1) All loan sales were one-to-four family loans.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management.

For one-to-four family loans and owner occupied residential loans, our President may approve loans up to $400,000 and two members of our Board of Directors must approve loans over $400,000. Residential loans and all commercial loans above $400,000 up to $1 million in the aggregate to any borrower(s) must be approved by a majority of our officers' loan committee. This committee consists of our President, Vice President and our Commercial Banking Officer. For loans to any borrower(s) in the aggregate of more than $1 million up to $2 million, approval is required

by a majority of our level two loan committee, which consists of the officers' loan committee, one designated outside director and our Chairman of the Board. For loan requests above $2 million in the aggregate to any borrower(s), approval is required by a majority of the loan committee of the Board of Directors', which consists of the officers' loan committee and the Bank's Board of Directors as a whole.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited by regulation to generally 15% of our stated capital and reserves. At December 31, 2014, our regulatory maximum was $4.4 million.

Loan Commitments. We issue commitments for fixed-rate and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers and generally expire in 45 days.

Delinquencies. When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We make initial contact with the borrower when the loan becomes 10 days past due. If payment is not then received by the 30th day of delinquency, additional letters are sent and phone calls generally are made to the customer by the Vice President or President. When the loan becomes 120 days past due, we generally commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management informs the Board of Directors on a monthly basis of the amount of loans delinquent more than 60 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

Delinquent Loans

The following table presents information with respect to the delinquent loans at the dates indicated.

	December 31, 2014					
	60-89 Days		**90 Days or More**		**Total**	
	(Dollars in Thousands)					
	Number of Loans	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**
One-to-four family	4	$ 310	37	$ 1,741	41	$ 2,051
Multi-family	-	-	2	257	2	257
Lines of credit	-	-	-	-	-	-
Non-residential real estate	1	420	3	115	4	535
Construction	-	-	-	-	-	-
Consumer	-	-	1	11	1	11
Total	5	$ 730	43	$ 2,124	48	$ 2,854

	December 31, 2013					
	60-89 Days		**90 Days or More**		**Total**	
	(Dollars in Thousands)					
	Number of Loans	**Principal Balance**	**Number of Loans**	**Principal Balance**	**Number of Loans**	**Principal Balance**
One-to-four family	5	$ 429	10	$ 1,451	15	$ 1,880
Multi-family	-	-	-	-	-	-
Lines of credit	2	64	2	162	4	226
Non-residential real estate	2	428	2	319	4	747
Construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	9	$ 921	14	$ 1,932	23	$ 2,853

December 31, 2012

	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	5	$ 616	8	$ 613	13	$ 1,229
Multi-family	-	-	-	-	-	-
Lines of credit	-	-	3	1,009	3	1,009
Non-residential real estate	1	335	3	516	4	851
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer	1	19	-	-	1	19
Total	7	$ 970	14	$ 2,138	21	$ 3,108

	December 31, 2011					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	3	$ 849	25	$ 2,459	28	$ 3,308
Multi-family	-	-	1	305	1	305
Lines of credit	-	-	7	1,980	7	1,980
Non-residential real estate	1	57	5	709	6	766
Construction	-	-	-	-	-	-
Commercial	-	-	1	7	1	7
Consumer	2	43	2	5	4	48
Total	6	$ 949	41	$ 5,465	47	$ 6,414

	December 31, 2010					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	9	$ 1,948	31	$ 3,622	40	$ 5,570
Multi-family	-	-	-	-	-	-
Lines of credit	4	228	6	401	10	629
Non-residential real estate	2	184	8	1,248	10	1,432
Construction	-	-	-	-	-	-
Commercial	-	-	1	20	1	20
Consumer	3	23	-	-	3	23
Total	18	$ 2,383	46	$ 5,291	64	$ 7,674

Classified Assets. Federal Deposit Insurance Corporation regulations and our Asset Classification Policy provide that loans and other assets considered to be of lesser quality be classified as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as “special mention” if the asset has a potential weakness that warrants management’s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset. Loans classified as impaired for financial reporting

purposes are generally those loans classified as substandard or doubtful for regulatory reporting purposes.

An insured institution is required to establish allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required to charge off such amounts. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of the Comptroller of the Currency ("OCC").

On the basis of management's review of its assets, at December 31, 2014 and 2013, we had classified $2.1 million and $3.4 million, respectively, of our assets as special mention and $6.0 million and $5.8 million, respectively, of our assets as substandard. We had classified none of our assets as doubtful at December 31, 2014 and December 31, 2013. There were no assets classified as loss for the years ended December 31, 2014 or 2013. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Although the economy began to stabilize in our market during 2014, foreclosures and liquidations as a manner of reducing non-performing assets continued to prove costly, thus, when feasible, the Company continued its restructuring process with respect to certain non-performing loans that provided restructured loan terms based on the economic or legal reasons related to the borrower's financial difficulties. However, during 2014 there were no new A/B note restructurings. Troubled debt restructurings ("TDRs") are considered to be non-performing, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms of the restructured loan. At December 31, 2014, 14 loans (with aggregate balances of $2.6 million) of our 64 substandard loans (with aggregate balances of $6.0 million) were considered TDRs and were included in non-performing assets. There were no additions to loans classified as TDR's due to the Merger. At December 31, 2013, nine loans (with aggregate balances of $3.1 million) of our 38 substandard loans (with aggregate balances of $5.8 million) were considered TDRs and were included in non-performing assets. Seven of the 2013 TDRs less approximately $0.9 million in payments and write-downs remain included in nonperforming assets at December 31, 2014. During the year ended December 31, 2014, there were no new modifications classified as TDRs. Additionally, seven previously performing TDRs originally restructured in 2010, 2011 and 2012, totaling approximately $0.3 million at December 31, 2014 were returned to non-performing status throughout 2014.

The following table shows the amounts and relevant ratios of nonperforming assets for the periods indicated:

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Non-accrual:	**(In Thousands)**				
One-to-four family	$3,733	$3,549	$3,067	$6,755	$4,023
Multi-family	257	-	-	305	-
Non-residential real estate	2,039	2,332	2,986	1,566	1,248
Commercial	-	-	-	7	20
Consumer	11	-	-	14	-
Total non-accrual loans	6,040	5,881	6,053	8,647	5,291
Past due greater than 90 days and still accruing:					
One-to-four family	-	-	92	36	-
Lines of credit	-	-	15	-	-
Non-residential real estate	-	-	164	-	-
Total nonperforming loans	6,040	5,881	6,324	8,683	5,291
Foreclosed real estate	233	585	1,297	542	1,334
Other repossessed assets	63	13	9	40	28
Total nonperforming assets	$6,336	$6,479	$7,630	$9,265	$6,653

Ratios

December 31,

	2014	2013	2012	2011	2010
Allowance for loan losses as a percent of gross loans receivable	1.59 %	2.52 %	2.69 %	3.57 %	3.35 %
Allowance for loan losses as a percent of total nonperforming loans	38.33 %	49.48 %	53.46 %	54.67 %	88.89 %
Nonperforming loans as a percent of gross loans receivable	4.15 %	5.10 %	5.04 %	6.53 %	3.77 %
Nonperforming loans as a percent of total assets	2.72 %	3.45 %	3.53 %	4.75 %	2.71 %
Nonperforming assets as a percent of total assets	2.86 %	3.80 %	4.26 %	5.06 %	3.40 %

The total amount of non-accrual loans increased to $6.0 million from $5.9 million for the years ended December 31, 2014 and 2013, respectively. Total non-performing loans consist of 77 loans to 40 borrowers for the year ended December 31, 2014, as compared to 39 loans to 28 borrowers for the year ended December 31, 2013. The Merger added 34 loans to 14 borrowers, totaling approximately $1.3 million in non-accrual loans. For the years ended December 31, 2014 and 2013, gross interest income of $196,000 and $289,000, respectively, would have been recorded had the non-accrual loans at the end of the period been on accrual status throughout the period. We recognized no interest income on these loans.

The allowance for loan losses as a percentage of gross loans receivable was 2.52% as of December 31, 2013. It dropped to 1.59% as of December 31, 2014 due to the $29.8 million of loans acquired in the Merger that were accounted for at fair value. Excluding the $29.8 million of loans acquired in the Merger, the allowance for loan losses as a percentage of gross loans receivable would have been 1.90%.

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 are based upon a combination of factors including, but not limited to management's judgment and losses which are probable and reasonably estimable. Due to changing economic conditions which resulted in reduced charge-offs through June 30, 2013, management evaluated and changed the historical loss period used in the allowance for loan losses calculation during the quarter ended June 30, 2013. Through March 31, 2013, management used the most recent eight quarters of loss history to calculate historical loss rates. The weighting applied to the quarters was graduated, with heavier weightings applied to the most recent quarters of loss history. Beginning with the quarter ended June 30, 2013, management expanded the loss period and began using the most recent twelve quarters of loss history to calculate historical loss rates. The weighting applied to the quarters is still graduated, with heavier weightings applied to the most recent quarters of loss history; however, the weighting applied has a lesser graduation than the previous methodology. The new weighting applies 40% to each of the most recent four quarters and 30% to each of the next eight quarters. Management evaluated the impact of the change in methodology by calculating the allowance for loan losses using both the old methodology and the new methodology at June 30, 2013, and determined that the change in methodology did not have a material impact on the allowance for loan losses as of June 30, 2013.

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 December 31, 2014 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses.

Allowance for Loan Losses. The following table analyzes changes in the allowance for the periods indicated.

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
		(Dollars in Thousands)			
Balance at beginning of year	$2,910	$3,381	$4,747	$4,703	$3,515
Chargeoffs:					
One-to-four family	976	1,136	2,352	1,666	821
Multi-family	183	282	133	250	-
Non-residential real estate	336	84	772	3,224	952
Commercial	-	-	52	-	321
Consumer	116	17	27	43	48
	1,611	1,519	3,336	5,183	2,142
Recoveries:					
One-to-four family	81	14	49	1	3
Multi-family	24	15	-	-	-
Non-residential real estate	-	136	-	35	-
Consumer	10	8	9	11	18
	115	173	58	47	21
Net charge-offs	1,496	1,346	3,278	5,136	2,121
Additions charged to operations	901	875	1,912	5,180	3,309
Balance at end of year	$2,315	$2,910	$3,381	$4,747	$4,703
Net charge-offs to average gross loans outstanding	1.30 %	1.12 %	2.52 %	3.79 %	1.45 %

Allocation of Allowance for Loan Losses. The following table presents an analysis of the allocation of the allowance for loan losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	2014				
	Amount	**Percent Of Allowance To Total Allowance**		**Percent Of Gross Loans In Each Category To Total Gross Loans**	
	(Dollars in Thousands)				
One-to-four family	$1,813	78.30	%	60.29	%
Multi-family	122	5.27	%	1.97	%
Lines of credit (1)	-	-	%	11.50	%
Non-residential real estate	245	10.59	%	13.74	%
Commercial	36	1.56	%	4.30	%
Construction (1)	-	-	%	1.07	%
Consumer	99	4.28	%	7.13	%
Total allowance for loan losses	$2,315	100.00	%	100.00	%

	2013				
	Amount	**Percent Of Allowance To Total Allowance**		**Percent Of Gross Loans In Each Category To Total Gross Loans**	
	(Dollars in Thousands)				
One-to-four family	$2,277	78.25	%	61.83	%
Multi-family	141	4.85	%	2.17	%
Lines of credit (1)	-	0	%	9.49	%
Non-residential real estate	388	13.33	%	13.73	%
Commercial	30	1.03	%	3.53	%
Construction (1)	-	0	%	1.83	%
Consumer	74	2.54	%	7.42	%
Total allowance for loan losses	$2,910	100.00	%	100.00	%

2012
(Dollars in Thousands)

One-to-four family	$2,057	60.84 %	60.24 %
Multi-family	162	4.79 %	3.69 %
Lines of credit (1)	-	- %	10.52 %
Non-residential real estate	1,012	29.93 %	15.06 %
Commercial	75	2.22 %	3.76 %
Construction (1)	-	- %	0.08 %
Consumer	75	2.22 %	6.65 %
Total allowance for loan losses	$3,381	100.00 %	100.00 %

	2011		
	(Dollars in Thousands)		
One-to-four family	$3,113	65.58 %	60.41 %
Multi-family	438	9.23 %	4.20 %
Lines of credit (1)	-	- %	10.69 %
Non-residential real estate	1,146	24.14 %	15.08 %
Commercial	11	0.23 %	4.49 %
Construction (1)	-	- %	0.74 %
Consumer	39	0.82 %	4.39 %
Total allowance for loan losses	$4,747	100.00 %	100.00 %

	2010		
	(Dollars in Thousands)		
One-to-four family	$2,425	51.56 %	58.75 %
Multi-family	106	2.25 %	4.44 %
Lines of credit (1)	-	- %	10.92 %
Non-residential real estate	1,880	39.98 %	14.51 %
Commercial	227	4.83 %	6.98 %
Construction (1)	-	0.00 %	0.38 %
Consumer	65	1.38 %	4.02 %
Total allowance for loan losses	$4,703	100.00%	100.00%

(1) Allowances applicable to Lines of Credit and Construction loans are maintained in the related category of the underlying collateral.

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific, but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectability in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral, if applicable, and economic conditions in our market areas. First, we group loans by delinquency status. All loans 90 days or more delinquent and all loans classified as substandard or doubtful are evaluated individually, based primarily on the value of the collateral securing the loan. Specific loss allowances are established as required by this analysis. All loans for which a specific loss allowance has not been assigned are segregated by type and delinquency status and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers significant. The allowance is allocated to each category of loan based on the results of the above analysis.

Total allowance for loan losses decreased $0.6 million to $2.3 million at December 31, 2014 from $2.9 million at December 31, 2013. The decrease in the allowances for loan losses was primarily due to a decrease of $0.4 million in the general portion of the reserve. The decrease in the general portion was due primarily to the stabilization of the nonperforming asset levels and charge-off levels which had a favorable impact on the historical loss factors. The historical loss factor for one-to-four family and non-residential property declined the most due to the historical loss percentage improving as well as decreases in the qualitative factors as risks in their segment continue to lessen. The historical loss factors increased slightly for the other categories with the largest increase in the consumer segment. Additionally, management reduced the qualitative factors for most of the segments related to the economy to reflect the stabilization of local economic conditions, which began in mid-2014. Augmenting this decrease was a decrease of $222,000 of specific reserves on impaired loans. Impaired loans were $6.0 million with a valuation allowance of $43,000 at December 31, 2014, as compared to $5.8 million with a valuation allowance of $265,000 at December 31, 2013. Of the $6.0 million of impaired loans, $1.3 million were acquired in the merger with Twin Oaks and valued per FASB ASC 310-30 (see Note 2 to the Notes to the Consolidated Financial Statements).

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at a level to

absorb probable and estimable losses, additions may be necessary if economic or other conditions in the future differ from the current environment.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities and certificates of deposit of federally insured institutions.

At December 31, 2014, our investment portfolio consisted primarily of municipal securities with maturities of five to more than ten years and residential mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae with stated final maturities of 30 years or less.

Our investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of interest rate risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. Our Board of Directors has the overall responsibility for our investment portfolio, including approval of our investment policy and appointment of our Investment Committee. The Investment Committee is responsible for approval of investment strategies and monitoring of investment performance. Our President is the designated investment officer and the CFO and the President are responsible for the daily investment activities and are authorized to make investment decisions consistent with our investment policy. The Investment Committee, consisting of five external Board of Director members, meets regularly with the President and CFO to review and determine investment strategies and transactions.

The following table sets forth the carrying value of our investment portfolio at the dates indicated.

	December 31, 2014		2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)					
Available-for-sale						
State and municipal securities	$20,225	$20,225	$8,444	$8,444	$7,121	$7,121
Residential mortgage-backed securities	32,547	32,547	26,103	26,103	21,743	21,743
Total available-for-sale	$52,772	$52,772	$34,547	$34,547	$28,864	$28,864

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2014 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Certain mortgage-backed securities have interest rates that are adjustable and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below.

	At December 31, 2014									
	One Year or Less		More than One Year Through Five Years		More than Five Years Through Ten Years		More than Ten Years		Total Securities	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in Thousands)									
Available-for-sale securities:										
State and municipal securities	$444	2.16 %	$956	3.77 %	$7,516	4.71 %	$11,309	4.83 %	$20,225	4.68 %
Residential mortgage-backed securities	-	0.00 %	28,648	2.47 %	3,899	3.03 %	-	0.00 %	32,547	2.54 %
Total securities available-for-sale	$444	2.16 %	$29,604	2.51 %	$11,415	4.14 %	$11,309	4.83 %	$52,772	3.36 %

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions.

Deposit Accounts. The vast majority of our depositors are residents of LaSalle County. Deposits are raised primarily from within our primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, club savings accounts, certificate accounts and various retirement accounts. The Bank also is a member of the Certificate of Deposit Registry Service (CDARS), which allows the Bank to retain high deposit relationships with its depository customer base, while still allowing the customer to enjoy FDIC deposit insurance on amounts in excess of the current limit of $250,000. Other than our relationship with CDARS, we do not utilize brokered funds. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates, but not be the market leader in every type and maturity.

The following table sets forth the dollar amount of deposits by type as of the dates indicated.

	December 31, 2014			2013			2012		
	Amount	**Percent Of Total**		**Amount**	**Percent Of Total**		**Amount**	**Percent Of Total**	
	(Dollars In Thousands)								
Non-Interest Bearing Checking	$8,198	4.50	%	$5,219	3.58	%	$4,314	2.78	%
Interest Bearing Checking	22,847	12.54	%	14,382	9.87	%	12,425	8.01	%
Money Market accounts	29,278	16.07	%	21,795	14.95	%	20,666	13.33	%
Savings accounts	22,765	12.49	%	16,941	11.62	%	15,218	9.81	%
Certificates of Deposit accounts	99,145	54.40	%	87,432	59.98	%	102,452	66.07	%
Total deposit accounts	$182,233	100.00	%	$145,769	100.00	%	$155,075	100.00	%
Certificate Accounts, by rate									
Less than 1.00%	$54,000	54.47	%	$41,752	47.75	%	$35,118	34.28	%
1.00% to 1.99	35,840	36.15	%	28,584	32.69	%	24,781	24.19	%
2.00% to 2.99	6,223	6.27	%	13,565	15.52	%	32,124	31.35	%
3.00% to 3.99	3,072	3.10	%	3,531	4.04	%	9,571	9.34	%
4.00% to 4.99	10	0.01	%	-	0.00	%	858	0.84	%
5.00% to 5.99	-	0.00	%	-	0.00	%	-	0.00	%
Total Certificate Accounts	$99,145	100.00	%	$87,432	100.00	%	$102,452	100.00	%

The following table sets forth the distribution of average deposit accounts, by account type, at the dates indicated.

	Years Ended December 31,					
	2014		2013		2012	
	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount
	(Dollars In Thousands)					
Non-Interest Bearing Checking	0.00%	$4,448	0.00%	$4,187	0.00%	$3,882
Interest Bearing Checking	0.05%	14,982	0.05%	13,465	0.06%	12,493
Money Market accounts	0.23%	19,627	0.24%	20,837	0.29%	20,369
Passbook accounts	0.06%	18,206	0.06%	16,642	0.08%	15,026
Certificate of Deposit accounts	0.98%	82,056	1.20%	95,916	1.70%	107,805
Total	0.63%	$139,319	0.80%	$151,047	1.21%	$159,575

Deposit Activity. The following table sets forth the deposit activities for the periods indicated.

	Years Ended December 31,		
	2014	2013	2012
	(In Thousands)		
Beginning of period	$145,769	$155,075	$159,948
Deposits acquired in Twin Oaks Merger	49,610	-	-
Net deposits (withdrawals)	(14,050)	(10,672)	(6,916)
Interest credited on deposit accounts	904	1,366	2,043
End of period	$182,233	$145,769	$155,075
Percent change	25.01%	-6.00%	-3.05%

The following table indicates the amount of certificates of deposit as of December 31, 2014, by time remaining until maturity.

	Three Months Or Less	**Over Three To Six Months**	**Over Six To Twelve Months**	**Over Twelve Months**	**Total**
	(In Thousands)				
Less than $100,000	$7,819	$7,116	$13,098	$31,927	$59,960
$100,000 to $250,000	3,435	3,597	6,208	19,843	33,083
Over $250,000	293	1,064	565	4,180	6,102
Total	$11,547	$11,777	$19,871	$55,950	$99,145

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Total**
	(In Thousands)					
Less than 1.00%	$34,988	$15,450	$3,069	$493	$-	$54,000
1.00% to 1.99%	857	3,669	10,634	11,821	8,859	35,840
2.00% to 2.99%	4,269	1,899	50	5	-	6,223
3.00% to 3.99%	3,071	1	-	-	-	3,072
4.00% to 4.99%	10	-	-	-	-	10
5.00% to 5.99%	-	-	-	-	-	-
Total	$43,195	$21,019	$13,753	$12,319	$8,859	$99,145

Borrowings. If necessary, we borrow from the Federal Home Loan Bank of Chicago to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank functions as a central

reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities that are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's credit-worthiness. Under its current credit policies, the Federal Home Loan Bank generally limits advances to 25% of a member's assets, and short-term borrowings of less than one year may not exceed 10% of the institution's assets. The Federal Home Loan Bank determines specific lines of credit for each member institution. There were approximately $5.5 million of Federal Home Loan Bank advances outstanding at December 31, 2014. At December 31, 2014, we had the ability to borrow $57.2 million from the Federal Home Loan Bank of Chicago. In addition, as of December 31, 2014, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase federal funds.

Personnel

At December 31, 2014, we had 35 full-time employees and 9 part-time employees, none of whom is represented by a collective bargaining unit. The Merger added 16 full-time employees and 5 part-time employees. We believe our relationship with our employees is good.

Subsidiaries

The Company's only subsidiary is Ottawa Savings Bank.

REGULATION AND SUPERVISION

General

Ottawa Savings Bank as an insured federal savings bank is subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC"), as its primary federal regulator, and the Federal Deposit Insurance Corporation, as the insurer of its deposits. Ottawa Savings Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund ("DIF") managed by the Federal Deposit Insurance Corporation. Ottawa Savings Bank must file reports with the OCC and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC and, under certain circumstances, the Federal Deposit Insurance Corporation to evaluate Ottawa Savings Bank's safety and soundness and compliance with various

regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OCC, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on Ottawa Savings Bancorp, Inc., Ottawa Savings Bancorp MHC and Ottawa Savings Bank and their operations.

Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC, as savings and loan holding companies, are required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Ottawa Savings Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes to the regulation and supervision of financial institutions, including the Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision ("OTS") was eliminated and responsibility for the supervision and regulation of federal savings associations was transferred to the OCC on July 21, 2011. At the same time, the responsibility for supervising and regulating the savings and loan holding companies like Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC was transferred to the Federal Reserve Board. In addition, the Dodd-Frank Act created a new agency, the Consumer Financial Protection Bureau which assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of $10.0 billion or less in assets, such as Ottawa Savings Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau. Many of the provisions of the Dodd-Frank Act require the issuance of regulations before their impact on operations can be fully assessed by management. However, there is a significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden and compliance costs for Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC.

Certain of the regulatory requirements that are applicable to Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Ottawa Savings Bank, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC and is qualified in its entirety by reference to the actual statutes and regulations.

Regulation of Federal Savings Banks

Business Activities. Federal laws and regulations govern the activities of federal savings banks, such as the Ottawa Savings Bank. These laws and regulations delineate the nature and extent of the activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

The Dodd-Frank Act authorizes depository institutions to pay interest on commercial demand deposits effective July 21, 2011.

Capital Requirements. The applicable capital regulations require federal savings banks to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio; a 4% Tier 1 capital to total assets leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The regulations also require that, in meeting the tangible, leverage and risk-based capital standards, banks must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings banks to maintain Tier 1 (core) and total capital (which is defined as core capital and supplementary capital, less certain specified deductions from total capital such as reciprocal holdings of depository institution capital, instruments and equity investments) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, as assigned by the capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is generally defined as common stockholders’ equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary (Tier 2) capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OCC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2014, the Bank met each of its capital requirements.

Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies, including savings and loan holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. On August 30, 2012, the federal banking agencies issued proposed rules that would implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which became effective on January 1, 2015, and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to Ottawa Savings Bancorp and Ottawa Savings Bank are: (1) a new common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 capital ratio of 6% (increased from 4%); (3) a total capital ratio of 8% (unchanged from current rules); and (4) a Tier 1 leverage ratio of 4% for all institutions. The rules eliminated the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital. Instruments issued before May 19, 2010 are grandfathered for companies with consolidated assets of $15 billion or less. The rules also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

As of December 31, 2014, our current capital levels exceed the required capital amounts to be considered "well capitalized" and we believe they also meet the fully-phased in minimum capital requirements, including the related capital conservation buffers, as required by the Basel III capital rules.

Prompt Corrective Regulatory Action. The OCC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings bank that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings bank that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than

3% is considered to be "significantly undercapitalized" and a savings bank that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OCC is required to appoint a receiver or conservator within specified time frames for an institution that is "critically undercapitalized." An institution must file a capital restoration plan with the OCC within 45 days of the date it receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OCC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

In addition to the increase in capital requirements set forth in the Dodd-Frank Act, federal banking agencies have the authority to impose higher capital requirements on an individual bank basis. These requirements may be greater than those set forth in the Dodd-Frank Act or that would qualify a bank as being "well capitalized" under the FDIC's prompt corrective action regulations.

Loans to One Borrower. Federal law provides that savings banks are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, savings banks may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OCC determines that a savings bank fails to meet any standard prescribed by the guidelines, the OCC may require the savings bank to submit an acceptable plan to achieve compliance with the standard.

Limitation on Capital Distributions. Federal regulations impose limitations upon all capital distributions by a savings bank, including cash dividends, payments to repurchase its shares and payments to stockholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the OCC is required before any capital distribution if the savings bank does not meet the criteria for "expedited treatment" of applications under OCC regulations (i.e., generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the savings bank would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OCC. If an application is not required, the savings bank must still provide 30 days prior written notice to the Federal Reserve Board of the capital distribution if, like Ottawa Savings Bank, it is a subsidiary of a holding company, as well as a written notice filing with the OCC. If Ottawa Savings Bank's capital were ever to fall below its regulatory requirements or the OCC notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the OCC could prohibit a proposed capital distribution that would otherwise be permitted by the regulation, if the agency determines that such distribution would constitute an unsafe or unsound practice.

Qualified Thrift Lender Test. Federal law requires savings banks to meet a qualified thrift lender test. Under the test, a savings bank is required to either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily multi-family residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least 9 months out of each 12 month period.

A savings bank that fails the qualified thrift lender test is subject to certain operating restrictions. The Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of December 31, 2014, Ottawa Savings Bank maintained 88.4% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Transactions with Related Parties. Federal law limits Ottawa Savings Bank's authority to lend to, and engage in certain transactions (collectively, "covered transactions") with "affiliates" (*e.g.*, any company that controls or is under common control with an institution), including Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus

of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Loans and other specified transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings banks are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings bank may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption from such prohibition for loans by Ottawa Savings Bank to its executive officers and directors in compliance with federal banking regulations. Federal regulations require that all loans or extensions of credit to executive officers and directors of insured institutions and 10% stockholders ("insiders"), as well as entities such persons control, must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with parties not related to Ottawa Savings Bancorp, Inc. or Ottawa Savings Bank and must not involve more than the normal risk of repayment or present other unfavorable features. Ottawa Savings Bank is therefore prohibited from making any new loans or extensions of credit to executive officers and directors at different rates or terms than those offered to the general public. Notwithstanding this rule, federal regulations permit the Bank to make loans to executive officers and directors at reduced rates if the loan is made under a benefit program generally available to all other employees and does not give preference to any executive officer or director over any other employee. All past banking transactions between Ottawa Savings Bancorp, Inc. and its officers and directors: (i) were made in the ordinary course of business; (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Ottawa Savings Bancorp, Inc.; and (iii) did not involve more than the normal risk of collectability or present other unfavorable features.

In accordance with banking regulations, the Board of Directors reviews all loans made to a director or executive officer in an amount that, when aggregated with the amount of all other loans to such person and his or her related interests, exceed the greater of $25,000 or 5% of Ottawa Savings Bancorp's capital and surplus (up to a maximum of $500,000) and such loans must be approved in advance by a majority of the disinterested members of the Board of Directors. Additionally, pursuant to the Company's Code of Ethics and Business Conduct, all executive officers and directors of the Company must disclose any existing or emerging conflicts of interest to the President and Chief Executive Officer of the Company. Such potential conflicts of interest include, but are not limited to, the following: (i) the Company conducting business with or competing against an organization in which a family member of an executive officer or director has an ownership or employment interest; and (ii) the ownership of more than 1% of the outstanding securities (or that represents more than 5% of the total assets of the employee and/or family member) of any business entity that does business with or is in competition with the Company.

Enforcement. The OCC has primary enforcement responsibility over federal savings banks and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors, to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases subject to adjustments for inflation. The Federal Deposit Insurance Corporation ("FDIC") has authority to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Assessments. Federal savings banks are required to pay assessments to the OCC to fund its operations. The general assessments, paid on a semi-annual basis, are based upon the savings bank's total assets, including consolidated subsidiaries, as reported in the institution's latest quarterly thrift financial report or call report, its financial condition and the complexity of its portfolio. The OCC assessments paid by Ottawa Savings Bank for the year ended December 31, 2014 was approximately $68,000.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits, which are $250,000 per depositor by the Deposit Insurance Fund ("DIF") of the FDIC.

Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. Effective April 1, 2009, assessment rates range from seven to 77.5 basis points. The FDIC may adjust the scale uniformly from one quarter to the next, except that no adjustment can deviate more than three basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

On February 7, 2011, the FDIC approved a final rule that implemented changes to the deposit insurance assessment system mandated by the Dodd-Frank Act. The final rule, which took effect for the quarter beginning April 1, 2011, requires that the base on which deposit insurance assessments are charged be revised from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. Under the final rule, insured depository institutions are required to report their average consolidated total assets on a daily basis, using the regulatory accounting methodology established for reporting total assets. For purposes of the final rule, tangible equity is defined as Tier 1 capital.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2014 averaged 0.15 basis points of assessable deposits.

The Dodd-Frank Act increased the minimum Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institution with assets of $10.0 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC and the FDIC has recently exercised that discretion by establishing a long range fund of 2%.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Ottawa Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OCC. The management of Ottawa Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Reserve System. The Federal Reserve Board regulations require savings associations to maintain noninterest-earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal "NOW" and regular checking accounts). The amounts are adjusted annually and, for 2014, the regulations provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $89.0 million; a 10% reserve ratio is applied above $89.0 million. The first $13.3 million of otherwise reservable balances are exempted from the reserve requirements. The Bank complies with the foregoing requirements.

Federal Home Loan Bank System. Ottawa Savings Bank is a member of the Federal Home Loan Bank System, which consists of twelve regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Ottawa Savings Bank, as a member of the Federal Home Loan Bank of Chicago, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Ottawa Savings Bank had an investment in Federal Home Loan Bank of Chicago stock at December 31, 2014 of $1.5 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements, as well as general financial results, could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, our net interest income would likely also be reduced.

Community Reinvestment Act. Under the Community Reinvestment Act, as implemented by OCC regulations, a savings bank has a continuing and affirmative obligation consistent with its safe and sound operations to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OCC, in connection with its examination of a savings bank, to assess the institution's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could result in denial of certain corporate applications, such as branches or mergers, or restrictions on its activities. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. The Bank's most recent Community Reinvestment Act rating was "satisfactory."

Holding Company Regulation

General. Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC are savings and loan holding companies within the meaning of federal law. As part of such, they are subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. In addition, the Federal Reserve Board has enforcement authority over Ottawa Savings Bancorp, Inc. and Ottawa Savings Bancorp MHC. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Ottawa Savings Bank.

As part of the Dodd-Frank Act regulatory restructuring, the responsibilities of the OTS as to savings and loan holding companies were transferred to the Federal Reserve Board on July 21, 2011. The Federal Reserve Board is the agency that regulates bank holding companies.

Restrictions Applicable to Mutual Holding Companies. According to federal law and Federal Reserve Board regulations, a mutual holding company, such as Ottawa Savings Bancorp MHC, may generally engage in the following activities: (1) investing in the stock of a savings association; (2) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (3) merging with or acquiring another holding company, one of whose subsidiaries is a savings association; and (4) any activity approved by the Federal Reserve Board for a bank holding company or financial holding company or previously approved by the Federal Reserve Board for multiple savings and loan holding companies. In addition, mutual holding companies may engage in activities permitted for financial holding companies, expanded the authorized activities. Financial holding companies may engage in a broad array of financial service activities including insurance and securities.

Federal law prohibits a savings and loan holding company, including a federal mutual holding company, from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings institution, or its holding company, without prior written approval of the Federal Reserve Board. Federal law also prohibits a savings and loan holding company from acquiring more than 5% of a company engaged in activities other than those authorized for savings and loan holding companies by federal law; or acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, except: (1) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

If the savings institution subsidiary of a savings and loan holding company fails to meet the qualified thrift lender test, the holding company must register with the Federal Reserve Board as a bank holding company within one year of the savings institution's failure to so qualify.

Capital Requirements. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. There is a five-year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies.

Source of Strength. The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all banks and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Dividends and Stock Repurchases. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net

income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is not consistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. Moreover, a company should inform the Federal Reserve Board reasonably in advance of declaring or paying a dividend that exceeds earnings for the period for which the dividend is being paid. The policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Stock Holding Company Subsidiary Regulation. The Federal Reserve Board has adopted regulations governing the two-tier mutual holding company form of organization and subsidiary stock holding companies that are controlled by mutual holding companies. Ottawa Savings Bancorp, Inc. is the stock holding company subsidiary of Ottawa Savings Bancorp MHC. Ottawa Savings Bancorp, Inc. is permitted to engage in activities that are permitted for Ottawa Savings Bancorp MHC subject to the same restrictions and conditions.

Waivers of Dividends. Federal Reserve Board regulations currently require mutual holding companies to notify them if they propose to waive receipt of dividends from their stock holding company subsidiary. In addition, the regulations require that the mutual holding company obtain the approval of a majority of the eligible votes of members of the mutual holding company (generally Bank depositors and certain former Twin Oaks borrowers) before it can waive dividends. The Federal Reserve Board reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to a waiver if: (i) the waiver would not be detrimental to the safe and sound operation of the savings association; and (ii) the mutual holding company's board of directors determines that their waiver is consistent with such directors' fiduciary duties to the mutual holding company's members. Subject to the non-objection or approval of the Federal Reserve Board, we anticipate that Ottawa Savings Bancorp MHC will waive dividends that Ottawa Savings Bancorp, Inc. may pay, if any.

Conversion to Stock Form. Federal Reserve Board regulations permit Ottawa Savings Bancorp MHC to convert from the mutual form of organization to the capital stock form of organization. In a conversion transaction, a new holding company would be formed as the successor to Ottawa Savings Bancorp MHC and Ottawa Savings Bancorp, Inc., Ottawa Savings Bancorp MHC's corporate existence would end and certain depositors in the Bank would receive a right to subscribe for shares of a new holding company. In a conversion transaction, each share of common stock of Ottawa Savings Bancorp, Inc. held by stockholders other than Ottawa Savings Bancorp MHC would be automatically converted into a number of shares of common stock of the new holding company based on an exchange ratio designed to ensure that stockholders other than Ottawa Savings Bancorp MHC own the same percentage of common stock in the new holding company as they owned in Ottawa Savings Bancorp, Inc. immediately before conversion. The total number of shares held by stockholders other than Ottawa Savings Bancorp MHC after a conversion transaction would be increased by any purchases by such stockholders in the stock offering conducted as part of the conversion transaction.

Acquisition of Control. Under the federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company or savings bank. Under certain circumstances, a change of "control" may occur, and prior notice is required, upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control. Under the Change in Bank Control Act, the Federal Reserve Board has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that so acquires control would then be subject to regulation as a savings and loan holding company.

Federal Securities Laws

Ottawa Savings Bancorp, Inc. common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Ottawa Savings Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration, under the Securities Act of 1933, of the shares of common stock does not cover the resale of those shares. Shares of common stock purchased by persons who are not affiliates of Ottawa Savings Bancorp, Inc. may be resold without registration. Shares purchased by an affiliate of Ottawa Savings Bancorp, Inc. will be subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If Ottawa Savings Bancorp, Inc. meets the current public information requirements of Rule 144, each affiliate of Ottawa Savings Bancorp, Inc. that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of the outstanding shares of Ottawa Savings Bancorp, Inc., or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, Ottawa Savings Bancorp, Inc. may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

FEDERAL AND STATE TAXATION

Federal Income Taxation

General. We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. Our federal income tax returns have been either audited or closed under the statute of limitations through tax year 2010. Ottawa Savings Bank's maximum federal income tax rate was 35% for both the 2014 and 2013 tax year.

Ottawa Savings Bancorp, Inc. has filed a consolidated federal income tax return with Ottawa Savings Bank. Accordingly, it is anticipated that any cash distributions made by Ottawa Savings Bancorp, Inc. to its stockholders would be treated as cash dividends and not as a non-taxable return of capital to stockholders for federal and state tax purposes.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for non-qualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts for institutions with assets in excess of $500 million and the percentage of taxable income method for all institutions for tax years beginning after 1995 and requires savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $2.3 million of our accumulated bad debt reserves would not be recaptured into taxable income unless Ottawa Savings Bank makes a "non-dividend distribution" to Ottawa Savings Bancorp, Inc. as described below.

Distributions. If Ottawa Savings Bank makes "non-dividend distributions" to Ottawa Savings Bancorp, Inc., the distributions will be considered to have been made from Ottawa Savings Bank's un-recaptured tax bad debt reserves, to the extent of the "non-dividend distributions," and then from Ottawa Savings Bank's supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in Ottawa Savings Bank's taxable income. Non-dividend distributions include distributions in excess of Ottawa Savings Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of Ottawa Savings Bank's current or accumulated earnings and profits will not be so included in Ottawa Savings Bank's taxable income.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if Ottawa Savings Bank makes a non-dividend distribution to Ottawa Savings Bancorp, Inc., approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. Ottawa Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

Tax Allocation Agreement. Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank have executed a Tax Allocation Agreement. The purpose of this agreement is to set forth the rights and obligations of Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank for purposes of filing consolidated federal and state combined income tax returns.

Under the Tax Allocation Agreement, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank calculate their federal and state income tax liabilities as if they were filing a separate tax return. If there is tax liability calculated on this separate entity basis, Ottawa Savings Bank pays that tax liability to Ottawa Savings Bancorp, Inc. Payments are made no earlier than five days prior to the time that Ottawa Savings Bancorp, Inc. is required to make either estimated or final tax payments for the consolidated or combined return. If Ottawa Savings Bank has a taxable loss for a year on a separate entity basis, and if that loss could have been carried back to obtain a refund, Ottawa Savings Bancorp, Inc.

pays an amount equal to such refund to Ottawa Savings Bank, whether or not any such refund is actually received on a consolidated or combined basis. If that taxable loss would not have resulted in a refund on a separate entity basis because there was no carry-back available, but that loss is used on the consolidated or combined return to reduce tax liability on a consolidated or combined basis, Ottawa Savings Bancorp, Inc. pays Ottawa Savings Bank an amount equal to the tax savings from using that loss.

Ottawa Savings Bank is required to contribute to Ottawa Savings Bancorp, Inc. its share of any required estimated tax payments. When the consolidated or combined return is actually filed, if the estimated payments by Ottawa Savings Bank to Ottawa Savings Bancorp, Inc. exceed the amount of Ottawa Savings Bank's tax liability on a separate entity basis, Ottawa Savings Bancorp, Inc. will refund the excess to Ottawa Savings Bank. If Ottawa Savings Bank's tax liability on a separate entity basis exceeds the estimated payments it has paid to Ottawa Savings Bancorp, Inc., Ottawa Savings Bank will pay the deficiency to Ottawa Savings Bancorp, Inc.

State Taxation

Ottawa Savings Bancorp, Inc. is subject to the Illinois Income Tax and the Illinois Personal Property Tax Replacement Income Tax, at the rates of 7.0% and 2.5%, respectively, for fiscal year 2014. These amounts remained unchanged from 2013 levels. These taxes are imposed on our federal taxable income, with certain adjustments. As of January 1, 2015, the rates are going to be 5.25% and 2.5%, respectively.

ITEM 1A. RISK FACTORS

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We established our allowance for loan losses and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2014, our allowance for loan losses as a percentage of total gross loans was 1.59% and as a percentage of total non-performing loans was approximately 38.33%. Because of the concentration of one-to-four family, non-residential and commercial loans in our loan portfolio, the movement of a small number of loans to non-performing status can have a significant impact on this ratio. Although management believes that the allowance for loan losses as of December 31, 2014 was adequate to absorb losses on any existing loans that may become uncollectible, in light of the current economic environment, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future, particularly if economic conditions worsen beyond what management currently expects. Additional provisions to the allowance for loan losses and loan losses in excess of our allowance for loan losses may adversely affect our business, financial condition and results of operations. For additional details, see "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Comparison of Financial Condition at December 31, 2014 and December 31, 2013-- Provision for Loan Losses."

Our origination or purchase of non-residential real estate, multi-family, commercial or construction loans may expose us to increased lending risks.

Our loan portfolio includes non-residential real estate, multi-family, commercial and construction loans. We intend to continue to underwrite loans of this nature when it is prudent to do so from a business standpoint as long as the loans fall within internal policy limits and enable us to remain in compliance with regulatory guidelines and limits. These types of loans generally expose a lender to greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Also, many of these types of borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to-four family residential mortgage loan.

Fiscal challenges facing the U.S government could negatively impact financial markets which in turn could have an adverse effect on our financial position or results of operations.

Many of our investment securities are issued by the U.S. government and government agencies and sponsored entities. As a result of uncertain domestic political conditions, including the recent federal government shutdown and potential future federal government shutdowns, the possibility of the federal government defaulting on its obligations for a period of time due to debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose liquidity risks. In 2011, Standard & Poor's lowered its long term sovereign credit rating on the U.S. from AAA to AA+. A further downgrade or a downgrade by other rating agencies, as well as sovereign debt issues facing the governments of other countries, could have a material adverse impact on financial markets and economic conditions in the U.S. and worldwide. Additionally, the U.S. government and the governments of other countries took steps to stabilize the financial system, including investing in financial institutions, and implementing programs to improve general economic conditions, but there can be no assurances that these efforts will restore long-term stability and that they will not result in adverse unintended consequences.

FDIC deposit insurance premiums might increase, which will adversely affect our earnings.

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. We generally cannot control the amount of premiums we will be required to pay for FDIC insurance. High levels of bank failures over the past several years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the Deposit Insurance Fund ("DIF"). During 2011, the FDIC modified its calculation for assessing premiums and shifted the responsibility for shoring up the shortfall in the DIF. The decrease in the base assessment rate that occurred in 2011 has decreased our deposit insurance costs from 2011 levels and positively impacted our earnings. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $1.1 million. During June 2013, our remaining balance of $112,000 was returned. Any future increases in the base assessment rate or additional special assessments would negatively impact our earnings.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Short-term market interest rates (which we use as a guide to price our deposits) remain near historically low levels, and longer-term market interest rates (which we use as a guide to price our longer-term loans) have been volatile since rising during the latter part of 2013 from historically low levels. The fact that the market yield curve had minimal movement on short-term market interest rates had a positive impact on our cost of funds. For the year ended December 31, 2014, our interest rate spread was 3.65% compared to 3.38% for the year ended December 31, 2013. If short-term interest rates rise, and if rates on our deposits re-price upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to re-deploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

Strong competition within our market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. According to data obtained from the FDIC, as of June 30, 2014, we held approximately 7.0% of all bank and thrift deposits in LaSalle County, which was the 6thth largest market share of deposits out of 24 financial institutions (excluding credit unions) in LaSalle County. For Grundy County, we held approximately 1.8% of all bank and thrift deposits which was the 12th largest market share of deposits out of 13 financial institutions (excluding credit unions). Notwithstanding our market share, we face substantial competition from the other financial institutions that operate in our market area, most of which have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

We may not realize estimated cost savings following the completion of mergers and acquisitions.

The success of the Merger, and of any future mergers and acquisitions, may depend, in part, on our ability to realize the estimated cost savings from combining Twin Oaks and other acquired entities with our existing operations. It is possible that the potential cost savings could turn out to be more difficult to achieve than anticipated. The cost savings estimates also depend on the ability to combine the business in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect, or if there is an inability to combine successfully, the anticipated cost savings may not be realized fully or at all, or may take longer to realize than expected.

Successfully integrating acquired businesses with our operations may be more difficult, costly or time-consuming than expected and may result in a loss of customers.

It is possible that the process of merger integration could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely impact our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger or acquisition. There also may be disruptions that cause us to lose customers or cause customers to withdraw their deposits. Customers may also not readily accept changes to their banking arrangements or other customer relationships after the merger or acquisition, which may adversely impact our results of operations.

Our expansion strategy may negatively impact our earnings.

We consider our primary market area to consist of LaSalle and Grundy Counties, Illinois. We currently operate three branches with our headquarters located in Ottawa, Illinois. We also have branch locations in Marseilles and Morris, Illinois. We may expand our presence throughout our market area and pursue further expansion through the establishment of one or more branches. The profitability of any expansion policy will depend on whether the income that we generate from the additional branches we may establish will offset the increased expenses resulting from operating new branches. It may take a period of time before any new branches would become profitable, especially in areas in which we do not have an established presence. During this period, operating any new branches would likely have a negative impact on our net income.

The loss of any one of our senior executive officers could hurt our operations.

We rely heavily on our senior executive officers. The loss of any one of these officers could have an adverse effect on us because, as a small community bank, each of these officers has more responsibilities than would be typical at a larger financial institution with more employees. In addition, as a small community bank, we have fewer management level personnel who are in a position to assume the responsibilities of such officers' positions with us should we need to find replacements for any of these senior members of management.

Our geographic concentration means that our performance may be affected by economic, regulatory and demographic conditions in our market area.

As of December 31, 2014, most of our total loans were to individuals and/or secured by properties located in our primary market area of LaSalle and Grundy Counties in Illinois. As a result, our revenues and profitability are subject to prevailing economic, regulatory, demographic and other conditions in LaSalle County. Because our business is concentrated in this area, adverse economic, regulatory, demographic or other developments that are limited to this area may have a disproportionately greater effect on us than they would have if we did business in markets outside that particular geographic area.

The value of our goodwill and other intangible assets may decline in the future.

As of December 31, 2014, we had $650,000 of goodwill and $839,000 of other intangible assets. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. If the fair value of our net assets improves at a faster rate than the market value of our reporting units, or if we were to experience increases in book values of a reporting unit in excess of the increase in fair value of equity, we may also have to take charges related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, we would record the appropriate charge, which could have a material adverse effect on our results of operations.

Identifiable intangible assets other than goodwill consist of core deposit intangibles and mortgage servicing rights. Adverse events or circumstances could impact the recoverability of these intangible assets including loss of core deposits, increased competition or adverse changes in the economy. To the extent these intangible assets are deemed unrecoverable, a non-cash impairment charge would be recorded, which could have a material adverse effect on our results of operations.

If the value of real estate in LaSalle and Grundy County, Illinois were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us.

With most of our loans concentrated in LaSalle and Grundy County, Illinois, a continued decline in local economic conditions could adversely affect the value of the real estate collateral securing our loans. A further decline in property values would further diminish our ability to recover on defaulted loans by selling the real estate collateral,

making it more likely that we would suffer losses on defaulted loans. Additionally, decreases in asset quality have required and may require further additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. Also, a continued decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Real estate values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, governmental rules or policies and natural disasters.

Ineffective liquidity management could adversely affect our financial results and condition.

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities during 2014 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial majority of our assets were loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could materially and adversely affect our business, results of operations or financial condition.

We continually encounter technological change, and we may have fewer resources than our competitors to continue to invest in technological improvements.

The financial services industry continues to undergo rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to serving customers better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success may depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot assure you that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

An interruption in or breach in security of our information systems may result in a loss of customer business.

We rely heavily on communications and information systems to conduct our business, and while we have established policies and procedures to prevent or limit the impact of system failures, interruptions, or security breaches, there can be no guarantees that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to third-party providers. If our third-party providers encounter difficulties, or if we are unable to communicate with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. The occurrence of any failures, interruptions, or security breaches to our systems or those of our third-party providers could result in a loss of customer business, additional regulatory scrutiny, and exposure to legal liability, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

The trading history of our common stock is characterized by low trading volume. The value of your common stock may be subject to sudden decreases due to the volatility of the price of our common stock.

Although our common stock trades on OTC Electronic Bulletin Board, it has not been regularly traded. We cannot predict the extent to which investor interest in us will lead to a more active trading market in our common stock or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control.

The market price of our common stock may be highly volatile and subject to wide fluctuations in response to numerous factors, including, but not limited to, the factors discussed in other risk factors and the following:

- actual or anticipated fluctuations in our operating results;
- changes in interest rates;
- changes in the legal or regulatory environment in which we operate;
- press releases, announcements or publicity relating to us or our competitors or relating to trends in our industry;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors;
- future sales of our common stock;
- changes in economic conditions in our marketplace, general conditions in the U.S. economy, financial markets or the banking industry; and
- other developments affecting our competitors or us.

These factors may adversely affect the trading price of our common stock, regardless of our actual operating performance, and could prevent you from selling your common stock at or above the price at which you purchased shares. In addition, the stock markets, from time to time, experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of our common stock, regardless of our trading performance.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision and examination by the OCC, our chartering authority and the FDIC, as insurer of our deposits. Ottawa Savings Bancorp MHC, Ottawa Savings Bancorp, Inc. and Ottawa Savings Bank are all subject to regulation and supervision by the Federal Reserve Board. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and depositors. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Recently enacted financial regulatory reform may have a material impact on our operations.

On July 21, 2010, the President signed into law the Dodd-Frank Act. The Dodd-Frank Act restructures the regulation of depository institutions. Under the Dodd-Frank Act, the OTS, which formerly regulated the Bank, was merged into the OCC. Savings and loan holding companies, including Ottawa Savings Bancorp MHC and Ottawa Savings Bancorp, are now regulated by the Federal Reserve Board. The Dodd-Frank Act also created a new federal agency to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The federal preemption of state laws that was formerly accorded federally chartered depository institutions has been reduced as well and State Attorneys General now have greater authority to bring a suit against a federally chartered institution, such as Ottawa Savings Bank, for violations of certain state and federal consumer protection laws. The Dodd-Frank Act also imposes consolidated capital requirements on savings and loan holding companies effective in five years, which will limit our ability to borrow at the holding company and invest the proceeds from such borrowings as capital in Ottawa Savings Bank that could be leveraged to support additional growth. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the current economic crisis. The actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under the Dodd-Frank Act or which would otherwise qualify the bank as being "well capitalized" under the OCC's prompt corrective action regulations. If we were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on our ability to execute our business plans, as well as our ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in our operations. See "Regulation and Supervision – Federal Banking Regulation – Capital Requirements" for a discussion of regulatory capital requirements.

The Federal Reserve Board has adopted an interim final rule which requires Ottawa Savings Bancorp, MHC to notify the Federal Reserve Board if it proposes to waive receipt of dividends from the Company. In addition, the regulations also require that Ottawa Savings Bancorp, MHC obtain the approval of a majority of the eligible votes of members of the Ottawa Savings Bancorp, MHC (generally Bank depositors and certain former Twin Oaks borrowers) before it can waive dividends. For a grandfathered company such as Ottawa Savings Bancorp, MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver request if the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company. The Federal Reserve Board's interim final rule regarding dividend waiver requests is subject to comment and there can be no assurances as to the timing of changes to the interim final rule, if any, the form of the final dividend waiver regulations or the effect of such regulations on Ottawa Savings

Bancorp, MHC's ability to waive dividends.

While Ottawa Savings Bancorp, MHC is grandfathered for purposes of the Federal Reserve Board dividend waiver regulations, we cannot assure that the Federal Reserve Board will grant dividend waiver requests in the future and, if granted, there can be no assurance as to the conditions, if any, the Federal Reserve Board will place on future dividend waiver requests. The denial of a dividend waiver request or the imposition of burdensome conditions on an approval of a waiver request may significantly limit the amount of dividends the Company pays in the future, if any.

The Federal Reserve Board policy on remutualization transactions could prohibit acquisition of Ottawa Savings Bancorp, which may adversely affect our stock price.

Current Federal Reserve Board regulations permit a mutual holding company to be acquired by a mutual institution in a remutualization transaction. However, Ottawa Savings Bancorp's former regulator, the OTS, had adopted a policy statement indicating that it viewed remutualization transactions as raising significant issues concerning disparate treatment of minority stockholders and mutual members of the target entity and raising issues concerning the effect on the mutual members of the acquiring entity. The Federal Reserve Board has not adopted a similar policy statement or issued on the matter and future Federal Reserve Board regulation may negatively affect Ottawa Savings Bancorp. Under certain circumstances, the Federal Reserve Board may give these issues special scrutiny and reject applications providing for the remutualization of a mutual holding company unless the applicant can clearly demonstrate that the Federal Reserve Board's concerns are not warranted in the particular case. Should the Federal Reserve Board prohibit or otherwise restrict these transactions in the future, our per share stock price may be adversely affected.

There can be no assurance that enacted legislation or any proposed federal programs will stabilize the U.S. financial system and such legislation and programs may adversely affect us.

There has been much legislative and regulatory action in response to the financial crisis affecting the banking system and financial markets and threats to investment banks and other financial institutions. There can be no assurance, however, as to the actual impact that the legislation and its implementing regulations or any other governmental program will have on the financial markets. The failure of the actions by the legislators, the regulatory bodies or the U.S. government to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our common shares.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. The resultant changes in interest rates can also materially decrease the value of certain financial assets we hold, such as debt securities. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict; consequently, the impact these changes on our activities and results of operations is difficult to predict.

We may be subject to more stringent capital requirements.

In July 2013, the OCC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to Ottawa Savings Bank and Ottawa Savings Bancorp, Inc. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

The final rule includes new minimum risk-based capital and leverage ratios, which will be effective for Ottawa Savings Bank and Ottawa Savings Bancorp, Inc. on January 1, 2015, and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements will be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The final rule also establishes a "capital conservation" buffer of 2.5%, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of

risk-weighted assets and will increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

The application of more stringent capital requirements for Ottawa Savings Bank and Ottawa Savings Bancorp, Inc. could among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were unable to comply with such requirements.

Rulemaking changes implemented by the CFPB will result in higher regulatory and compliance costs that may adversely affect our results of operations.

The Dodd-Frank Act created a new, independent federal agency, the CFPB, which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws. The CFPB also has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets, their service providers and certain non-depository entities such as debt collectors and consumer reporting agencies. Since its formation, the CFPB has finalized a number of significant rules that could have a significant impact on our business and the financial services industry more generally. In particular, the CFPB has adopted rules impacting nearly every aspect of the lifecycle of a residential mortgage loan as discussed in the "Supervision and Regulation" section of Item 1. "Business" of this Annual Report on Form 10-K above. The CFPB has also issued guidance which could radically reshape the automotive financing industry by subjecting indirect auto lenders to regulation as creditors under the Equal Credit Opportunity Act, which would make indirect auto lenders monitor and control certain credit policies and procedures undertaken by auto dealers. Compliance with the rules and policies adopted by the CFPB may limit the products we may permissibly offer to some or all of our customers, or limit the terms on which those products may be issued, or may adversely affect our ability to conduct our business as previously conducted (including our residential mortgage and indirect auto lending businesses in particular). We may also be required to add additional compliance personnel or incur other significant compliance-related expenses. Our business, results of operations or competitive position may be adversely affected as a result.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company is located and conducts its business at the Bank's main office at 925 LaSalle Street, Ottawa, Illinois 61350. The Company owns the building. The Company believes that the current facility is adequate to meet its present and immediately foreseeable needs. Additionally, the Bank has offices in Marseilles and Morris, Illinois.

The following table sets forth certain information relating to this facility at December 31, 2014.

Location	Year Opened/ Acquired	Net Book Value at December 31, 2014	Square Footage	Owned/ Leased	Date of Lease Expiration
925 LaSalle Street, Ottawa, IL 61350	1958	$6,183,584	21,000	Owned	N/A
125 West Bluff Street, Marseilles IL 61341	2014	$292,000	3,286	Owned	N/A
1508 Creek Drive, Morris IL 60450	2014	$363,000	2,729	Owned	N/A

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are not involved in any pending proceedings other than legal proceedings occurring in the ordinary course of business. Such legal proceedings, in the aggregate, are believed by management to be immaterial to the Company's business, financial condition, results of operations and cash flows.

ITEM 4. MINE SAFETY PROCEEDINGS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the Over-the-Counter ("OTC") Bulletin Board under the symbol "OTTW". At December 31, 2014, the Company had 313 record holders of its common stock. The table below shows the reported high and low sale price of the common stock, as reported on the OTC Bulletin Board and dividends declared during the periods indicated in 2014 and 2013. Quotations reflect inter-dealer prices without mark-up, mark-down or commissions, and may not represent actual transactions.

	2014			**2013**		
	High	**Low**	**Dividends Declared**	**High**	**Low**	**Dividends Declared**
First quarter	$8.90	$8.50	$ -	$6.90	$5.55	$ -
Second quarter	$9.50	$8.40	$ -	$9.00	$6.00	$ -
Third quarter	$10.00	$9.00	$ -	$9.50	$7.55	$ -
Fourth quarter	$10.00	$9.50	$ -	$10.00	$8.00	$ -

Dividend Policy

The Company paid no cash dividends during 2014 or 2013. On August 18, 2011, the Company announced that the Board of Directors voted to suspend the equity cash dividend on the Company's common stock in an effort to conserve capital, and that the board intended to reevaluate the payment of a quarterly dividend on a quarter-by-quarter basis. The Board of Directors will declare dividends upon consideration of a number of factors, including capital requirements, the Company's and the Bank's financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Special cash dividends, stock dividends or returns of capital may, to the extent permitted by regulations, be paid in addition to, or in lieu of, regular cash dividends. The Company has filed consolidated tax returns with the Bank. Accordingly, it is anticipated that any future cash distributions made by the Company to its stockholders would be treated as cash dividends and not as a nontaxable return of capital for federal and state income tax purposes.

Dividends from the Company will depend, in large part, upon receipt of dividends from the Bank and ability of the MHC to waive the receipt of dividends paid by the Company to its shareholders. Federal and state law imposes certain limitations on dividends by savings banks and the waiver of receipt of dividends by mutual holding companies. See *"Item 1.Business."* and *"Item 1A. Risk Factors."*

Issuer Purchases

There were no shares purchased by the Company during 2014.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected financial and other data of the Company for the periods and at the dates indicated. The information should be read in conjunction with the Consolidated Financial Statements and Notes beginning on page F-2.

	At December 31,		
	2014	2013	2012
	(In Thousands, except per share data)		
Financial Condition Data:			
Total Assets	$221,725	$170,610	$179,046
Loans, net (1)	142,502	110,673	121,995

Securities available for sale	52,772	34,547	28,864
Deposits	182,233	145,769	155,075
Stockholders' Equity	29,708	21,486	21,046
Book Value per common share	$10.26	$10.14	$9.94

(1) Net of loans in process, deferred loan (costs) fees, and allowance for loan losses.

	Years Ended December 31,		
	2014	2013	2011
	(In Thousands, except per share data)		
Operations Data:			
Total interest and dividend income	$6,557	$6,952	$7,919
Total interest expense	952	1,452	2,170
Net interest income	5,605	5,500	5,750
Provision for loan losses	901	875	1,912
Other income	670	761	642
Other expense	4,222	3,917	3,536
Income tax expense (benefit)	348	540	270
Net income (loss)	$804	$929	$674
Basic earnings (loss) per share	$0.39	$0.45	$0.33
Diluted earnings (loss) per share	$0.38	$0.45	$0.32

	At or for the Years Ended December 31,		
	2014	2013	2012
Performance Ratios:			
Return on average assets	0.49 %	0.53 %	0.37 %
Return on average stockholders' equity	3.62	4.38	3.23
Average stockholders' equity to average assets	13.41	12.06	11.39
Stockholders' equity to total assets at end of period	13.40	12.59	11.75
Net interest rate spread (1)	3.65	3.38	3.36
Net interest margin (2)	3.72	3.45	3.45
Average interest-earning assets to average interest-bearing liabilities	111.18	108.42	107.01
Other expense to average assets	2.55	2.17	1.93
Efficiency ratio (3)	67.29	62.56	55.31
Dividend payout ratio	-	-	-
Regulatory Capital Ratios (Bank):			
Tangible capital (to average assets)	11.59	11.32	10.30
Tier 1 core capital (to average assets)	11.59	11.32	10.30
Total risk-based capital (to risk-weighted assets)	20.28	20.79	18.19
Asset Quality Ratios:			
Net charge-offs (recoveries) to average gross loans outstanding	1.30	1.12	2.52
Allowance for loan losses to gross loans outstanding	1.59	2.52	2.69
Non-performing loans to gross loans	4.15	5.10	5.04
Non-performing assets to total assets (4)	2.86	3.80	4.26
Other Data:			
Number of full-service offices	3	1	1

(1) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets.

(3) The efficiency ratio represents other expense as a percent of net interest income before the provision for loan losses and other income.

(4) Non-performing assets consist of non-performing loans and foreclosed real estate. Non-performing loans consist of all loans 90 days or more past due and all loans no longer accruing interest.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

General

This discussion and analysis reflects the Company’s consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from and should be read in conjunction with the consolidated financial

statements and notes to the consolidated financial statements, which appear beginning on page F-2.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities, mortgage-backed securities and other interest-earning assets (primarily cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting of money market accounts, passbook savings accounts, individual retirement accounts and certificates of deposit. Our results of operations also are affected by our provisions for loan losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of fees, service charges, and gains on the sale of loans. Non-interest expense currently consists primarily of salaries and employee benefits, deposit insurance premiums, directors' fees, occupancy, data processing and professional fees. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

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. The allowance for loan losses is an amount necessary to absorb known or inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect each borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Comparison of Financial Condition at December 31, 2014 and December 31, 2013

The Company's total assets increased $51.1 million, or 30.0%, to $221.7 million at December 31, 2014, from $170.6 million at December 31, 2013 due primarily to the merger with Twin Oaks which was completed at the close of business on December 31, 2014. The merger was accounted for using the acquisition method of accounting. Under this method of accounting, the Bank and Twin Oaks were treated as one company as of December 31, 2014 and the fair value of Twin Oaks' assets (including intangible assets which arise from either contractual or other legal rights) and liabilities were included on the Company's consolidated financial statements. The fair value of the shares issued in excess of the fair value of the net assets acquired were recorded as goodwill of approximately $650,000. The goodwill will not be amortized for financial accounting purposes, but instead will be tested for impairment annually. To the

extent goodwill is impaired in the future, its carrying value will be written down to its implied fair value and a charge will be made to earnings.

Specifically, total assets increased as a result of an increase in loans of $31.8 million, an increase of $18.2 million in securities available for sale, a $1.2 million increase in goodwill and intangible assets, an increase of $0.9 in time deposits held as investment, an increase of $0.6 million in premises and equipment, an increase of $0.5 million in non-marketable equity securities, an increase of $0.6 million in deferred tax assets and an increase in other assets of $0.7 million. The increases were partially offset by a decrease in cash and cash equivalents of $1.4 million, a decrease of $1.9 million in federal funds sold and a decrease to foreclosed real estate of $0.4 million.

Cash and cash equivalents decreased $1.4 million, or 21.4%, to $5.2 million at December 31, 2014 from $6.6 million at December 31, 2013, primarily as a result of cash used in financing activities exceeding the cash provided by investing and operating activities.

Federal funds sold decreased $1.9 million, or 54.2%, to $1.7 million at December 31, 2014 from $3.6 million at December 31, 2013, primarily due to cash needed to fund financing activities.

Securities available for sale increased $18.2 million, or 52.8%, to $52.8 million at December 31, 2014 from $34.5 million at December 31, 2013. The increase was primarily the result of the $23.8 million of investments acquired in the merger. During 2014, there were purchases of $3.8 million in securities and sales, maturities and paydowns of $9.5 million.

Loans, net of the allowance for loan losses, increased $31.8 million, or 28.8%, to $142.5 million at December 31, 2014, from $110.7 million at December 31, 2013. The increase in loans, net of the allowance for loan losses, was primarily due to the $29.8 million of loans acquired in the Merger. During 2014, net originations were higher due to more loans being retained in the portfolio rather than being sold. The Company is focusing its lending efforts on customers based primarily in its local market. Additionally, in this low rate environment our customers have been aggressively accelerating principal payments. Loan demand for 2014 stabilized and increased during the latter part of 2014 levels. Rates have begun to rise slightly and the difficult economic conditions that impacted our local market have stabilized and improved as 2014 progressed.

Foreclosed real estate decreased $0.4 million, or 60.2%, to $0.2 million at December 31, 2014, from $0.6 million at December 31, 2013. The decrease was primarily due to the sale of properties and the reduced level of new foreclosures, compared to 2013 when the Bank still had three properties from a relationship foreclosed on in 2012 that had 19 properties, of which 16 of the properties had been sold as of the end of 2013.

Deferred tax assets increased $0.6 million, or 24.7%, to $3.0 million at December 31, 2014, from $2.4 million at December 31, 2013. The increase was primarily due to the $0.9 million deferred tax asset related to the merger with Twin Oaks on December 31, 2014. Offsetting this increase was a decrease of approximately $0.2 million related to the deferred tax asset for allowance for loan losses and a decrease of approximately $0.2 million related to market value changes on available for sale securities.

Total deposits increased $36.5 million, or 25.0%, to $182.2 million at December 31, 2014, from $145.8 million at December 31, 2013. The increase is primarily due to the $49.6 million of deposits acquired in the merger, partially offset by decreases in certificates of deposit which declined $10.3 million, as management strategically priced our rates to position the Bank for rising rates. Checking accounts and passbook savings also decreased $2.5 million from December 31, 2013 to December 31, 2014 due primarily to customers moving funds into non-bank products as they wait for a better rate environment.

Comparison of Results of Operations for the Years Ended December 31, 2014 and December 31, 2013

General. Net income for the year ended December 31, 2014 was $0.8 million compared to $0.9 million for the year ended December 31, 2013. Since the Merger occurred at the close of business on December 31, 2014, it had no effect on net income.

Net Interest Income. The following table summarizes interest and dividend income and interest expense for the years ended December 31, 2014 and 2013.

	Years Ended December 31,			
	2014	**2013**	**$ change**	**% change**
	(Dollars in thousands)			
Interest and dividend income:				
Interest and fees on loans	$5,734	$6,206	$ (472)	(7.61)%
Securities:				
Mortgage-backed and related securities	527	469	58	12.37
State and municipal securities	287	266	21	7.89
Non-marketable equity securities	7	6	1	16.67
Interest-bearing deposits	3	5	(2)	(40.00)
Total interest and dividend income	6,558	6,952	(394)	(5.67)
Interest expense:				
Deposits	952	1,452	(500)	(34.44)
Borrowings	1	-	1	100 %
Total interest expense	953	1,452	(499)	(34.37)
Net interest income	$5,605	$5,500	$ 105	1.91 %

Net interest income increased $0.1 million, or 1.9%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. Interest and dividend income decreased due to the yield on interest earning assets decreasing from 4.37% to 4.36% and average interest earning assets declining by $8.7 million. The decline in the loan portfolio contributed to a significant portion of the change in average interest earning assets. The yield on the loan portfolio continued to decline as the low rate environment continued during 2014. This decline in interest income was offset by a $0.5 million or 34.4% reduction in interest expense. The cost of funds declined 29 basis points or 29.3% in 2014 due to the low rate environment. Additionally, the average balance of interest bearing liabilities declined by $11.5 million or 7.8%.

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Provision for Loan Losses. Management recorded a loss provision of $0.9 million for the year ended December 31, 2014, compared to $0.9 million for the year ended December 31, 2013. The provision level is dictated based on allowance for loan losses activity, including charge-offs and recoveries. Managements' assessment of risk in the portfolio is reflected in the historical loss rate qualitative factors adjustments, as discussed on page 14. Based on a review of the loans that were in the loan portfolio at December 31, 2014, 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 years ended December 31, 2014 and 2013.

	Years Ended December 31,			
	2014	**2013**	**$ change**	**% change**
	(Dollars in thousands)			
Other income:				
Gain on sale of securities	$42	$-	$ 42	100.00 %
Gain on sale of loans	56	66	(10)	(15.15)
Gain on sale of OREO	84	102	(18)	(17.65)
Gain on sale of repossessed assets	17	-	17	100.00
Customer service fees	304	299	5	1.67
Income on bank owned life insurance	52	9	43	477.78
Other	115	285	(170)	(59.65)
Total other income	$670	$761	$ (91)	(11.96)%

The decrease in other income was primarily a result of a decrease in other income of $0.17 million which included the $0.1 million recovery in 2013 of fraud losses on consumer loans related to frauds which occurred and were expensed during 2011 and 2012, recording of the 2013 TIF reimbursement, and rental income on OREO properties. During 2014, the Company sold 10 of its OREO properties at gross gains totaling approximately $0.08 million whereas the Company sold 11 of its OREO properties during 2013 for gross gains of $0.1 million. Additionally the gain on sale of loans decreased as a result of fewer loan originations and sales of loans during 2014 as compared to 2013. These decreases were offset by an increases in the gain on sale of securities, income on bank owned life insurance, and customer service fees. The increase in income from the gain on sale of securities is the result of the sale of six securities with gross gains of $0.04 million during 2014, whereas there were no security sales during 2013.

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Other Expenses. The following table summarizes other expenses for the years ended December 31, 2014 and 2013.

	Years Ended December 31,			
	2014	**2013**	**$ change**	**% change**
	(Dollars in thousands)			
Other expenses:				
Salaries and employee benefits	$1,854	$1,629	$ 225	13.81 %
Directors fees	101	101	-	-
Occupancy	507	455	52	11.43
Deposit insurance premium	136	189	(53)	(28.04)
Legal and professional services	542	274	268	97.81
Data processing	328	290	38	13.10
Loss on sale of securities	17	-	17	100.00
Valuation adjustments and expenses on foreclosed real estate	55	335	(280)	(83.58)
Loss on sale of OREO	26	106	(80)	75.47
Loss on sale of repossessed assets	3	8	(5)	(62.50)
Other	653	530	123	23.21
Total other expenses	$4,222	$3,917	$ 305	7.79 %
Efficiency ratio (1)	67.29%	62.56%		

(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 increases in legal and professional services and increases in other miscellaneous expenses related to the Merger. The increase also included increases in salaries and employee benefits, resulting from additional staff (IT Manager and Mortgage Loan Staff) and annual merit increases, and increases in occupancy expense. The increases were partially offset by a decrease in valuation adjustments and expenses on foreclosed real estate and a decrease in deposit insurance premiums. Valuation adjustments and expenses on foreclosed real estate were lower due to the significantly reduced number of OREO properties held during the third quarter of 2014 as compared to the third quarter of 2013. The decrease in deposit insurance premiums is primarily due to the decrease in deposit balances. The efficiency ratio decreased due to increased other expenses for the current period

Income Taxes. The Company recorded an income tax expense of $0.3 million for the year ended December 31, 2014, compared to $0.5 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2014 and 2013 were 30.2% and 36.8%, respectively. The decrease in 2014 is primarily due to higher tax-exempt interest and other income.

Average Balance Sheet

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.

	Year Ended December 31,											
	2014				2013				2012			
	(Dollars in Thousands)											
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST		AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST		AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	
ASSETS												
Interest-earning assets												
Securities, net (1)	$33,611	$814	2.42	%	$33,450	$735	2.20	%	$32,457	$882	2.72	%
Loans receivable, net (2)	111,311	5,734	5.15	%	115,587	6,206	5.37	%	125,478	7,028	5.60	%
Non-marketable equity securities	1,235	7	0.57	%	1,267	6	0.47	%	1,689	5	0.30	%
Other investments	4,362	3	0.07	%	8,916	5	0.06	%	6,977	4	0.06	%
Total interest-earning assets	150,519	$6,558	4.36	%	159,220	$6,952	4.37	%	166,601	$7,919	4.75	%
Non-interest-earning assets	15,111				16,467				16,577			
TOTAL ASSETS	$165,630				$175,687				$183,178			
LIABILITIES AND EQUITY												
Interest-bearing liabilities												
Money Market accounts	$19,627	$46	0.23	%	$20,837	$51	0.24	%	$20,369	$85	0.42	%
Savings accounts	18,206	13	0.07	%	16,642	14	0.08	%	15,026	20	0.13	%
Certificates of Deposit accounts	82,056	886	1.08	%	95,916	1,381	1.44	%	107,805	2,055	1.91	%
Checking accounts	14,982	7	0.05	%	13,465	6	0.04	%	12,493	10	0.08	%
Advances and borrowed funds	510	1	0.20	%	-	-	0.00	%	-	-	0.00	%
Total interest-bearing liabilities	135,381	953	0.70	%	146,860	1,452	0.99	%	155,693	2,170	1.39	%
	8,031				7,638				6,612			

Non-interest-bearing liabilities									
TOTAL LIABILITIES	143,412			154,498			162,305		
EQUITY	22,218			21,189			20,873		
TOTAL LIABILITIES AND EQUITY	$165,630			$175,687			$183,178		
NET INTEREST INCOME		$5,605			$5,500			$5,749	
NET INTEREST RATE SPREAD (3)			3.65 %			3.38 %			3.36 %
NET INTEREST MARGIN (4)			3.72 %			3.45 %			3.45 %
RATIO OF AVERAGE INTEREST EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES			111.18 %			108.42 %			107.01 %

(1) Includes unamortized discounts and premiums.

(2) Amount is net of deferred loan origination (costs) fees, undisbursed loan funds, unamortized discounts and allowance for loan losses and includes non-performing loans. Loan fees included in interest income were $149,000, $135,000, and $189,000 for 2014, 2013, and 2012, respectively.

(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.

Rate/Volume Analysis

The following table shows the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to changes in outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31,					
	2014 COMPARED TO 2013 INCREASE (DECREASE) DUE TO			**2013 COMPARED TO 2012 INCREASE (DECREASE) DUE TO**		
	VOLUME	**RATE**	**NET**	**VOLUME**	**RATE**	**NET**
	(Dollars in Thousands)					
Interest earned on						
Securities, net	$4	$75	$79	$22	$(169)	$(147)
Loans receivable, net	(221)	(251)	(472)	(531)	(291)	(822)
Non-marketable equity securities	-	1	1	(2)	3	1
Other investments	(3)	1	(2)	1	-	1
Total interest-earning assets	$(220)	$(174)	$(394)	$(510)	$(457)	$(967)
Interest expense on						
Money Market accounts	$(3)	$(2)	$(5)	$1	$(35)	$(34)
Passbook savings accounts	1	(2)	(1)	1	(7)	(6)
Certificates of Deposit accounts	(149)	(345)	(494)	(171)	(503)	(674)
Checking accounts	1	-	1	-	(4)	(4)
Total interest-bearing liabilities	(150)	(349)	(499)	(169)	(549)	(718)
Change in net interest income	$(70)	$175	$105	$(341)	$92	$(249)

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of residential mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee which is responsible for evaluating

the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Management Committee, which consists of senior management operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

We have sought to manage our interest rate risk in order to limit the exposure of our earnings and capital to changes in interest rates. In an attempt to accomplish this, we offer a variety of loan products, some of which are based on the prime rate and some loan products that adjust on one- to-five year intervals, based on various indices including the prime rate and U.S. Treasury securities. To shorten asset duration, we purchase auto loans, which are usually four to five years in length, as well as balance our investment purchases to ensure extension risk is minimized. In addition, we have attempted to lengthen the maturities of our deposit accounts by offering proportionately higher interest rates for longer terms, 3-5 year certificate accounts and by increasing our core deposits, in which the overall balances are generally less volatile to interest rate fluctuations than certificate accounts.

For additional information on our risk management strategy, see the sections entitled, “Item 1. Business – Delinquent Loans,” “Item 1. Business – Nonperforming Assets,” “Item 1. Business Ratios,” and “Item 1. Business - Allowance for Loan Losses.”

Net Portfolio Value. The net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value or "NPV") would change in the event of a range of assumed changes in market interest rates. For periods subsequent to December 31, 2011, institutions are responsible for valuing their own portfolios, or arranging to obtain the required information from a third-party provider. The model utilized by the Company's third-party provider utilizes a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases by 100 to 300 basis points, or decreases by 100 basis points instantaneously. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below.

The tables below set forth, as of the periods indicated, net portfolio value, the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the United States Treasury yield curve.

	Year Ended December 31, 2014				
	Net Portfolio Value			**Net Portfolio Value As A Percentage Of Present Value Assets**	
Change In Interest Rates (Basis Points)	**Estimated NPV**	**Amount Of Change**	**Percent Of Change**	**NPV Ratio**	**Change In Basis Points**
	(Dollars In Thousands)				
+300	$27,257	$(6,137)	-18.38 %	13.60%	(133)
+200	29,532	(3,862)	-11.56 %	14.21%	(72)
+100	31,920	(1,474)	-4.41 %	14.79%	(14)
0	33,394	-	-	14.93%	-
-100	35,033	1,639	4.91 %	15.27%	34

	Year Ended December 31, 2013				
	Net Portfolio Value			**Net Portfolio Value As A Percentage Of Present Value Assets**	
Change In Interest Rates	**Estimated**	**Amount**	**Percent Of**	**NPV**	**Change In**

(Basis Points)	NPV	Of Change	Change	Ratio	Basis Points
	(Dollars In Thousands)				
+300	$14,254	$(9,010)	-38.73 %	9.18 %	(431)
+200	17,036	(6,228)	-26.77 %	10.60%	(289)
+100	20,341	(2,923)	-12.56 %	12.20%	(129)
0	23,264	-	-	13.49%	-
-100	25,797	2,533	10.89 %	14.60%	111

The table above indicates that at December 31, 2014, in the event of a 100 basis point increase in interest rates, we would experience a decrease of approximately 4.4% in net portfolio value. In the event of 200 basis point increase in interest rates, we would experience a decrease of approximately 11.6% in net portfolio value. For a 300 basis point increase in interest rates, we would experience a decrease value of approximately 18.4% in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or re-pricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Liquidity and Capital Resources

We maintain liquid assets at levels we believe are adequate to meet our liquidity needs. Our liquidity ratio averaged 4.15% for the year ended December 31, 2014 compared to 7.2% for the year ended December 31, 2013. We adjust our liquidity levels to fund deposit outflows, pay real estate taxes on mortgage loans, repay our borrowings, and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our primary sources of liquidity are deposits, amortization and prepayment of loans and mortgage-backed securities, maturities of investment securities, other short-term investments, earnings, and funds provided from operations. While scheduled principal repayments on loans and mortgage-backed securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by our competition. We set the interest rates on our deposits to maintain a desired level of total deposits. In addition, we invest excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included with the Consolidated Financial Statements which begin on page F-2 of this Form 10-K.

Our primary investing activities are the origination and purchase of one-to-four family, non-residential and multi-family real estate and other loans, including loans originated for sale, and the purchase of investment securities. For the years ended December 31, 2014 and 2013, our loan originations totaled $16.4 million and $16.7 million, respectively. For both of the years ended December 31, 2014 and 2013, we purchased loans totaling $4.0 million. For the years ended December 31, 2014 and 2013, we received $3.1 million and $5.4 million, respectively, from the sale of loans, resulting in gains of $56,000 and $66,000, respectively. Cash received from the sales, calls, maturities and pay-downs on securities totaled $9.5 million and $7.1 million for the years ended December 31, 2014 and 2013 respectively. We purchased $3.8 million and $14.1 million in securities for the years ended December 31, 2014 and 2013, respectively. For a more detailed breakdown of our loan activity, see the section entitled "*Item 1. Business-Loan Origination, Purchase and Sales.*"

Deposit flows are generally affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. Excluding the impact of the acquired deposits in 2014, deposits decreased $13.1 million for the year ended December 31, 2014 and decreased $9.3 million for the year ended December 31, 2013. For a more detailed breakdown of our deposit activity, see the section entitled "*Item 1. Business-Deposit Activities and Other Sources of Funds.*"

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago ("FHLBC") to provide advances and with Bankers Bank of Wisconsin to purchase Federal Funds. As a member of the FHLBC, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. We had an available borrowing limit of $57.2 million and $50.4 million from the FHLBC as of December 31, 2014 and 2013, respectively. In addition, as of December 31, 2014, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds. There were $5.5 million and $0 million of Federal Home Loan Bank advances at December 31, 2014 and 2013 and no Federal Funds purchased outstanding at December 31, 2014 and 2013.

At December 31, 2014 we had outstanding commitments to originate loans of $1.6 million, unfunded commitments under lines of credit of $10.2 million, unfunded commitments on construction loans of $0.8 million, and $18,000 of unfunded standby letters of credit. At December 31, 2014, certificates of deposit scheduled to mature in less than one year totaled $43.2 million. Based on prior experience, management believes that a significant portion 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 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. In addition, the cost of such deposits may be significantly higher if market interest rates are higher at the time of renewal.

The Company is a separate legal entity from Ottawa Savings 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 interest and principal on outstanding debt, if any. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from Ottawa Savings Bank. The amount of dividends that Ottawa Savings Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Federal Reserve Board, but with prior notice to the Federal Reserve Board, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At December 31, 2014, the Company had liquid assets of $328,000.

Off-Balance Sheet Arrangements and Contractual Obligations

For the year ended December 31, 2014, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material adverse effect in its financial condition, results of operations or cash-flows.

Recent Accounting Pronouncements

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 amendments are effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of this update to have a significant impact on its 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. ASU 2014-14 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company does not expect the adoption of this update to have a significant impact on its financial position, results of operation or cash flows.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of the Company have been prepared in accordance with GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, *"Management's Discussion and Analysis of Financial Condition and Results of Operation."*

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is contained on pages F-2 through F-45 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure 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 our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures” as contemplated by Exchange Act Rule 13a-15. Based upon their evaluation, and as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiary) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

(b) Internal Controls Over Financial Reporting

Management’s annual report on internal control over financial reporting is incorporated herein by reference to page 47 of this Annual Report on Form 10-K.

(c) Changes to Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required in response to this item regarding the Company's directors, executive officers, the audit committee, the audit committee financial expert, the code of ethics and business conduct and compliance with Section 16(a) of the Exchange Act will be contained in the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 2015 (the "Proxy Statement") under the captions *"Proposal 1—Election of Directors," "Corporate Governance—Meetings and Committees of the Board of Directors," "Corporate Governance—Code of Ethics and Business Conduct,"* and *"Section 16(a) Beneficial Ownership Reporting Compliance"* and the information included therein is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item will be contained in the Proxy Statement under the captions *"Directors' Compensation,"* and *"Executive Compensation"* and the information included therein is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) *Securities Authorized for Issuance under Equity Compensation Plans.*

	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding securities reflected in column a) (c)
Equity Compensation Plans Approved by Stockholders	92,667	10.46	-
Equity Compensation Plans not Approved by Stockholders	-	-	-
Total	92,667	10.46	-

(b) *Stock Ownership.* The information required in response to this item will be contained in the Proxy Statement under the caption *"Stock Ownership"* and the information included therein is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required in response to this item will be contained in the Proxy Statement under the caption *"Proposal 1— Election of Directors"* and *"Transactions with Related Persons"* and the information included therein is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this item will be contained in the Proxy Statement under the caption *"Proposal 2—Ratification of Independent Registered Public Accounting Firm"* and the information included therein is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS

Exhibit No.	Description of Exhibits
2.1	Agreement and Plan of Merger, dated as of June 30, 2014, by and among Ottawa Savings Bancorp MHC, Ottawa Savings Bancorp, Inc., Ottawa Savings Bank FSB and Twin Oaks Savings Bank (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, No. 000-51367, filed on July 1, 2014).
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)
4.1	Form of Stock Certificate of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 4.1, to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)
10.1	Amended and Restated Employment Agreement by and between Ottawa Savings Bank, Ottawa Saving Bancorp, Inc. and Jon L. Kranov (incorporated by reference to Exhibit 10.4 to Company's Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)*
10.2	Amended and Restated Employment Agreement by and between Ottawa Savings Bank, Ottawa Saving Bancorp, Inc. and Philip B. Devermann (incorporated by reference to Exhibit 10.5 to Company's Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)*

10.3	Ottawa Savings Bank Employees' Savings and Profit Sharing Plan and Trust, (incorporated by reference to Exhibit 10.7 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)*
10.4	Ottawa Savings Bank Change in Control Severance Compensation Plan, (incorporated by reference to Exhibit 10.8 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on March 18, 2005, as amended)*
10.5	Ottawa Savings Bank Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.9 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005)*
10.6	Amendment to Ottawa Savings Bank Voluntary Deferred Compensation Plan for Directors, (incorporated by reference to Exhibit 10.10 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on May 16, 2005, as amended)*
10.7	Salary Continuation Agreement between Ottawa Savings Bank and Jon L. Kranov, as amended. (incorporated by reference to Exhibit 10.12 to Company's Annual Report on Form 10-K, No.000-51367, filed on March 30, 2009)*
10.8	Ottawa Savings Bank Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, No. 000-51367, filed on November 4, 2014)*
11.1	Computation of per share earnings (included in Note 1 to the Company's Consolidated Financial Statements)
14.1	Ottawa Savings Bancorp, Inc. Code of Ethics and Business Conduct (incorporated by reference to Exhibit 14.1 to Company's 2006 Annual Report on Form 10-KSB, No. 000-51367, filed on March 29, 2007)
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to Company's 2005 Annual Report on Form 10-KSB, No. 000-51367, filed on March 29, 2006)
23.1	Consent of McGladrey LLP
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. Annual Report on Form 10-K for the year ended December 31, 2014 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.

* Indicates management contracts, compensatory plans or arrangements

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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014, utilizing the framework established in Internal Control – Integrated Framework of 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2014 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Company’s financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Financial Statements

12.31.14

Ottawa Savings Bancorp, Inc. & Subsidiary

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Report of Independent Registered Public Accounting Firm

To the Board of Directors

Ottawa Savings Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Ottawa Savings Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ottawa Savings Bancorp, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGLADREY LLP

Chicago, Illinois

March 30, 2015

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets		
Cash and due from banks	$2,053,117	$2,174,979
Interest bearing deposits	3,140,118	4,430,861
Total cash and cash equivalents	5,193,235	6,605,840
Time deposits	854,861	-
Federal funds sold	1,662,000	3,630,000
Securities available for sale	52,772,108	34,547,080
Non-marketable equity securities	1,780,674	1,233,536
Loans, net of allowance for loan losses of $2,314,607 and $2,910,580 at December 31, 2014 and 2013, respectively	142,501,513	110,672,618
Premises and equipment, net	7,040,228	6,451,409
Accrued interest receivable	881,612	652,693
Foreclosed real estate	232,650	584,786
Deferred tax assets	3,055,068	2,450,072
Cash value of life insurance	2,148,043	2,096,181
Goodwill	649,869	-
Core deposit intangible	567,000	-
Other assets	2,386,030	1,686,107
Total assets	$221,724,891	$170,610,322
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$8,198,356	$5,219,028
Interest bearing	174,034,663	140,549,623
Total deposits	182,233,019	145,768,651
Accrued interest payable	369	582
FHLB advances	5,483,036	-
Other liabilities	3,876,053	3,035,707
Total liabilities	191,592,477	148,804,940
Commitments and contingencies		
Redeemable common stock held by ESOP plan	424,730	319,090
Stockholders' Equity		
Common stock, $.01 par value, 12,000,000 shares authorized; 3,001,055 and 2,224,911 shares issued at December 31, 2014 and 2013, respectively	30,010	22,249
Additional paid-in-capital	15,830,623	8,706,921
Retained earnings	15,423,412	14,619,095
Unallocated ESOP shares	(254,380)	(305,256)

Unearned management recognition plan shares	(12,388)	(21,024)
Accumulated other comprehensive income (loss)	327,255	(4,485)
	31,344,532	23,017,500
Less:		
Treasury stock, at cost; 106,932 shares	(1,212,118)	(1,212,118)
Maximum cash obligation related to ESOP shares	(424,730)	(319,090)
Total stockholders' equity	29,707,684	21,486,292
Total liabilities and stockholders' equity	$221,724,891	$170,610,322

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Operations

Years Ended December 31, 2014 and 2013

	2014	**2013**
Interest and dividend income:		
Interest and fees on loans	$5,734,079	$6,205,611
Securities:		
Residential mortgage-backed and related securities	526,915	469,265
State and municipal securities	286,878	266,135
Dividends on non-marketable equity securities	6,590	5,751
Interest-bearing deposits	2,624	5,460
Total interest and dividend income	6,557,086	6,952,222
Interest expense:		
Deposits	951,320	1,451,959
Borrowings	1,259	-
Total interest expense	952,579	1,451,959
Net interest income	5,604,507	5,500,263
Provision for loan losses	901,000	875,000
Net interest income after provision for loan losses	4,703,507	4,625,263
Other income:		
Gain on sale of securities	42,054	-
Gain on sale of loans	55,837	66,229
Gain on sale of OREO	84,208	102,089
Gain on sale of repossessed assets	17,379	-
Customer service fees	304,117	299,148
Income on bank owned life insurance	51,862	8,745
Other	115,108	285,044
Total other income	670,565	761,255
Other expenses:		
Salaries and employee benefits	1,853,740	1,629,301
Directors fees	100,800	100,800
Occupancy	506,778	454,966
Deposit insurance premium	136,379	189,111
Legal and professional services	541,860	274,506
Data processing	328,097	289,599
Loss on sale of securities	17,234	-
Valuation adjustments and expenses on foreclosed real estate	55,119	335,208
Loss on sale of OREO	26,228	106,412
Loss on sale of repossessed assets	2,920	7,513
Other	653,321	529,982
Total other expenses	4,222,476	3,917,398

Income before income tax expense	1,151,596	1,469,120
Income tax expense	347,279	539,992
Net income	$804,317	$929,128
Basic earnings per share	$0.39	$0.45
Diluted earnings per share	$0.38	$0.45

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2014 and 2013

	2014	**2013**
Net income	$804,317	$929,128
Other comprehensive income (loss), before tax:		
Securities available for sale:		
Unrealized holding gains (losses) arising during the period	566,503	(716,726)
Reclassification adjustment for (gains) included in net income	(24,820)	-
Other comprehensive income (loss), before tax	541,683	(716,726)
Income tax expense (benefit) related to items of other comprehensive income (loss)	209,943	(243,687)
Other comprehensive income (loss), net of tax	331,740	(473,039)
Comprehensive income	$1,136,057	$456,089

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unallocated ESOP Shares	Unearned MRP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Maximum Cash Obligation Related to ESOP Shares	Total
Balance, December 31, 2012	$22,249	$8,705,547	$13,689,967	$(356,132)	$(33,977)	$468,554	$(1,212,118)	$(237,712)	$21,04
Net income	-	-	929,128	-	-	-	-	-	929,1
Other comprehensive loss	-	-	-	-	-	(473,039)	-	-	(473,
Allocation of 5,087 ESOP shares	-	(13,077)	-	50,876	-	-	-	-	37,79
Compensation expense on MRP awards granted	-	-	-	-	12,953	-	-	-	12,95
Compensation expense on RRP options granted	-	14,451	-	-	-	-	-	-	14,45
Change related to ESOP shares cash obligation	-	-	-	-	-	-	-	(81,378)	(81,3
Balance, December 31, 2013	22,249	8,706,921	14,619,095	(305,256)	(21,024)	(4,485)	(1,212,118)	(319,090)	21,48
Net income	-	-	804,317	-	-	-	-	-	804,3
Other comprehensive income	-	-	-	-	-	331,740	-	-	331,7
Allocation of 5,088 ESOP shares	-	(3,943)	-	50,876	-	-	-	-	46,93

Compensation expense on MRP awards granted	-	-	-	-	8,636	-	-	-	8,636
Compensation expense on RRP options granted	-	10,406	-	-	-	-	-	-	10,40
Change related to ESOP shares cash obligation	-	-	-	-	-	-	-	(105,640)	(105,(
Issuance of 776,144 shares of common stock to Ottawa Savings Bancorp, MHC	7,761	7,117,239	-	-	-	-	-	-	7,125
Balance, December 31, 2014	$30,010	$15,830,623	$15,423,412	$(254,380)	$(12,388)	$327,255	$(1,212,118)	$(424,730)	$29,70

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	**2013**
Cash Flows from Operating Activities		
Net income	$804,317	$929,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	184,160	186,957
Provision for loan losses	901,000	875,000
Provision for deferred income taxes	54,247	37,278
Net amortization of premiums and discounts on securities	523,021	595,741
Gain on sale of securities, net	(24,820)	-
Origination of mortgage loans held for sale	(3,056,550)	(5,152,718)
Proceeds from sale of mortgage loans held for sale	3,112,387	5,390,042
Gain on sale of loans, net	(55,837)	(66,229)
Origination and purchase of mortgage servicing rights, net of amortization	(5,499)	(5,157)
Proceeds from sale of non-mortgage loans held for sale	-	268,634
(Gain) loss on sale of foreclosed real estate, net	(57,980)	4,323
Write down of foreclosed real estate	-	161,284
(Gain) loss on sale of repossessed assets, net	(14,459)	7,513
ESOP compensation expense	46,933	37,799
MRP compensation expense	8,636	12,953
Compensation expense on RRP options granted	10,406	14,451
Increase in cash surrender value of life insurance	(51,862)	(8,745)
Change in assets and liabilities:		
Decrease in prepaid FDIC insurance premiums	-	163,999
Decrease in accrued interest receivable	15,053	43,945
Increase in other assets	(353,490)	(230,109)
Decrease in income tax refunds receivable	-	166,590
Increase in accrued interest payable and other liabilities	158,358	348,863
Net cash provided by operating activities	2,198,021	3,781,542
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(3,809,868)	(14,099,651)
Sales, maturities and paydowns	9,484,995	7,103,707
Securities held to maturity:		
Paydowns	-	12
Sale of non-marketable equity securities	-	100,900
Purchase of bank-owned life insurance	-	(500,000)
Net (increase) decrease in loans	(3,172,110)	9,578,957
Net decrease (increase) in federal funds sold	2,408,000	(1,964,000)

Cash received in bank acquisition	2,031,791	-
Proceeds from sale of foreclosed real estate	539,391	1,093,963
Proceeds from sale of repossessed assets	67,120	36,987
Purchase of premises and equipment	(13,915)	(8,572)
Net cash provided by investing activities	7,535,404	1,342,303
Cash Flows from Financing Activities		
Net decrease in deposits	(13,146,030)	(9,305,994)
Proceeds from Federal Home Loan Bank advances	4,000,000	-
Repayment of Federal Home Loan Bank advances	(2,000,000)	-
Net cash used in financing activities	(11,146,030)	(9,305,994)
Net decrease increase in cash and cash equivalents	(1,412,605)	(4,182,149)
Cash and cash equivalents:		
Beginning	6,605,840	10,787,989
Ending	$5,193,235	$6,605,840

(Continued)

Ottawa Savings Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows (continued)

Years Ended December 31, 2014 and 2013

	2014	2013
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$951,533	$1,452,183
Interest paid on borrowings	1,259	-
Income taxes paid	336,000	295,217
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	485,475	599,642
Other assets acquired in settlement of loans	108,850	52,500
Sale of foreclosed real estate through loan origination	356,200	52,500
Transfer of non-mortgage loans to held for sale	-	268,634
Increase in ESOP put option liability	105,640	81,378

	2014	2013
Assets acquired in bank acquisition		
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	-
Goodwill	649,869	-
Core deposit intangible	567,000	-
Other assets	284,745	-
Total assets acquired	$60,900,209	$ -
Liabilities assumed in bank acquisition		
Deposits	$49,610,398	$ -
Accrued interest payable	51	-
FHLB Advances	3,483,036	-
Other liabilities	681,724	-
Total liabilities assumed	$53,775,209	$ -
Common stock issued for bank acquisition	$7,125,000	$ -

See Accompanying Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Ottawa Savings Bancorp, Inc. (the Company) and its wholly owned subsidiary Ottawa Savings Bank (the Bank). All significant intercompany transactions and balances are eliminated in consolidation.

Entity structure

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 completed a merger with Twin Oaks Savings Bank (“Twin Oaks”), whereby Twin Oaks was merged with and into the Bank, with the Bank as the surviving institution (See Note 2 for additional information). As part of the merger agreement, 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.

Nature of business

The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in providing a variety of financial services to individual and corporate customers in the Ottawa, Marseilles, and Morris,

Illinois areas, which are primarily agricultural areas consisting of several rural communities with small to medium sized businesses. The Bank's primary source of revenue is interest and fees related to single-family residential loans to middle-income individuals.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the fair value of securities available for sale, the determination of the allowance for loan losses, valuation of deferred income taxes, the determination of the liability for postretirement benefits and the fair value measurement for the assets and liabilities.

Concentration of credit risk

Most of the Bank's business activity is with customers within the Ottawa, Marseilles, and Morris areas. The Bank does not have any significant concentrations to any one industry or customer.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks, including cash items in process of clearing. Cash flows from loans, deposits, and federal funds sold or purchased are treated as net increases or decreases in the statement of cash flows.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Time deposits

Time deposits held at other financial institutions are carried at cost and include any time deposits with an original maturity of greater than three months. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on time deposits.

Investment securities

Debt securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. The difference between the fair value and amortized cost, adjusted for amortization of premium and accretion of discounts, computed by the interest method over their contractual maturity, results in an unrealized gain or loss. Unrealized gains or losses are reported as accumulated other comprehensive income (loss), net of the related deferred tax effect and are included as a component of stockholders' equity. Gains or losses from the sale of securities are determined using the specific identification method and are included in earnings. Declines in the fair value of available for sale securities below their amortized cost basis that are deemed to be other than temporary are reflected in earnings as realized losses. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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 of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, management monitors market trends and current events in order to identify trends and circumstances that might impact the carrying value of securities.

To determine if an “other-than-temporary” impairment (OTTI) exists on an investment security, the Company first determines if (a) it intends to sell the security or (b) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Company will recognize an “other-than-temporary” impairment in earnings equal to the difference between the security’s fair value and its adjusted cost basis. If neither of the conditions is met, the Company determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of total impairment related to all other factors is included in other comprehensive income (loss).

Note 1. Summary of Significant Accounting Policies (Continued)

Non-marketable equity securities

Investments in the Federal Home Loan Bank of Chicago, Bankers Bank of Wisconsin, and the Upper Illinois River Valley Development Corporation are carried at cost.

Loans

The Bank primarily lends to small and mid-sized businesses, non-residential real estate customers and consumers providing mortgage, commercial and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans throughout Ottawa, Illinois and the surrounding area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

It is the Bank's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Bank seeks recovery in compliance with state lending laws, the Bank's lending standards, and credit monitoring and remediation procedures.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan using the interest method.

The following portfolio segments and classes of loan receivables have been identified by the Company:

- Commercial
- Non-residential real estate
- One-to-four family residential real estate
- Multi-family residential real estate
- Consumer direct
- Purchased auto loans

Generally, for all classes of loans receivable, loans are considered past due when contractual payments are delinquent for 31 days or greater. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For all classes of loans receivable, loans are placed on nonaccrual status when the loan has become over 90 days past due (unless the loan is well secured and in the process of collection).

When a loan is placed on nonaccrual status, income recognition is ceased. Previously recorded but uncollected amounts of interest on nonaccrual loans are reversed at the time the loan is placed on nonaccrual status. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

For all classes of loans receivable, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- All principal and interest amounts contractually due, including past due payments, are reasonably assured of repayment within a reasonable period, and
- There is a period of minimum repayment performance, as follows, by the borrower in accordance with contractual terms:
- Six months of repayment performance for contractual monthly payments, or
- One year of repayment performance for contractual quarterly or semi-annual payments.

Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings.

The following criteria, related to granting a concession, together or separately, create a troubled debt restructuring:

- A modification of terms of a debt such as one or a combination of:
- The reduction of the stated interest rate to a rate lower than the current market rate for new debt with similar risk.
- The extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
- The reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
- The reduction of accrued interest.
- A transfer from the borrower to the Company of receivables from third parties, real estate, other assets, or an equity position in the borrower to fully or partially satisfy a loan.

Allowance for loan losses

For all portfolio segments, the allowance for loan losses is an amount necessary to absorb known and inherent losses that are both probable and reasonably estimable and is established through a provision for loan losses charged to earnings. Loan losses, for all portfolio segments, are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

For all portfolio segments, 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to make additions to the allowance based upon their judgment about information available to them at the time of their examinations.

The general component 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Due to changing economic conditions which resulted in reduced charge-offs through June 30, 2013, management evaluated and changed the historical loss period used in the allowance for loan losses calculation from using the most recent eight quarters of loss history to calculate historical loss rates to twelve quarters of loss history. The weighting applied to the quarters had been graduated, with heavier weightings applied to the most recent quarters of loss history. Going forward the weighting applied to the quarters is still graduated, with heavier weightings applied to the most recent quarters of loss history; however, the weighting applied has a lesser graduation than the previous methodology. Management evaluated the impact of the change in methodology by calculating the allowance for loan losses using both the old methodology and the new methodology at June 30, 2013, and determined that the change in methodology did not have a material impact on the allowance for loan losses as of June 30, 2013.

This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following:

- Levels of and trends in delinquencies and impaired loans
- Levels of and trends in charge-offs and recoveries
- Trends in volume and terms of loans
- Effects of any changes in risk selection and underwriting standards
- Other changes in lending policies, procedures and practices
- Experience, ability and depth of lending management and other relevant staff
- National and local economic trends and conditions
- Industry conditions
- Effects of changes in credit concentrations

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and non-residential loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

A discussion of the risk characteristics and the allowance for estimated losses on loans, by each portfolio segment, follows:

For commercial loans, the Company focuses on small and mid-sized businesses that have annual revenues below $5,000,000 with primary operations as wholesalers, manufacturers, building contractors, business services companies, and retailers. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of facilities, equipment and other purposes. The Company also originates commercial loans through Bankers Health Group (BHG). BHG specializes in loans to healthcare professionals of all specialties throughout the United States. The loans for BHG are primarily comprised of working capital and equipment loans. We underwrite these loans based on our criteria and service the loans in-house. Approval is generally based on the following factors:

- Ability and stability of current management of the borrower;
- Stable earnings with positive financial trends:

Note 1. Summary of Significant Accounting Policies (Continued)

- Sufficient cash flow to support debt repayment;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, and equipment. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. The lending policy specifies maximum term limits for commercial loans. For term loans, the maximum term is 5 years. Generally, term loans range from 3 to 5 years. For lines of credit, the maximum term is 365 days. In addition, the Company often takes personal guarantees as support for repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Non-residential real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for non-residential real estate loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of non-residential real estate (non-residential real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits established by regulatory authorities. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. In addition, the Company often takes personal guarantees as support for repayment.

Some of the non-residential loans that the Company originates finance the construction of residential dwellings and land development. For land development, the loans generally can be made with a maximum loan to value ratio of 70% and a maximum term up to 10 years. Additionally, the Company will underwrite commercial construction loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent loan upon completion. In the case of a single family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 70% of the appraised value as determined by an appraisal of the property made by an independent state certified general real estate appraiser. Periodic inspections are required of the property during the term of the construction loan for both residential and commercial construction loans.

For commercial and non-residential real estate loans, the allowance for estimated losses on loans consists of specific and general components. For loans that are considered impaired as defined above, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The Company hires an independent firm to perform a loan review annually to validate the risk ratings on commercial and non-residential loans. Additionally, the reviews include an analysis of debt service requirements, covenant compliance, if applicable, and collateral adequacy. They also perform a documentation review on selected loans to determine if the credit is properly documented and closed in accordance with approval authorities and conditions.

Note 1. Summary of Significant Accounting Policies (Continued)

Generally, the Company's one-to-four family real estate loans conform to the underwriting standards of Freddie Mac and Fannie Mae which would allow the Company the ability to resell the loans in the secondary market. The Company structures most loans that will not conform to those underwriting requirements as adjustable rate mortgages that adjust in one, three or five year increments and retains those in its portfolio. The board approved lending policy establishes minimum appraisal and credit underwriting guidelines, The Company also participates with the USDA Rural Development Company to offer loans to qualifying borrowers. USDA guaranteed loans are granted up to 100% of the appraised value and the USDA guarantees up to 90% of the loan. These loans typically require no down payment, but are subject to maximum income limitations.

The Company also originates loans for multi-family dwellings. These loans follow board and regulatory approved underwriting guidelines similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for multi-family real estate loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The board approved lending policy specifies maximum loan-to-value limits based on the type of property. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. The policy also specifies minimum ongoing credit administration procedures including the collection of financial statements, tax returns and rent rolls when applicable. Additionally, the Company will take personal guarantees and cross collateralize other assets of the guarantors as support for repayment.

The Company provides many types of installment and other consumer loans including motor vehicle, home improvement, share loans, personal unsecured loans, home equity, and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

The Company purchases auto loans from regulated financial institutions. These types of loans are primarily low balance individual auto loans. The Company reviews the loans at least three days prior to the purchase. Any specific loan can be refused within thirty days of the sale of any given loan pool.

For residential real estate loans, multi-family, consumer direct loans (e.g. installment, in-house auto, other consumer loans, etc.) and purchased auto loans, the allowance for estimated losses on loans consists of a specific and general component. The specific component is evaluated for only loans that are classified as impaired, which is based on current information and events if it is probable that the company will be unable to collect the scheduled payments according to the terms of the agreement. Impairment on these is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For large groups of smaller balance homogenous loans that are under 90 days past due, they are collectively evaluated for impairment. To determine the general component, the Company applies quantitative factors based on historical charge-off experience in total for each segment. Additionally, the historical loss factors are adjusted based on qualitative factors determined by the Company which impact each segment.

Note 1. Summary of Significant Accounting Policies (Continued)

For residential real estate loans, multi-family real estate loans, consumer direct loans and purchased auto loans, loans are not risk ranked individually. They are only classified when the borrower is 90 days or more past due or if the borrower has another loan with the Company that is over 90 days past due and dependent upon the same collateral. Under such circumstances, all of the loans connected with the collateral are classified as substandard and these loans are evaluated for impairment.

Troubled debt restructurings are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Loans Acquired in a Transfer

The loans acquired in the Twin Oaks merger (see Note 2) were recorded at fair value as of the acquisition date and no separate valuation allowance was established. Management engaged the services of an independent valuation specialist to determine the fair values based on expected cash flows discounted at appropriate rates.

FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date. Based on this evaluation, the Company determined that the loans acquired from the Twin Oaks merger subject to ASC Topic 310-30 would be accounted for individually.

The Company considered expected prepayments and estimated the total expected cash flows, which included undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accreteble yield. Accretable yield is recognized an interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as nonaccretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the allowance for loan losses. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increases are recognized prospectively through an adjustment of the loan’s yield over its remaining life.

FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* was applied to loans not considered to have deteriorated credit quality at acquisition. Under ASC Topic 310-20, the difference between the loan's principal balance at the time of purchase and the fair value is recognized as an adjustment of yield over the life of the loan.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed real estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Income taxes

Deferred income tax assets and liabilities are computed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not realizable. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company has no uncertain tax positions for which a liability has been recorded. The Company is no longer subject to examination by federal or state taxing authorities for the tax year 2010 and the years prior.

Note 1. Summary of Significant Accounting Policies (Continued)

Premises and equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Premises and equipment are depreciated using the straight-line and accelerated depreciation methods over the estimated useful lives of the assets:

	Years
Buildings	5-50
Furniture and equipment	5-39

Employee stock ownership plan

The Bank has an employee stock ownership plan (ESOP) covering substantially all employees. The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheets as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts.

Stock-based compensation

The Company recognizes compensation cost for all stock-based awards based on the estimated grant date fair value. The fair value of stock options are estimated using a Black-Scholes option pricing model and amortized to expense over the option's vesting periods, as more fully disclosed in Note 12.

Off-balance-sheet financial instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to originate loans, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale net of the related tax effect.

Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In the normal course of business, management will reach settlements over legal issues which are recorded in the period received. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

Fair value measurements

In accordance with the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures,* 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 framework for measuring fair value and expands disclosure of fair value measurements. See Note 16 for additional information.

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 17. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Goodwill

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. On December 31, 2014, the Company completed a merger (see Note 2), which resulted in the recognition of goodwill of approximately $650,000. Goodwill acquired in a purchase business combination is not amortized, but tested for impairment at least annually or more frequently if events or circumstances exist that indicate that a goodwill test should be performed. The Company has selected December 31 as the date to perform the annual impairment test in future years.

Core deposit intangible

The core deposit intangible represents the value of acquired customer relationships resulting from the Company's December 31, 2014 merger (see Note 2) with Twin Oaks. The core deposit intangible will be amortized using the double declining balance method over an estimated useful life of 9.8 years. The Company will periodically review the status of the core deposit intangible for any events or circumstances which may change the recoverability of the underlying basis.

Estimated future amortization expense on core deposit intangible is shown in the table below:

Year Ending December 31,	Amount
2015	$115,000

2016	92,000
2017	73,000
2018	58,000
2019	46,000
Thereafter	183,000
	567,000

Note 1. Summary of Significant Accounting Policies (Continued)

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. See Note 12 for additional information on the MRP and RRP plans.

	Years ended December 31,	
	2014	**2013**
Net income available to common stockholders	$804,317	$929,128
Basic potential common shares:		
Weighted average shares outstanding	2,120,105	2,117,979
Weighted average unallocated ESOP shares	(28,169)	(33,256)
Weighted average unvested MRP shares	(4,389)	(6,488)
Basic weighted average shares outstanding	2,087,547	2,078,235
Dilutive potential common shares:		
Weighted average unrecognized compensation on MRP shares	3,659	5,093
Weighted average RRP options outstanding *	-	-
Dilutive weighted average shares outstanding	2,091,206	2,083,328
Basic earnings per share	$0.39	$0.45
Diluted earnings per share	$0.38	$0.45

*The effect of share options for both 2014 and 2013 were not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

Segment reporting

The Company views the Bank as one operating segment, therefore, separate reporting of financial segment information is not considered necessary. The Company approaches the Bank as one business enterprise which operates in a single economic environment since the products and services, types of customers and regulatory environment all have similar characteristics.

Reclassification

Some items in the prior year financial statements were reclassified to conform to the current presentation with no impact on previously reported net income or stockholders' equity.

Recent accounting pronouncements

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 amendments are effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. The Company does not expect the adoption of this update to have a significant impact on its financial position, results of operation or cash flows.

Note 1. Summary of Significant Accounting Policies (Continued)

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. ASU 2014-14 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company does not expect the adoption of this update to have a significant impact on its financial position, results of operation or cash flows.

Note 2. Acquisition

On December 31, 2014, the Company completed its previously announced merger with Twin Oaks. Pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of June 30, 2014, Twin Oaks merged with and into the Bank. 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 determined by an independent appraiser of Twin Oaks of $7.125 million. 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.

Note 2. Acquisition (Continued)

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	759,064
Accrued interest receivable	243,972
Deferred tax assets	869,186
Goodwill	649,869
Core deposit intangible	567,000
Other assets	284,745
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 year ended December 31, 2014 were approximately $395,000.

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).

Note 2. Acquisition (Continued)

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).

Supplemental Pro Forma Results

The following schedule includes pro forma unaudited results for the periods ended December 31, 2014 and 2013, as if the acquisition had occurred as of January 1, 2013. 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 (Unaudited)	2013 (Unaudited)
	(Dollar amounts in thousands)	
Net interest income	$7,521	$ 7,322
Total other income	943	852
Total revenue	8,464	8,174
Net income	$139	$ 885

Net pro forma adjustments of $33,000, which reflect the net effect of purchase accounting adjustments amortized over the appropriate time frames, were added to net income for both periods presented.

Note 3. Restrictions on Cash and Amounts Due from Banks

At December 31, 2014 and 2013, the Bank was not required to maintain a minimum average balance on hand with the Federal Reserve Bank.

Note 4. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
December 31, 2013:				
Available for Sale				
State and municipal securities	$8,676,586	$80,152	$312,219	$8,444,519
Residential mortgage-backed securities	25,877,289	369,098	143,826	26,102,561
	$34,553,875	$449,250	$456,045	$34,547,080

Note 4. Investment Securities (Continued)

At December 31, 2014 and 2013, securities with a carrying value of approximately $0 and $300,000, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The amortized cost and fair value at December 31, 2014, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in three months or less	$200,100	$200,100
Due after three months through one year	244,176	244,176
Due after one year through five years	937,251	956,350
Due after five years through ten years	7,379,056	7,515,771
Due after ten years	11,237,263	11,308,795
Residential mortgage-backed securities	32,239,374	32,546,916
	$52,237,220	$52,772,108

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

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
Securities Available for Sale						
State and municipal securities	$408,165	$93	$701,492	$34,352	$1,109,657	$34,445
	2,449,087	21,546	3,468,577	28,627	5,917,664	50,173

Residential mortgage-backed securities						
	$2,857,252	$21,639	$4,170,069	$62,979	$7,027,321	$84,618
December 31, 2013						
Securities Available for Sale						
State and municipal securities	$4,937,528	$288,364	$258,573	$23,855	$5,196,101	$312,219
Residential mortgage-backed securities	9,832,934	122,774	994,240	21,052	10,827,174	143,826
	$14,770,462	$411,138	$1,252,813	$44,907	$16,023,275	$456,045

Note 4. Investment Securities (Continued)

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

At December 31, 2014, 12 securities had unrealized losses with aggregate depreciation of 1.19% from the Company’s amortized cost basis. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell these securities before recovery of the amortized cost basis, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2014.

Note 5. Loans and Allowance for Credit Losses

Loans

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

	December 31, 2014	December 31, 2013
Mortgage loans:		
One-to-four family residential loans	$98,144,990	$77,406,656
Multi-family residential loans	3,111,650	2,744,963
Total mortgage loans	101,256,640	80,151,619
Other loans:		
Non-residential real estate loans	20,928,085	17,016,805
Commercial loans	12,242,145	7,860,312
Consumer direct	1,724,700	392,273
Purchased auto	8,664,550	8,162,189
Total other loans	43,559,480	33,431,579

Gross loans	144,816,120	113,583,198
Less: Allowance for loan losses	(2,314,607)	(2,910,580)
Loans, net	$142,501,513	$110,672,618

Note 5. Loans and Allowance for Credit Losses (Continued)

The following table reflects the carrying amount of loans acquired in the Twin Oaks merger described in Note 2, which are included in the loan categories above as of December 31, 2014:

	2014
Mortgage loans:	
One-to-four family residential loans	$23,667,808
Multi-family residential loans	529,147
Total mortgage loans	24,196,955
Other loans:	
Non-residential real estate loans	3,141,438
Commercial loans	1,450,602
Consumer direct	1,006,915
Total other loans	5,598,955
Gross loans	29,795,910
Less: Allowance for loan losses	-
Loans, net	$29,795,910

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

	Years Ended December 31,	
	2014	2013
Purchased auto loans	$4,038,145	$4,048,406

Net (charge-offs), segregated by class of loans, were as follows:

	Years Ended December 31,	
	2014	2013
One-to-four family	$(895,524)	$(1,121,124)
Multi-family	(159,403)	(267,628)
Non-residential	(336,110)	51,820
Commercial	-	-
Consumer direct	(22,247)	(647)
Purchased auto	(83,689)	(8,282)

Net (charge-offs)/recoveries	$(1,496,973)	$(1,345,861)

Note 5. Loans and Allowance for Credit Losses (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013:

December 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	430,647	139,954	192,993	5,982	31,353	100,071	901,000
Loans charged off	(975,968)	(183,270)	(336,110)	-	(25,947)	(90,389)	(1,611,684)
Recoveries of loans previously charged off	80,444	23,867	-	-	3,700	6,700	114,711
Balance at end of period	$1,812,448	$121,918	$245,098	$35,947	$10,804	$88,392	$2,314,607
Period-end amount allocated to:							
Loans individually evaluated for impairment	$43,055	$-	$-	$-	$-	$-	$43,055
Loans collectively evaluated for impairment	1,769,393	121,918	245,098	35,947	10,804	88,392	2,271,552
Balance at end of period	$1,812,448	$121,918	$245,098	$35,947	$10,804	$88,392	$2,314,607

December 31, 2013	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$2,057,336	$161,901	$1,012,119	$75,130	$1,465	$73,490	$3,381,441
Provision charged to income	1,341,113	247,094	(675,724)	(45,165)	880	6,802	875,000
Loans charged off	(1,135,452)	(282,154)	(84,364)	-	(647)	(16,760)	(1,519,377)
Recoveries of loans previously charged off	14,328	14,526	136,184	-	-	8,478	173,516
Balance at end of period	$2,277,325	$141,367	$388,215	$29,965	$1,698	$72,010	$2,910,580
Period-end amount allocated to:							

Loans individually evaluated for impairment	$235,166	$ -	$ 29,977	$ -	$ -	$ -	$265,143
Loans collectively evaluated for impairment	2,042,159	141,367	358,238	29,965	1,698	72,010	2,645,437
Balance at end of period	$2,277,325	$ 141,367	$ 388,215	$ 29,965	$ 1,698	$72,010	$2,910,580

Note 5. Loans and Allowance for Credit Losses (Continued)

The following table presents the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013:

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

December 31, 2013	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	$3,455,604	$-	$2,332,243	$-	$-	$-	$5,787,847
Loans collectively evaluated for impairment	73,951,052	2,744,963	14,684,562	7,860,312	392,273	8,162,189	107,795,351
Ending Balance	$77,406,656	$2,744,963	$17,016,805	$7,860,312	$392,273	$8,162,189	$113,583,198

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.

Note 5. Loans and Allowance for Credit Losses (Continued)

The following table presents loans individually evaluated for impairment, by class of loans, as of December 31, 2014 and 2013:

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

December 31, 2013	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	$3,851,948	$2,729,178	$726,426	$3,455,604	$235,166	$3,480,595
Multi-family	-	-	-	-	-	16,033
Non-residential	2,631,792	2,090,766	241,477	2,332,243	29,977	2,288,596
Commercial	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-
Purchased auto	-	-	-	-	-	-
	$6,483,740	$4,819,944	$967,903	$5,787,847	$265,143	$5,785,224

For the years ended December 31, 2014 and 2013, the Company recognized no accrued or cash basis interest income on impaired loans.

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. Certain 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 and deferred loan fees or costs), 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.

Note 5. Loans and Allowance for Credit Losses (Continued)

The impaired loans at December 31, 2014 and 2013, include approximately $2.6 million and $3.1 million, respectively, of loans whose terms have been modified in troubled debt restructurings. The restructured loans are being monitored as they have not attained per accounting guidelines the performance requirements for the set time period to achieve being returned to accrual status.

Loans classified as troubled debt restructuring during the years ended December 31, 2014 and 2013, segregated by class of loans, are shown in the table below.

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Number of Modifications	Recorded Investment (as of period end)	Increase in Allowance	Number of Modifications	Recorded Investment (as of period end)	Increase in Allowance
One-to-four family	-	$ -	$ -	5	$ 662,065	$ 2,609
Multi-family	-	-	-	-	-	-
Non-residential	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-
Purchased auto	-	-	-	-	-	-
	-	$ -	$ -	5	$ 662,065	$ 2,609

None of the above loan modifications classified as TDRs had payment defaults (i.e. 60 days or more past due following a modification), during 2014 and 2013, respectively. 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 consideration of 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 of December 31, 2014 and 2013:

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	$ -

December 31, 2013	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One-to-four family	$3,549,498	$ -
Multi-family	-	-
Non-residential	2,332,243	-
Commercial	-	-
Consumer direct	-	-
Purchased auto	-	-
	$5,881,741	$ -

Note 5. Loans and Allowance for Credit Losses (Continued)

The following table presents the aging of the recorded investment in loans, by class of loans, as of December 31, 2014 and 2013:

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

December 31, 2013	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	$2,550,329	$492,545	$1,613,697	$4,656,571	$72,750,085	$77,406,656
Multi-family	263,313	-	-	263,313	2,481,650	2,744,963
Non-residential	289,111	428,645	318,475	1,036,231	15,980,574	17,016,805
Commercial	25,795	-	-	25,795	7,834,517	7,860,312
Consumer direct	947	-	-	947	391,326	392,273
Purchased auto	22,719	-	-	22,719	8,139,470	8,162,189
	$3,152,214	$921,190	$1,932,172	$6,005,576	$107,577,622	$113,583,198

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 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, multi-family real estate, 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 residential real estate, multi-family real estate 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.

Note 5. Loans and Allowance for Credit Losses (Continued)

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 December 31, 2014 and 2013, the risk category of loans by class is as follows:

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

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Not rated
One-to-four family	$-	$1,242,347	$3,455,604	$ -	$72,708,705
Multi-family	-	-	-	-	2,744,963
Non-residential	12,565,850	2,118,712	2,332,243	-	-
Commercial	7,860,021	291	-	-	-
Consumer direct	-	-	-	-	392,273
Purchased auto	-	-	-	-	8,162,189
Total	$20,425,871	$3,361,350	$5,787,847	$ -	$84,008,130

Note 5. Loans and Allowance for Credit Losses (Continued)

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and companies in which these parties have a 10% or more beneficial ownership. In the opinion of management, these loans are made with substantially the same terms, including interest rate and collateral, as those prevailing for comparable transactions with other customers and do not involve more than the normal risk of collectability.

Note 6. Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $46,435,055 and $23,943,969 at December 31, 2014 and 2013, respectively.

Note 7. Accrued Interest Receivable

Accrued interest receivable at December 31, 2014 and 2013, are summarized as follows:

	2014	2013
State and municipal securities	$201,706	$105,886
Residential mortgage-backed securities	116,451	90,288
Loans	553,869	456,519
Other	9,586	-
	$881,612	$652,693

Note 8. Premises and Equipment

Premises and equipment at December 31, 2014 and 2013, are summarized as follows:

	2014	2013
Cost:		

Land	$2,190,649	$1,966,899
Buildings	7,128,102	6,694,313
Furniture and equipment	1,281,956	1,537,282
	10,600,707	10,198,494
Less: Accumulated depreciation	3,560,479	3,747,085
	$7,040,228	$6,451,409

Note 9. Deposits

Deposits at December 31, 2014 and 2013 are summarized as follows:

	2014 Amount	Percent	2013 Amount	Percent
Non-interest bearing checking	$8,198,356	4.50 %	$5,219,028	3.58 %
Interest bearing checking	22,847,282	12.54 %	14,382,388	9.87 %
Money market	29,278,041	16.07 %	21,794,546	14.95 %
Savings	22,764,931	12.49 %	16,941,081	11.62 %
Certificates of deposit	99,144,409	54.41 %	87,431,608	59.98 %
Interest bearing	174,034,663	95.50 %	140,549,623	96.42 %
Total	$182,233,019	100.00%	$145,768,651	100.00%

Interest expense on deposits for the years ended December 31, 2014 and 2013, is summarized as follows:

	December 31,	
	2014	2013
Money market	$46,089	$50,793
Savings	13,279	13,711
Certificates of deposit	885,014	1,381,045
Checking	6,938	6,410
	$951,320	$1,451,959

Deposits from directors, principal officers, and their immediate families at December 31, 2014 and 2013 were $2,644,197 and $1,824,825, respectively.

The aggregate amount of public deposits at December 31, 2014 and 2013 were $3,847,095 and $2,968,766, respectively.

The aggregate amount of certificates of deposit within a minimum denomination of $100,000 was approximately $39,185,000 and $35,803,000 at December 31, 2014 and 2013, respectively. Of these certificates of deposit, there was approximately $6,102,000 and $7,606,000 at December 31, 2014 and 2013, respectively with minimum denominations of $250,000.

At December 31, 2014, scheduled maturities of certificates of deposit are as follows:

2015	$43,195,263
2016	21,019,007
2017	13,753,380
2018	12,317,549
2019	8,859,210
	$99,144,409

The Company held brokered deposits of approximately $272,000 at both December 31, 2014 and 2013. The broker receives a fee from the Company for the brokered deposits. Total fee expenses of $362 and $606 were recognized for the years ended December 31, 2014 and 2013, respectively.

Note 10. Borrowings

Our borrowings consist of open line and term advances from the Federal Home Loan Bank of Chicago and Federal Funds purchased from Bankers Bank of Wisconsin. As a member, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. At December 31, 2014, we had the ability to borrow $57.2 million from the FHLBC. In addition, as of December 31, 2014, the Bank had $5.0 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds. There were Federal Home Loan Bank advances of approximately $5.5 million outstanding at December 31, 2014 and no advances outstanding at December 31, 2013. There were no Federal Funds purchased outstanding at December 31, 2014 and 2013.

A summary of outstanding advances is as follows:

	December 31,	
	2014	2013
Open lines of credit at 0.30%	$2,800,000	-
Matures 10/02/2015 at 0.36%, fixed	499,547	-
Matures 01/13/2016 at 3.90%, fixed	1,031,600	-
Matures 03/30/2018 at 1.72%, fixed	491,638	-
Matures 04/01/2019 at 2.00%, fixed	490,540	-
Matures 10/03/2022 at 1.48%, fixed	169,711	-
	$5,483,036	$ -

Note 11. Employment Benefit and Retirement Plans

Employee stock ownership plan

On May 6, 2005, the Company adopted an employee stock ownership plan (ESOP) for the benefit of substantially all employees. 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; dividends on unallocated ESOP shares reduce accrued interest. During 2014, 5,088 shares, with an average fair value of $9.23 per share were committed to be released, resulting in ESOP compensation expense of $46,933, as compared to 5,087 shares, with an average fair value of $7.85 per share, resulting in ESOP compensation expense of $37,799 for 2013.

Note 11. Employment Benefit and Retirement Plans (Continued)

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 December 31, 2014 and 2013, respectively, 42,473 shares at a fair value of $10.00, and 37,539 shares at a fair value of $8.50, have been classified as mezzanine capital.

	December 31,	
	2014	2013
Shares allocated	50,876	45,788
Shares withdrawn from the plan	(8,403)	(8,249)
Unallocated shares	25,438	30,526
Total ESOP shares	67,911	68,065
Fair value of unallocated shares	$254,380	$259,471

Supplemental executive retirement plan (SERP)

On September 19, 2007, the Bank entered into salary continuation agreements with certain of its executive officers to provide additional benefits upon retirement. The present value of the estimated liability under the agreement is being accrued using a discount rate of 6 percent ratably over the remaining years to the date when the executive is first eligible for benefits. The recorded SERP liability was $770,563 and $667,521 for the years ended December 31, 2014 and 2013, respectively. The SERP compensation charged to expense totaled $119,724 and $106,978 for the years ended December 31, 2014 and 2013, respectively.

401(k) plan

The Bank maintains a voluntary 401(k) plan for substantially all employees. Employees may contribute a percentage of their compensation to the plan subject to certain limits based on federal tax laws. The Bank makes matching contributions to the 401(k) plan of 50 percent of the first 6 percent of an employee's compensation contributed to the plan. The Bank also makes Safe Harbor contributions, in addition to any matching contributions, equal to 3 percent of an eligible employee's compensation to the 401(k) plan each pay period. Employer contributions vest to the employee ratably over a five-year period. Employer contribution expense was $74,788 for 2014 and $71,154 for 2013.

Deferred compensation

The Bank has deferred compensation agreements with certain directors. Contributions to the plan for the years ended December 31, 2014 and 2013 were $51,509 and $52,885, respectively. The deferred compensation liability included on the balance sheet in other liabilities was $1,181,644 and $1,105,696 as of December 31, 2014 and 2013, respectively.

Note 11. Employment Benefit and Retirement Plans (Continued)

Director retirement plan

The Bank has, as a result of the merger, a director retirement plan for six of the former members of the Twin Oak's Board of Directors. The plan provides monthly retirement benefits equal to one-twelfth of the annual Board fees. Payments are based on years of service on the Twin Oaks Board of Directors prior to the merger date (Note 2), with ten years of payments guaranteed. One former member was retired prior to the merger and will continue his current benefit payments. Three of the former members retired as of the merger date of December 31, 2014, and will begin collecting benefits in January 2015. The remaining two former members became part of the Bank's board as of the merger date and will not commence their benefit until they retire. As of the merger date, the Plan was frozen as to benefit accruals and years of service. The compensation liability included on the balance sheet in other liabilities was $352,887 as of December 31, 2014.

Director retirement plan valuation

	December 31, 2014	2013
Number of participants:		
Retirees	4	-
Active directors - not yet eligible	2	-
Total	6	-

Assumptions used to determine net periodic benefit obligation:

	December 31, 2014	2013
Discount rate	3.50%	-
Mortality	2014 IRS applicable mortality table based on RP-2000	-

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Post-retirement health benefit plan

The Bank has a contributory post-retirement health benefit plan for officers that meet eligibility requirements outlined in the employee handbook. The accounting for the health care plan anticipates future cost-sharing changes that are consistent with the Bank's expressed intent to increase retiree contributions.

Post-retirement health benefits valuation

	December 31, 2014	2013
Number of participants:		
Retirees	3	3
Active employees - fully eligible	1	1
Active employees - not yet eligible	3	3
Total	7	7

Note 11. Employment Benefit and Retirement Plans (Continued)

Obligations and funded status:

Change in benefit obligation	Year ended December 31, 2014	2013
	(Amounts in thousands)	
Benefit obligation at beginning of year	$288	$241
Service cost	5	5
Interest cost	14	10
Actuarial loss (gain)	37	36
Benefits paid	(7)	(7)
Retiree contributions	4	3
Benefit obligation at end of year	341	288
Change in plan assets		
Employer contributions	3	3
Retiree contributions	4	4
Benefits paid	(7)	(7)
Fair value of plan assets at year end	-	-
Funded status	(341)	(288)
Actuarial loss (gain)	(63)	(116)
Net amount recognized	$(404)	$(404)

Amounts recognized in the statement of financial position consist of:

	December 31, 2014	2013
Accumulated post-retirement benefit obligation:		
Retirees	$(63,928)	$(64,642)
Active employees - fully eligible	(74,280)	(63,757)
Active employees - not yet eligible	(203,247)	(159,300)
Total	(341,455)	(287,699)
Plan assets at fair value	-	-
Funded status	(341,455)	(287,699)
Actuarial (gain)	(62,977)	(116,134)
(Accrued) cost included in other liabilities	$(404,432)	$(403,833)

Components of Net Periodic Benefit Cost:

	Year ended December 31,	
	2014	2013
Service cost	$5,394	$4,706
Interest cost	14,349	9,741
Amortization net gain	(17,070)	(19,789)
Net cost (benefit)	$2,673	$(5,342)

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Note 11. Employment Benefit and Retirement Plans (Continued)

Weighted average assumptions used to determine net periodic benefit cost:

	December 31, 2014	December 31, 2013
Discount rate	4.08 %	4.92 %
Expected long-term return on plan assets	-	-
Rate of compensation increase	-	-

Assumed health care cost trend rates:

	December 31, 2014	December 31, 2013
Health care cost trend rate assumed for next year	8.00 %	8.00 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.50 %	6.00 %
Year that the rate reaches the ultimate trend rate	2020	2018

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(Amounts in thousands)	
Effect on total of service and interest cost components	$ 5	$ (3)
Effect on post-retirement benefit obligation	$ 72	$ (51)

Cash Flows:

Contributions: The Bank expects to contribute $10,000 to its post-retirement benefit plan in 2015.

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year	Other Benefits (Amounts in thousands)
2015	$ 10
2016	16
2017	22
2018	24
2019	31
2020-2024	201

Note 12. Stock Compensation

Management recognition plan

A Management Recognition and Retention Plan ("MRP") provides for the issuance of shares to directors and officers. Pursuant to the Ottawa Savings Bancorp, Inc. 2006 Equity Incentive Plan, 43,608 shares were purchased by the Company in November 2006, at an average cost of $13.46 per share. Granted shares vest in equal installments over a five year period, with ownership of the shares transferring to the recipient upon vesting. The unamortized cost of shares not yet vested of $12,388 and $21,024 at December 31, 2014 and 2013, respectively, are reported as reductions of stockholders' equity.

A summary of the status of the MRP stock awards is as follows:

Year ending December 31, 2014	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	4,539	$ 4.79
Granted	-	-
Vested and transferred to recipients	(1,744)	4.95
Outstanding and non-vested at end of year	2,795	$ 4.79

Year ending December 31, 2013	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	6,719	$ 5.16
Granted	-	-
Vested and transferred to recipients	(2,180)	5.94
Outstanding and non-vested at end of year	4,539	$ 4.79

The total compensation cost at December 31, 2014, related to non-vested shares not yet recognized was approximately $12,400 with an average expense recognition period of 1.3 years. The Company recognized compensation expense of approximately $8,600 and $13,000, for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, 2,795 shares remain non-vested and are expected to be exercisable in accordance with their original terms.

Stock option plan

A Recognition and Retention Plan (“RRP”) provides for the issuance of stock options to directors, officers and employees. Pursuant to the Ottawa Savings Bancorp, Inc. 2006 Equity Incentive Plan, on November 21, 2006, the Company granted stock options to purchase 92,666 shares of the Company’s common stock, at an exercise price of $12.35 per share. Under the same plan, the Company granted stock options to purchase 5,451 shares of the Company’s common stock, at an exercise price of $9.90 per share on December 21, 2008, 8,722 shares of the Company’s common stock, at an exercise price of $6.00 per share on November 17, 2010, and 13,083 shares of the Company’s common stock, at an exercise price of $4.25 per share on November 16, 2011. The options become exercisable in equal installments over a five year period from the grant date. The options expire ten years from the grant date.

Note 12. Stock Compensation (Continued)

The fair value of the stock options granted has been estimated using a Black-Scholes option pricing model. This option pricing model requires management to make subjective assumptions, such as expected stock price volatility, dividend rates, and expected time to exercise. There were no options granted during 2014 and 2013.

A summary of the status of the outstanding RRP stock options is as follows:

Year ended December 31, 2014	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of year	92,667	$ 10.46	4.10	$ -
Granted	-	-		
Exercised	-	-		
Outstanding at end of year	92,667	$ 10.46	3.10	$ -
Exercisable at year end	85,686	$ 10.94	2.81	$ -

Year ended December 31, 2013	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of year	92,667	$ 10.46	5.10	$ -
Granted	-	-		
Exercised	-	-		
Outstanding at end of year	92,667	$ 10.46	4.10	$ -
Exercisable at year end	81,326	$ 11.26	3.61	$ -

Note 12. Stock Compensation (Continued)

A summary of the vesting status of the RRP stock options at December 31, 2014 is as follows:

Stock Options	Shares	Weighted Average Exercise Price
Non-vested at beginning of year	11,341	$ 4.79
Granted	-	-
Vested	(4,360)	4.95
Non-vested at end of year	6,981	$ 4.69

The future compensation cost at December 31, 2014, related to non-vested options not yet recognized was approximately $15,400 with an average expense recognition period of 1.3 years. The Company recognized compensation expense of approximately $10,000 and $14,000 for each of the years ended December 31, 2014 and 2013, respectively.

Note 13. Income Taxes

The Company and Bank file a consolidated federal income tax return on a calendar year basis.

Income tax expense (benefit) is summarized as follows:

	Years Ended December 31,	
	2014	2013
Federal:		
Current	$186,705	$363,770
Deferred	61,820	28,623
	248,525	392,393
State:		
Current	106,327	138,944
Deferred	(7,573)	8,655
	98,754	147,599

$347,279	$539,992

The Company's income tax differed from the maximum statutory federal rate of 35% for the years ended December 31, 2014 and 2013, as follows:

	Years Ended December 31,	
	2014	2013
Expected income taxes	$403,059	$514,192
Income tax effect of:		
State taxes, net of federal tax benefit	64,190	95,939
Tax exempt interest	(90,736)	(83,386)
Income taxed at lower rates	(11,516)	(14,691)
Other	(17,718)	27,938
	$347,279	$539,992

Note 13. Income Taxes (Continued)

The components of the net deferred tax asset are as follows:

	December 31,	
	2014	2013
Deferred tax assets		
Unrealized loss on securities available for sale	$-	$2,310
Employee benefit plans	1,060,583	857,758
Allowance for loan losses	480,385	1,146,769
Net operating loss carryforwards	656,179	109,708
MRP/RRP compensation	187,524	183,885
Loans	796,381	-
Purchase accounting – acquisition expenses	155,630	-
Other	233,388	149,642
	3,570,070	2,450,072
Deferred tax liabilities		
Unrealized gain on securities available for sale	(207,633)	-
FHLB stock dividends	(43,539)	-
Origination of mortgage servicing rights	(42,049)	-
Core deposit intangible	(221,781)	-
	(515,002)	-
Net deferred tax asset	$3,055,068	$2,450,072

Stockholders' equity at December 31, 2014 include approximately $2,268,000 for which no federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses or adjustments arising from carry-back of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $879,000 at December 31, 2014.

At December 31, 2014 the Company had federal and Illinois net operating loss carry forwards of $3.5 million comprised of approximately $1.6 million of federal and $1.9 million of Illinois. At December 31, 2013 the Company had Illinois net operating loss carry forwards of $2.0 million. The federal net operating loss carry forwards will begin to expire in 2033, and the Illinois net operating loss carry forwards will begin to expire in 2023.

Management believes that it is more likely than not that the deferred tax assets included in the accompanying consolidated balance sheets will be fully utilized. We have determined that no valuation allowance is required as of December 31, 2014, although there is no guarantee that those assets will be fully recognizable in future periods.

Note 14. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 14. Regulatory Matters (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), Tier 1 capital to adjusted total assets (as defined), and tangible capital to adjusted total assets (as defined). Management believes as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent examination conducted by the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events that management believes have occurred that would change the Bank's capitalization classification.

The Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are presented below:

	Actual		Adequacy Purposes:		Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Risk-Based Capital (to risk-weighted assets)	$26,913,756	20.28%	$10,614,681	8.00%	$13,268,351	10.00%
Tier I Risk-Based Capital (to risk-weighted assets)	$25,247,112	19.03%	$5,307,340	4.00%	$7,961,011	6.00 %
Tier I Leverage (to average assets)	$25,247,112	11.59%	$8,712,743	4.00%	$10,890,929	5.00 %
Tangible Capital (to average assets)	$25,247,112	11.59%	$3,267,279	1.50%	N/A	N/A
December 31, 2013:						
Total Risk-Based Capital (to risk-weighted assets)	$20,287,994	20.79%	$7,806,616	8.00%	$9,758,270	10.00%
Tier I Risk-Based Capital (to risk-weighted assets)	$19,047,336	19.52%	$3,903,308	4.00%	$5,854,962	6.00 %
Tier I Leverage (to average assets)	$19,047,336	11.32%	$6,729,204	4.00%	$8,411,505	5.00 %
Tangible Capital (to average assets)	$19,047,336	11.32%	$2,523,452	1.50%	N/A	N/A

In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national banks and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening the international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, and a

higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio is 4.00%.

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a 2.5% capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. The final rule also enhances risk sensitivity and addresses weaknesses identified by the regulators over recent years with the measure of risk-weighted assets.

The new minimum capital requirements will be effective for the Company on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016.

Note 15. Commitments and Contingencies

In the ordinary course of business, the Bank has various commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse affect on the financial position of the Bank.

The Company did not declare any dividends during 2014 or 2013.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. This instrument involves elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet.

Note 15. Commitments and Contingencies (continued)

At December 31, 2014 and 2013, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Variable rate	Fixed rate	Total	Range of rates on fixed rate commitments
As of December 31, 2014:				
Commitments to originate loans	$170,000	$1,451,126	$1,621,126	3.88%-6.25%
Unfunded commitments on construction loans	424,477	331,052	755,529	4.25%-4.75%
Unfunded commitments under lines of credit	10,190,042	-	10,190,042	-
	10,784,519	1,782,178	12,566,697	
Standby letters of credit	-	18,000	18,000	9.00%
	$10,784,519	$1,800,178	$12,584,697	
As of December 31, 2013:				
Commitments to originate loans	$100,000	$6,707,271	$6,807,271	2.82%-6.25%
Unfunded commitments on construction loans	1,646,742	49,411	1,696,153	3.75%
Unfunded commitments under lines of credit	8,046,036	-	8,046,036	-
	9,792,778	6,756,682	16,549,460	
Standby letters of credit	-	-	-	-
	$9,792,778	$6,756,682	$16,549,460	

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank is based on management’s credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be fully drawn upon to the total extent of the $12.6 million to which the Bank is committed. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet obligations.

The Company does not engage in the use of interest rate swaps or futures, forwards or option contracts.

Note 16. Fair Values Measurements and Disclosures

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:

Note 16. Fair Values Measurements (continued)

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 obligations of U.S. government corporations and agencies, 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.

Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Management believes it is more likely than not that a workout solution or liquidation of the collateral is the best use of the asset and therefore has measured fair value based on the underlying collateral of the loans. If management were to sell the impaired loan portfolio to a third party instead of liquidating the collateral, the measurement of fair value could be significantly different.

Note 16. Fair Values Measurements (continued)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during 2014 or 2013.

The tables below present the recorded amount of assets measured at fair value on a recurring basis at December 31, 2014 and 2013.

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

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities available for sale	$ -	$8,444,519	$ -	$8,444,519
Residential mortgage-backed securities available for sale	-	26,102,561	-	26,102,561
	$ -	$34,547,080	$ -	$34,547,080

The tables below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at December 31, 2014 and December 31, 2013.

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

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**

Foreclosed assets	$ -	$ -	$597,493	$597,493
Impaired loans, net	-	-	702,760	702,760

Note 17. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company 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 and held to maturity securities from an independent pricing service. See Note 16 - Fair Value Measurement and Disclosure for further detail on how fair values of marketable securities are determined. The carrying value of non-marketable equity securities approximates fair value.

Note 17. Fair Values of Financial Instruments (continued)

Loans: For variable-rate loans that reprice 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.

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.

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

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 December 31, 2014 and 2013, the fair values of the commitments are immaterial in nature.

The estimated fair values of the Bank's financial instruments are as follows:

	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	-	54,552,782	-	54,552,782
Accrued interest receivable	881,612	881,612	-	-	881,612
Net loans	142,501,513	-	-	144,682,000	144,682,000
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

Note 17. Fair Values of Financial Instruments (continued)

	Carrying Amount	Fair Value Measurements at December 31, 2013 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$6,605,840	$6,605,840	$-	$-	$6,605,840
Federal funds sold	3,630,000	3,630,000	-	-	3,630,000
Securities	35,780,616	-	35,780,616	-	35,780,616
Accrued interest receivable	652,693	652,693	-	-	652,693
Net loans	110,672,618	-	-	112,991,000	112,991,000
Mortgage servicing rights	158,030	-	-	158,030	158,030
Financial Liabilities:					
Non-interest bearing deposits	5,219,028	5,219,028	-	-	5,219,028
Interest bearing deposits	140,549,623	-	-	139,327,972	139,327,972
Accrued interest payable	582	582	-	-	582

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. 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 18. Condensed Parent Only Financial Statements

	December 31,	
	2014	2013
Statements of financial condition		
Assets:		
Interest bearing deposits	$327,738	$311,633
Equity in net assets of Ottawa Savings Bank	29,480,686	21,115,926
ESOP note receivable	323,990	377,823
Total assets	$30,132,414	$21,805,382
Liabilities and stockholders' equity:		
Liabilities	$-	$-
Redeemable common stock in ESOP plan	424,730	319,090
Stockholders' Equity	29,707,684	21,486,292
Total liabilities and stockholders' equity	$30,132,414	$21,805,382

	December 31,	
	2014	2013
Statements of operations		
Equity in net income of subsidiary	$842,045	$964,658
Interest income	23,614	26,781
Operating income	865,659	991,439
Other expenses	65,342	62,311
Income before income tax benefit	800,317	929,128
Income tax (benefit)	(4,000)	-
Net income	$804,317	$929,128

	December 31,	
Statements of cash flows	2014	2013
Operating activities:		
Net income	$804,317	$929,128
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed net income of subsidiary	(842,045)	(964,658)
Net cash used in operating activities	(37,728)	(35,530)
Investing activities:		
Payments received on ESOP note receivable	53,833	50,666
Net cash provided by investing activities	53,833	50,666
Financing activities:		
Cash dividends paid	-	-
Purchase of treasury stock	-	-
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	16,105	15,136
Cash and cash equivalents:		
Beginning of period	311,633	296,497

End of period	$327,738	$311,633
Supplemental Schedule of Noncash Investing and Financing Activities		
Increase in ESOP put option liability	$105,640	$81,378

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OTTAWA SAVINGS BANCORP, INC.

Date: March 30, 2015	By:	/s/ JON L. KRANOV Jon L. Kranov President, Chief Executive Officer and Director

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ JON L. KRANOV Jon L. Kranov	President, Chief Executive Officer and Director (principal executive officer)	March 30, 2015
/s/ MARC N. KINGRY Marc N. Kingry	Chief Financial Officer (principal accounting and financial officer)	March 30, 2015
/s/ JAMES A. FERRERO James A. Ferrero	Director	March 30, 2015
/s/ KEITH JOHNSON Keith Johnson	Director	March 30, 2015
/s/ ARTHUR C. MUELLER Arthur C. Mueller	Director	March 30, 2015
/s/ DANIEL J. REYNOLDS Daniel J. Reynolds	Director	March 30, 2015
/s/ JOHN M. ARMSTRONG John M. Armstrong	Director	March 30, 2015

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/s/ CRAIG M. HEPNER Craig M. Hepner	Director	March 30, 2015
/s/ THOMAS M. ADLER Thomas M. Adler	Director	March 30, 2015
/s/ WILLIAM J. KUIPER William J. Kuiper	Director	March 30, 2015