

Ottawa Savings Bancorp, Inc.
Form 10-Q
May 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number 000-51367

OTTAWA SAVINGS BANCORP, INC.

(Exact name of registrant as specified in its charter)

United States
(State or other jurisdiction of incorporation
or organization)

20-3074627
(I.R.S. Employer Identification Number)

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

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

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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

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

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

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

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

Class	Outstanding as of May 15, 2012
Common Stock, \$0.01 par value	2,117,979

OTTAWA SAVINGS BANCORP, INC.

FORM 10-Q

For the quarterly period ended March 31, 2012

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

OTTAWA SAVINGS BANCORP, INC.
Consolidated Balance Sheets
March 31, 2012 and December 31, 2011
(Unaudited)

	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	\$1,730,654	\$1,664,957
Interest bearing deposits	2,437,295	1,280,508
Total cash and cash equivalents	4,167,949	2,945,465
Federal funds sold	4,269,000	1,627,000
Securities held to maturity (fair value of \$15 and \$16 at March 31, 2012 and December 31, 2011, respectively)	14	15
Securities available for sale	34,933,170	33,006,945
Non-marketable equity securities	1,931,687	2,534,952
Loans, net of allowance for loan losses of \$4,868,479 and \$4,747,412 at March 31, 2012 and December 31, 2011, respectively	126,360,850	127,971,762
Premises and equipment, net	6,774,421	6,801,376
Accrued interest receivable	683,848	691,367
Foreclosed real estate	354,275	542,160
Deferred tax assets	2,767,158	2,690,622
Cash value of life insurance	1,564,719	1,557,106
Prepaid FDIC premiums	337,307	394,797
Income tax refunds receivable	802,295	738,658
Other assets	1,342,640	1,447,980
Total assets	\$186,289,333	\$182,950,205
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$4,100,154	\$4,038,837
Interest bearing	158,690,716	155,909,613
Total deposits	162,790,870	159,948,450
Accrued interest payable	3,557	1,908
Other liabilities	2,750,330	2,477,372
Total liabilities	165,544,757	162,427,730
Commitments and contingencies		
Redeemable common stock held by ESOP plan	176,151	109,818
Stockholders' Equity		
Common stock, \$.01 par value, 12,000,000 shares authorized; 2,224,911 shares issued	22,249	22,249
Additional paid-in-capital	8,708,836	8,715,905
Retained earnings	13,255,447	13,015,777
Unallocated ESOP shares	(394,289)	(407,008)
Unearned management recognition plan shares	(43,724)	(41,119)

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Accumulated other comprehensive income	408,175	428,789
	21,956,694	21,734,593
Less:		
Treasury stock, at cost; 106,932 shares	(1,212,118)	(1,212,118)
Maximum cash obligation related to ESOP shares	(176,151)	(109,818)
Total stockholders' equity	20,568,425	20,412,657
Total liabilities and stockholders' equity	\$186,289,333	\$182,950,205

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.
Consolidated Statements of Operations
Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Interest and dividend income:		
Interest and fees on loans	\$1,776,903	\$1,954,453
Securities:		
Residential mortgage-backed securities	188,986	233,003
U.S. agency securities	16,759	27,427
State and municipal securities	41,058	-
Dividends on non-marketable equity securities	591	592
Interest-bearing deposits	1,089	1,108
Total interest and dividend income	2,025,386	2,216,583
Interest expense:		
Deposits	586,690	686,254
Borrowings	1	-
Total interest expense	586,691	686,254
Net interest income	1,438,695	1,530,329
Provision for loan losses	438,500	388,260
Net interest income after provision for loan losses	1,000,195	1,142,069
Other income:		
Gain on sale of securities	13,948	1,335
Gain on sale of loans	27,856	7,471
Gain on sale of OREO	79,323	22,852
Origination of mortgage servicing rights, net of amortization	3,501	(1,952)
Customer service fees	68,890	68,136
Income on bank owned life insurance	7,613	8,339
Other	11,361	21,804
Total other income	212,492	127,985
Other expenses:		
Salaries and employee benefits	339,567	397,148
Directors fees	21,000	21,000
Occupancy	104,949	119,704
Deposit insurance premium	60,029	95,817
Legal and professional services	55,563	61,633
Data processing	96,547	75,457
Valuation adjustments and expenses on foreclosed real estate	20,498	28,333
Loss on sale of repossessed assets	11,860	11,798
Loss on consumer loans	41,514	-
Other	112,084	131,354
Total other expenses	863,611	942,244
Income before income tax expense	349,076	327,810
Income tax expense	109,406	115,263
Net income	\$239,670	\$212,547
Basic earnings per share	\$0.12	\$0.10

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Diluted earnings per share	\$0.12	\$0.10
Dividends per share	\$-	\$0.05

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.
 Consolidated Statements of Comprehensive Income
 Three Months Ended March 31, 2012 and 2011
 (Unaudited)

	Three Months Ended March 31,	
	2012	2011
Comprehensive income:	\$239,670	\$212,547
Net income	\$239,670	\$212,547
Other comprehensive income, net of tax:		
Unrealized loss on securities available for sale arising during period, net of income taxes	(11,408)	(18,749)
Reclassification adjustment for gains included in net income, net of tax expense	(9,206)	(881)
Comprehensive income	\$219,056	\$192,917

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2012 and 2011
(Unaudited)

	2012	2011
Cash Flows from Operating Activities		
Net Income	\$239,670	\$212,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	50,191	60,850
Provision for loan losses	438,500	388,260
Provision for deferred income taxes	(65,916)	(58,928)
Net amortization of premiums and discounts on securities	113,109	76,849
Gain on sale of securities	(13,948)	(1,335)
Origination of mortgage loans held for sale	(2,262,230)	(495,830)
Proceeds from sale of mortgage loans held for sale	2,290,086	503,301
Gain on sale of loans, net	(27,856)	(7,471)
Origination of mortgage servicing rights, net of amortization	(3,501)	1,952
Gains on sale of foreclosed real estate	(79,323)	(22,852)
Write down of foreclosed real estate	-	-
Loss on sale of repossessed assets	11,860	11,798
Loss on consumer loans	41,514	-
ESOP compensation expense	5,592	8,183
MRP compensation expense	(2,605)	19,538
Compensation expense on RRP options granted	58	12,673
Increase in cash surrender value of life insurance	(7,613)	(8,339)
Change in assets and liabilities:		
Decrease in prepaid FDIC insurance premiums	57,490	91,442
Decrease in accrued interest receivable	7,519	23,319
Decrease in other assets	80,545	204,655
Increase in income tax refunds receivable	(63,637)	-
Increase in accrued interest payable and other liabilities	256,989	32,385
Net cash provided by operating activities	1,066,494	1,052,997
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(6,461,293)	(2,179,687)
Sales, calls, maturities and paydowns	4,404,673	4,181,436
Securities held to maturity:		
Paydowns	1	1
Net decrease in loans	1,212,950	2,541,237
Net increase in federal funds sold	(2,642,000)	(297,000)
Proceeds from sale of foreclosed real estate	201,674	163,831
Proceeds from sale of repossessed assets	17,536	16,586
Purchase of premises and equipment	(23,236)	-
Proceeds from redemption of non-marketable equity securities	603,265	-
Net cash (used in) provided by investing activities	(2,686,430)	4,426,404
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	2,842,420	(3,457,985)
Cash dividends paid	-	(42,510)

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Net cash provided by (used) in financing activities	2,842,420	(3,500,495)
Net increase in cash and cash equivalents	1,222,484	1,978,906
Cash and cash equivalents:		
Beginning	2,945,465	4,378,835
Ending	\$4,167,949	\$6,357,741

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

OTTAWA SAVINGS BANCORP, INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2012 and 2011
(Unaudited)

(Continued)

	2012	2011
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	\$581,225	\$701,535
Interest paid on borrowings	1	-
Income taxes paid, net of refunds received	(357)	(274)
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	221,075	219,432
Other assets acquired in settlement of loans	1,100	12,000
Sale of foreclosed real estate through loan origination	304,227	607,195
Deferred gains on the sale of OREO properties	17,618	-
Liability due to the recording of ESOP put options	66,333	95,231

See accompanying notes to these unaudited consolidated financial statements.

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

NOTE 1 – NATURE OF BUSINESS

Ottawa Savings Bancorp, Inc. (the “Company”) was incorporated under the laws of the United States on July 11, 2005, for the purpose of serving as the holding company of Ottawa Savings Bank (the “Bank”), as part of the Bank’s conversion from a mutual to a stock form of organization. The Company is a publicly traded banking company with assets of \$186.3 million at March 31, 2012 and is head quartered in Ottawa, Illinois.

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

In adopting the plan, the Board of Directors of the Bank determined that the conversion was advisable and in the best interests of its depositors and the Bank. The conversion was completed in 2005 when the Company issued 1,223,701 shares of common stock to Ottawa Savings Bancorp MHC (a mutual holding company), and 1,001,210 shares of common stock to the public. As of March 31, 2012, Ottawa Savings Bancorp MHC holds 1,223,701 shares of common stock, representing 57.8% of the Company’s common shares outstanding.

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

NOTE 2 – BASIS OF PRESENTATION

The consolidated financial statements presented in this quarterly report include the accounts of the Company and the Bank. The consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and predominant practices followed by the financial services industry, and are unaudited. In the opinion of the Company’s management, all adjustments, consisting of normal recurring adjustments, which the Company considers necessary to fairly state the Company’s financial position and the results of operations and cash flows have been recorded. The interim financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company for the year ended December 31, 2011. Certain amounts in the accompanying financial statements and footnotes for 2011 have been reclassified with no effect on net income or stockholders’ equity to be consistent with the 2012 classifications. The results of the Company’s operations for any interim period are not necessarily indicative of the results of the Company’s operations for any other interim period or for a full fiscal year.

NOTE 3 – USE OF ESTIMATES

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

At March 31, 2012, there were no material changes in the Company's significant accounting policies from those disclosed in the Form 10-K filed with the Securities and Exchange Commission on March 28, 2012.

NOTE 4 – CRITICAL ACCOUNTING POLICIES

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

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

Allowance for Loan Losses. 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.

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

Per accounting guidance, the Company reviewed its deferred tax assets at March 31, 2012 and determined that no valuation allowance was necessary. Despite the prior year net operating loss and challenging economic environment, the Company has a history of strong earnings, is well-capitalized, and has positive expectations regarding future taxable income.

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

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

NOTE 5 – EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2012	2011
Net income available to common stockholders	\$239,670	\$212,547
Basic potential common shares:		
Weighted average shares outstanding	2,117,979	2,119,673
Weighted average unallocated Employee Stock Ownership Plan shares	(40,263)	(45,350)
Weighted average unvested MRP shares	(8,999)	(10,036)
Basic weighted average shares outstanding	2,068,717	2,064,287
Dilutive potential common shares:		
Weighted average unrecognized compensation on MRP shares*	4,782	7,715
Weighted average RRP options outstanding *	-	-
Dilutive weighted average shares outstanding	2,073,499	2,072,002
Basic earnings per share	\$0.12	\$0.10
Diluted earnings per share	\$0.12	\$0.10

** The effect of share options was not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 – EMPLOYEE STOCK OWNERSHIP PLAN

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

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

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

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within

60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At March 31, 2012, 30,635 shares at a fair value of \$5.75 have been classified as mezzanine capital.

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

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

	March 31, 2012	December 31, 2011
Shares allocated	36,885	35,613
Shares withdrawn from the plan	(6,250)	(6,250)
Unallocated shares	39,429	40,701
Total ESOP shares	70,064	70,064
Fair value of unallocated shares	\$226,717	\$152,222

NOTE 7 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012:				
Held to Maturity				
Residential mortgage-backed securities	\$ 14	\$ 1	\$-	\$ 15
Available for Sale				
U.S. agency securities	\$3,001,904	\$ 17,976	\$-	\$3,019,880
State and municipal securities	5,426,439	161,086	57,177	5,530,348
Residential mortgage-backed securities	25,886,380	539,495	42,933	26,382,942
	\$34,314,723	\$ 718,557	\$ 100,110	\$34,933,170
December 31, 2011:				
Held to Maturity				
Residential mortgage-backed securities	\$ 15	\$ 1	\$-	\$ 16
Available for Sale				
U.S. agency securities	\$3,003,911	\$ 27,159	\$-	\$3,031,070
State and municipal securities	3,571,552	138,190	4,258	3,705,484
Residential mortgage-backed securities	25,781,801	575,916	87,326	26,270,391
	\$32,357,264	\$ 741,265	\$ 91,584	\$33,006,945

The amortized cost and fair value at March 31, 2012, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

Securities Held to Maturity		Securities Available for Sale	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

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Due after three months through one year	\$-	\$-	\$3,001,904	\$3,019,880
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	1,186,928	1,233,420
Due after ten years	-	-	4,239,511	4,296,928
Residential mortgage-backed securities	14	15	25,886,380	26,382,942
	\$14	\$15	\$34,314,723	\$34,933,170

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

The following table reflects securities with gross unrealized losses for less than 12 months and for 12 months or more at March 31, 2012 and December 31, 2011:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2012						
Securities Available for Sale						
State and municipal securities	\$1,084,823	\$57,177	\$-	\$-	\$1,084,823	\$57,177
Residential mortgage-backed securities	5,643,276	39,401	1,867,848	3,532	7,511,124	42,933
	\$6,728,099	\$96,578	\$1,867,848	\$3,532	\$8,595,947	\$100,110
December 31, 2011						
Securities Available for Sale						
State and municipal securities	\$364,600	\$4,258	\$-	\$-	\$364,600	\$4,258
Residential mortgage-backed securities	7,612,032	67,441	1,916,267	19,885	9,528,299	87,326
	\$7,976,632	\$71,699	\$1,916,267	\$19,885	\$9,892,899	\$91,584

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

At March 31, 2012, seven securities had unrealized losses with an aggregate depreciation of 1.15% 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 March 31, 2012.

Proceeds from the sales of securities were \$3.0 million for the three months ended March 31, 2012 and there were no proceeds from the sales of securities for the three months ended March 31, 2011. There was \$58,614 in gross realized gains for the three months ended March 31, 2012 and no gross realized gains for the three months ended March 31, 2011. There was \$44,666 in gross realized losses for the three months ended March 31, 2012 and no gross realized losses for the three months ended March 31, 2011. The tax provision applicable to these net realized gains amounted to \$4,742 and \$0, respectively.

NOTE 8 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

On July 21, 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This accounting guidance under FASB ASC 310, Receivables, requires disclosure of information about the credit quality of an entity's financing receivables and the allowance for credit losses.

The guidance only relates to financial statement disclosures and does not affect the Company's financial condition or result of operations. The following disclosures incorporate the guidance.

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

Loans

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

	March 31, 2012	December 31, 2011
Mortgage loans:		
One-to-four family residential loans	\$88,715,196	\$90,202,346
Multi-family residential loans	5,664,422	5,736,607
Total mortgage loans	94,379,618	95,938,953
Other loans:		
Non-residential loans	20,160,952	21,341,062
Commercial loans	9,126,980	9,557,632
Consumer direct	637,411	702,329
Purchased auto	6,924,368	5,179,198
Total other loans	36,849,711	36,780,221
Gross loans	131,229,329	132,719,174
Less: Allowance for loan losses	(4,868,479)	(4,747,412)
Loans, net	\$126,360,850	\$127,971,762

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

	Three Months Ended March 31,	
	2012	2011
Purchased auto	\$2,532,532	\$503,527

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

	Three Months Ended March 31,	
	2012	2011
One-to-four family	\$(259,172)	\$(263,784)
Multi-family	-	-
Non-residential	(48,740)	(18,263)
Commercial	(7,259)	-
Consumer direct	-	(15,000)
Purchased auto	(2,262)	(2,084)
	\$(317,433)	\$(299,131)

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

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2012 and 2011:

March 31, 2012	One-to-Four		Non-residential Commercial		Consumer Direct	Purchased Auto	Total
	Family	Multi-family					
Balance at beginning of year	\$ 3,113,345	\$ 438,542	\$ 1,145,889	\$ 10,571	\$ 3,578	\$ 35,487	\$ 4,747,412
Provision charged to income	376,103	(121,324)	89,819	87,962	1,374	4,566	438,500
Loans charged off	(259,572)	-	(48,740)	(7,259)	-	(3,931)	(319,502)
Recoveries of loans previously charged off	400	-	-	-	-	1,669	2,069
Balance at end of period	\$ 3,230,276	\$ 317,218	\$ 1,186,968	\$ 91,274	\$ 4,952	\$ 37,791	\$ 4,868,479

March 31, 2011	One-to-Four		Non-residential Commercial		Consumer Direct	Purchased Auto	Total
	Family	Multi-family					
Balance at beginning of year	\$ 2,425,217	\$ 106,059	\$ 1,879,877	\$ 226,859	\$ 24,916	\$ 40,434	\$ 4,703,362
Provision charged to income	59,698	(67,305)	453,783	(46,458)	2,201	(13,659)	388,260
Loans charged off	(263,784)	-	(18,263)	-	(15,000)	(3,697)	(300,744)
Recoveries of loans previously charged off	-	-	-	-	-	1,613	1,613
Balance at end of period	\$ 2,221,131	\$ 38,754	\$ 2,315,397	\$ 180,401	\$ 12,117	\$ 24,691	\$ 4,792,491

The following table presents the recorded investment in loans and the related allowances allocated by portfolio segment and based on impairment method as of March 31, 2012 and December 31, 2011:

March 31, 2012	One-to-four		Non-residential Commercial		Consumer Direct	Purchased Auto	Total
	Family	Multi-family					
Loans individually evaluated for impairment	\$ 7,419,446	\$ 304,780	\$ 1,438,915	\$ -	\$ 20,729	\$ 2,461	\$ 9,186,331
Loans collectively evaluated for impairment	81,295,750	5,359,642	18,722,037	9,126,980	616,682	6,921,907	122,042,998
Ending Balance	\$ 88,715,196	\$ 5,664,422	\$ 20,160,952	\$ 9,126,980	\$ 637,411	\$ 6,924,368	\$ 131,229,329

Period-end amount allocated to:

Loans individually evaluated for	\$ 1,881,212	\$ 171,658	\$ 142,275	\$ -	\$ -	\$ 2,461	\$ 2,197,606
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impairment							
Loans collectively evaluated for impairment	1,349,064	145,560	1,044,693	91,274	4,952	35,330	2,670,873
Balance at end of period	\$3,230,276	\$ 317,218	\$ 1,186,968	\$ 91,274	\$ 4,952	\$ 37,791	\$ 4,868,479
December 31, 2011	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	\$7,862,205	\$ 312,001	\$ 2,087,822	\$ 7,340	\$ 25,989	\$ 4,715	\$ 10,300,072
Loans collectively evaluated for impairment	82,340,141	5,424,606	19,253,240	9,550,292	676,340	5,174,483	122,419,102
Ending Balance	\$90,202,346	\$ 5,736,607	\$ 21,341,062	\$ 9,557,632	\$ 702,329	\$ 5,179,198	\$ 132,719,174
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$1,959,808	\$ 169,780	\$ 206,242	\$ 7,259	\$ 726	\$ 4,715	\$ 2,348,530
Loans collectively evaluated for impairment	1,153,537	268,762	939,647	3,312	2,852	30,772	2,398,882
Balance at end of year	\$3,113,345	\$ 438,542	\$ 1,145,889	\$ 10,571	\$ 3,578	\$ 35,487	\$ 4,747,412

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

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

The following table presents loans individually evaluated for impairment, by class of loans, as of March 31, 2012 and December 31, 2011:

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
March 31, 2012						
One-to-four family	\$8,166,745	\$1,223,477	\$6,195,969	\$7,419,446	\$1,881,212	\$7,535,981
Multi-family	562,001	-	304,780	304,780	171,658	304,780
Non-residential	4,629,877	579,952	858,963	1,438,915	142,275	1,807,554
Commercial	-	-	-	-	-	2,420
Consumer direct	21,876	20,729	-	20,729	-	24,668
Purchased auto	2,461	-	2,461	2,461	2,461	30,354
	\$13,382,960	\$1,824,158	\$7,362,173	\$9,186,331	\$2,197,606	\$9,705,757
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
December 31, 2011						
One-to-four family	\$8,385,861	\$617,785	\$7,244,420	\$7,862,205	\$1,959,808	\$7,984,792
Multi-family	562,001	-	312,001	312,001	169,780	541,179
Non-residential	5,133,898	460,729	1,627,093	2,087,822	206,242	5,088,219
Commercial	7,340	-	7,340	7,340	7,259	77,466
Consumer direct	25,989	21,310	4,679	25,989	726	24,605
Purchased auto	4,715	-	4,715	4,715	4,715	1,795
	\$14,119,804	\$1,099,824	\$9,200,248	\$10,300,072	\$2,348,530	\$13,718,056

For the three months ended March 31, 2012 and 2011, the Company recognized no accrued or cash basis interest income on impaired loans.

At March 31, 2012, there were 62 impaired loans totaling approximately \$9.2 million, compared to 72 impaired loans totaling approximately \$10.3 million at December 31, 2011. The decrease in impaired loans was a result of returning eight previously impaired loans totaling approximately \$851,000 to accrual status, moving six impaired loans totaling approximately \$382,000 to OREO, charging off two impaired loans totaling approximately \$30,000, and writing down two impaired loans by a total of approximately \$143,000. Additionally, six loans totaling approximately \$666,000 were added to the impaired loan list.

Our loan portfolio also includes certain loans that have been modified in a troubled debt restructuring (“TDR”), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. 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, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all TDRs, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

Impaired loans at March 31, 2012 include \$3.6 million of loans whose terms have been modified in troubled debt restructurings compared to \$4.1 million at December 31, 2011. The decrease in impaired loans whose terms have been modified in troubled debt restructurings is primarily the result of two loans totaling approximately \$319,000 that were returned to accrual status and upgraded to special mention because each of these loans performed in accordance with their restructured terms for more than six consecutive months. Additionally, another loan with a balance of approximately \$23,000 was charged-off, while another loan with a balance of approximately \$314,000 was written down by approximately \$99,000. The remaining 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 three months ended March 31, 2012 and 2011, segregated by class are shown in the table below.

	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	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	-	\$-	\$-	1	\$122,500	\$13,150
Multi-family	-	-	-	-	-	-
Non-residential	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-
Purchased auto	-	-	-	-	-	-
	-	\$-	\$-	1	\$122,500	\$13,150

The following troubled debt restructured loans that were restructured during the twelve months prior to the dates indicated and had payment defaults (i.e. 60 days or more past due following a modification), during the three months ended March 31, 2012 and 2011, segregated by class, are shown in the table below.

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Number of Defaults (as of period end)	Recorded Investment	Number of Defaults (as of period end)	Recorded Investment
One-to-four family	1	\$212,014	2	\$1,372,481
Multi-family	-	-	1	558,087
Non-residential	-	-	-	-
Commercial	-	-	-	-
Consumer direct	-	-	-	-
Purchased auto	-	-	-	-
	1	\$212,014	3	\$1,930,568

All TDRs are evaluated for possible impairment and any impairment identified is recognized through the allowance. The one TDR that has re-defaulted during 2012 has been written down to its fair value less estimated costs to sell, which is \$212,014, thus there is no specific provision allocated to cover any potential impairment. Qualitative factors are updated quarterly for trends in economic and nonperforming factors.

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 March 31, 2012 and December 31, 2011:

	Loans Past Due Over 90 Days	
	Nonaccrual	Still Accruing
March 31, 2012		
One-to-four family	\$7,033,573	\$145,277
Multi-family	304,780	-
Non-residential	1,976,640	-
Commercial	-	-
Consumer direct	20,729	-
Purchased auto	2,461	-
	\$9,338,183	\$145,277
December 31, 2011		
One-to-four family	\$6,755,279	\$36,289
Multi-family	304,780	-
Non-residential	1,565,825	-
Commercial	7,259	-
Consumer direct	8,710	-
Purchased auto	4,715	-
	\$8,646,568	\$36,289

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The following table presents the aging of the recorded investment in loans, by class of loans, as of March 31, 2012 and December 31, 2011:

March 31, 2012	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	\$3,137,781	\$561,432	\$4,616,221	\$8,315,434	\$80,399,762	\$88,715,196
Multi-family	786,876	-	304,780	1,091,656	4,572,766	5,664,422
Non-residential	44,549	-	660,087	704,636	19,456,316	20,160,952
Commercial	-	-	-	-	9,126,980	9,126,980
Consumer direct	21,330	-	-	21,330	616,081	637,411
Purchased auto	17,229	-	2,461	19,690	6,904,678	6,924,368
	\$4,007,765	\$561,432	\$5,583,549	\$10,152,746	\$121,076,583	\$131,229,329

December 31, 2011	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	\$2,966,971	\$849,057	\$4,438,908	\$8,254,936	\$81,947,410	\$90,202,346
Multi-family	506,619	-	304,780	811,399	4,925,208	5,736,607
Non-residential	174,549	56,739	708,826	940,114	20,400,948	21,341,062
Commercial	98,727	-	7,259	105,986	9,451,646	9,557,632
Consumer direct	3,786	-	480	4,266	698,063	702,329
Purchased auto	2,461	43,648	4,715	50,824	5,128,374	5,179,198
	\$3,753,113	\$949,444	\$5,464,968	\$10,167,525	\$122,551,649	\$132,719,174

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 loans, multi-family, consumer direct and purchased auto loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated regularly by the Company's loan system for real estate loans, multi-family and consumer direct loans. The Company receives monthly reports on the delinquency status of the purchased auto loan portfolio from the servicing company.

The Company uses the following definitions for risk ratings:

- Pass – loans classified as pass are of a higher quality and do not fit any of the other “rated” categories below (e.g. special mention, substandard or doubtful). The likelihood of loss is considered remote.
- Special Mention – loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard – loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses

that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- Doubtful – loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.
 - Not Rated – loans in this bucket are not evaluated on an individual basis.

As of March 31, 2012 and December 31, 2011, the risk category of loans by class is as follows:

March 31, 2012	Pass	Special Mention	Substandard	Doubtful	Not rated
One-to-four family	\$-	\$5,605,750	\$7,419,446	\$-	\$75,690,000
Multi-family	-	884,978	304,780	-	4,474,664
Non-residential	16,688,164	2,033,873	1,438,915	-	-
Commercial	9,092,743	34,237	-	-	-
Consumer direct	-	6,937	20,729	-	609,745
Purchased auto	-	-	2,461	-	6,921,907
Total	\$25,780,907	\$8,565,775	\$9,186,331	\$-	\$87,696,316

December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Not rated
One-to-four family	\$-	\$3,620,210	\$7,862,205	\$-	\$78,719,931
Multi-family	-	-	312,001	-	5,424,606
Non-residential	17,981,919	1,271,321	2,087,822	-	-
Commercial	9,550,292	-	7,340	-	-
Consumer direct	-	-	25,989	-	676,340
Purchased auto	-	-	4,715	-	5,174,483
Total	\$27,532,211	\$4,891,531	\$10,300,072	\$-	\$89,995,360

NOTE 9 – STOCK COMPENSATION

Total stock-based compensation expense for the three months ended March 31, 2012 and 2011, was approximately \$7,000 and \$32,000, respectively. In accordance with FASB ASC 718, Compensation-Stock Compensation, compensation expense is recognized on a straight-line basis over the grantees' vesting period or to the grantees' retirement eligibility date, if earlier. The decrease in stock-based compensation expense was due to there being no remaining compensation expense on the options and shares granted in November 2006, as they became fully vested and fully expensed in November of 2011. For the three months ended March 31, 2012 and 2011, the Company did not grant additional options or shares under the MRP.

NOTE 10 – RECENT ACCOUNTING DEVELOPMENTS

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in ASU No. 2011-04 are to be applied prospectively. The guidance publishes convergence standards on fair value measurement and disclosures. The Company adopted the provisions of ASU No. 2011-04 for interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's disclosures, financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The objective of ASU No. 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This guidance eliminates the option of presenting components of comprehensive income as a part of the statement of changes in stockholder's equity. They must be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted the provisions of ASU No. 2011-05 for interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's financial position or results of operations. The adoption did not have an impact on the Company's

quarterly disclosures but is expected to change the presentation of other comprehensive income in the annual financial statements for the year ending December 31, 2012.

In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The Update defers the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income in ASU No. 2011-05. The Update was effective for the Company January 1, 2012, and did not have a material impact on the Company's financial position or results of operations. All other requirements of ASU 2011-05 were not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU No. 2011-12 did not have a material impact on the Company's financial position or results of operations. The adoption did not have an impact on the Company's quarterly disclosures but is expected to change the presentation of other comprehensive income in the annual financial statements for the year ending December 31, 2012.

NOTE 11 – FAIR VALUE MEASUREMENT AND DISCLOSURE

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

Basis of Fair Value Measurement:

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

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

Securities Available for Sale

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

Foreclosed Assets

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

Impaired Loans

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

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the first quarter of 2012 or 2011. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfers between levels.

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The tables below present the recorded amount of assets measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011.

March 31, 2012	Level 1	Level 2	Level 3	Total Fair Value
U.S. agency securities available for sale	\$-	\$3,019,880	\$-	\$3,019,880
State and municipal securities available for sale	-	5,530,348	-	5,530,348
Residential mortgage-backed securities available for sale	-	26,382,942	-	26,382,942
	\$-	\$34,933,170	\$-	\$34,933,170

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value
U.S. agency securities available for sale	\$-	\$3,031,070	\$-	\$3,031,070
State and municipal securities available for sale	-	3,705,484	-	3,705,484
Residential mortgage-backed securities available for sale	-	26,270,391	-	26,270,391
	\$-	\$33,006,945	\$-	\$33,006,945

The tables below present the recorded amount of assets measured at fair value on a non-recurring basis at March 31, 2012 and December 31, 2011.

March 31, 2012	Level 1	Level 2	Level 3	Total Fair Value
Foreclosed assets	\$-	\$365,966	\$-	\$365,966
Impaired loans, net	-	2,582,592	2,581,975	5,164,567

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value
Foreclosed assets	\$-	\$582,148	\$-	\$582,148
Impaired loans, net	-	3,005,351	3,846,367	6,851,718

In accordance with accounting pronouncements, the carrying value and estimated fair value of the Company's financial instruments as of March 31, 2012 and December 31, 2011 are as follows:

	Carrying Value	Fair Value Measurements at March 31, 2012 using:			Total
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and cash equivalents	\$4,167,949	\$4,167,949	\$-	\$-	\$4,167,949
Federal funds sold	4,269,000	4,269,000	-	-	4,269,000
Securities	36,864,871	-	36,864,872	-	36,864,872
Net loans	126,360,850	-	2,582,592	123,496,408	126,079,000
Accrued interest receivable	683,848	683,848	-	-	683,848
Mortgage servicing rights	157,681	-	-	157,681	157,681
Financial Liabilities:					
	4,100,154	4,100,154	-	-	4,100,154

Non-interest bearing deposits					
Interest bearing deposits	158,690,716	-	-	159,675,846	159,675,846
Accrued interest payable	3,557	3,557	-	-	3,557

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	As of December 31, 2011	
	Carrying Value	Fair Value
Financial Assets:		
Cash and cash equivalents	\$2,945,465	\$2,945,465
Federal funds sold	1,627,000	1,627,000
Securities	35,541,912	35,541,913
Accrued interest receivable	691,367	691,367
Net loans	127,971,762	127,942,000
Mortgage servicing rights	154,180	154,180
Financial Liabilities:		
Deposits	159,948,450	161,144,000
Accrued interest payable	1,908	1,908

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

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

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

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

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

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

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

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

Loan Commitments: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter-parties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The Bank does not charge fees to enter into these agreements. As of March 31, 2012 and December 31, 2011, the fair values of the commitments are immaterial.

in nature.

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

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

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

FORWARD-LOOKING INFORMATION

Statements contained in this report that are not historical facts may constitute forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), which involve significant risks and uncertainties. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," "plan," or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company's actual results subsequent to March 31, 2012 to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from those predicted and could affect the future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing, changes in the securities or financial market, a deterioration of general economic conditions either nationally or locally, delays in obtaining the necessary regulatory approvals, our ability to consummate proposed transactions in a timely manner, legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company's approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. These risks and uncertainties should be considered in evaluating forward-looking statements.

GENERAL

The Bank is a community and customer-oriented savings bank. The Bank's business has historically consisted of attracting deposits from the general public and using those funds to originate and purchase one-to-four family, multi-family and non-residential real estate, construction, commercial and consumer loans, which the Bank primarily holds for investment. The Bank has continually diversified its products to meet the needs of the community. The Bank completed its reorganization pursuant to its Plan of Conversion on July 11, 2005, upon which the Bank converted from an Illinois-chartered mutual savings bank to a federally-chartered mutual savings bank, and on that same date, converted from a federally-chartered mutual savings bank to a federally-chartered stock savings bank, all of the outstanding stock of which was issued to the Company. As part of the reorganization, the Company issued 1,001,210 shares to the public and 1,223,701 shares to Ottawa Savings Bancorp MHC, a mutual holding company.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2012 AND DECEMBER 31, 2011

The Company's total assets increased \$3.3 million, or 1.8%, to \$186.3 million at March 31, 2012, from \$183.0 million at December 31, 2011 due to the Company strengthening its liquidity as federal funds sold increased \$2.6 million,

cash and cash equivalents increased by \$1.2 million, and securities available for sale grew by \$1.9 million. The increase in liquid assets was partially offset by a decrease in loans of \$1.6 million, a decrease in non-marketable equity securities of \$0.6 million, and a decrease in foreclosed real estate of \$0.2 million.

Cash and cash equivalents increased \$1.2 million, or 41.5%, to \$4.2 million at March 31, 2012 from \$2.9 million at December 31, 2011 primarily as a result of the cash provided by operating and financing activities exceeding the cash used in investing activities.

Securities available for sale increased \$1.9 million, or 5.8%, to \$34.9 million at March 31, 2012 from \$33.0 million at December 31, 2011. The increase was primarily the result of purchases of \$6.5 million offset by \$4.4 million in sales, calls, maturities and paydowns.

Loans, net of the allowance for loan losses, decreased \$1.6 million, or 1.3%, to \$126.4 million at March 31, 2012 from \$128.0 million at December 31, 2011. The decrease in loans, net of the allowance for loan losses, was primarily caused by a combination of normal attrition, paydowns, loan charge-offs and strategic initiatives to reduce lending exposure in one-to-four family residential and non-residential loans, in addition to an increase in the allowance for loan losses of \$0.1 million. The Company is also focusing its lending efforts on customers based primarily in its local market.

Foreclosed real estate decreased approximately \$0.2 million, or 34.7%, to \$0.4 million at March 31, 2012 from \$0.5 million at December 31, 2011. The decrease was primarily due to the sale of two properties valued at \$0.4 million, offset by the addition of two properties valued at \$0.2 million acquired through loan foreclosures due to the continued stress the economic environment has placed on the Company's customers.

Other assets comprised primarily of prepaid expenses, deferred director compensation accounts, and auto loan repossessions decreased \$0.1 million, or 7.3%, to \$1.3 million at March 31, 2012, from \$1.4 million at December 31, 2011.

Total deposits increased \$2.8 million, or 1.8%, to \$162.8 million at March 31, 2012, from \$159.9 million at December 31, 2011. The increase is primarily due to increases in checking accounts which increased \$2.1 million, or 13.2% from December 31, 2011 to March 31, 2012. Additionally, money market accounts increased \$1.2 million and passbook savings accounts increased \$1.3 million. The increases were partially offset by a decrease in certificates of deposit of \$1.8 million, or 1.6% from December 31, 2011 to March 31, 2012. The increase in checking, money market, and passbook savings accounts is primarily due to customers moving funds into non-term products as they wait for a better rate environment.

Other liabilities increased \$0.3 million, or 11.0%, to \$2.7 million at March 31, 2012, from \$2.5 million at December 31, 2011. The increase was primarily due to an increase in the escrow payable of \$0.2 million.

Equity increased \$0.2 million, or 0.8%, to \$20.6 million at March 31, 2012, from \$20.4 million at December 31, 2011. The increase in equity is primarily related to the net income for the three months ended March 31, 2012 of approximately \$0.2 million.

The continuing state of economic uncertainty continues to affect our asset quality. We continue to experience a decline in the market values of homes in our market area in general and also on specific properties held as collateral. In addition, high unemployment locally continues to affect some of our borrowers' ability to timely repay their obligations to the Company. These conditions have resulted in nonperforming loans totaling 7.2% of total loan receivables as of March 31, 2012, which is an increase from 6.5% as of December 31, 2011, but less than the 7.4% as of March 31, 2011.

The Company's nonperforming assets consist of non-accrual loans, loans past due greater than 90 days and still accruing and foreclosed real estate. Loans are generally placed on non-accrual status when it is apparent all of the contractual payments (i.e. principal and interest) will not be received; however, they may be placed on non-accrual status sooner if management has significant doubt as to the collection of all amounts due. Interest previously accrued but uncollected is reversed and charged against interest income. During the first quarter, nonaccrual loans increased 8.0% to \$9.3 million from \$8.6 million as of December 31, 2011. This increase is due to several non-residential properties being negatively impacted by the economy as well as numerous one-to-four family properties, as our customers continue to be challenged during these difficult economic times.

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

	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
(In Thousands)					
Non-accrual:					
One-to-four family	\$7,033	\$6,755	\$8,340	\$7,573	\$6,677
Multi-family	305	305	555	555	558
Non-residential real estate	1,977	1,566	3,386	469	2,344
Commercial	-	7	7	7	192
Consumer direct	21	9	38	12	6
Purchased auto	2	5	3	3	-
Total non-accrual loans	9,338	8,647	12,329	8,619	9,777
Past due greater than 90 days and still accruing:					
One-to-four family	145	36	18	31	346
Non-residential real estate	-	-	-	329	111
Consumer direct	-	-	-	2	-
Total nonperforming loans	9,483	8,683	12,347	8,981	10,234
Foreclosed real estate	354	542	1,149	685	844
Other repossessed assets	12	40	31	-	12
Total nonperforming assets	\$9,849	\$9,265	\$13,527	\$9,666	\$11,090

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

	March 31, 2012		December 31, 2011		September 30, 2011		June 30, 2011		March 31, 2011	
Allowance for loan losses as a percent of gross loans receivable	3.70	%	3.57	%	5.18	%	2.90	%	3.48	%
Allowance for loan losses as a percent of total nonperforming loans	51.33	%	54.67	%	56.38	%	44.51	%	46.82	%
Nonperforming loans as a percent of gross loans receivable	7.20	%	6.53	%	9.19	%	6.52	%	7.43	%
Nonperforming loans as a percent of total assets	5.09	%	4.75	%	6.75	%	4.82	%	5.33	%
Nonperforming assets as a percent of total assets	5.29	%	5.04	%	7.39	%	5.19	%	5.78	%

COMPARISON OF RESULTS OF OPERATION FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

General. Net income for the three months ended March 31, 2012 was \$240,000 compared to net income of \$213,000 for the three months ended March 31, 2011. Net income improved during the first quarter of 2012 due to stronger noninterest income and lower operating costs than 2011. These positive variances were slightly offset by lower net interest income.

Net Interest Income. The following table summarizes interest and dividend income and interest expense for the three months ended March 31, 2012 and 2011.

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	2012	Three Months Ended		% change
		2011	March 31, \$ change	
(Dollars in thousands)				
Interest and dividend income:				
Interest and fees on loans	\$1,777	\$1,954	\$(177)	(9.06)%
Securities:				
Residential mortgage-backed securities	189	233	(44)	(18.88)
U.S. agency securities	17	27	(10)	(37.04)
State and municipal securities	41	-	41	100.00
Dividends on non-marketable equity securities	1	1	-	-
Interest-bearing deposits	1	1	-	-
Total interest and dividend income	2,026	2,216	(190)	(8.57)
Interest expense:				
Deposits	587	686	(99)	(14.43)
Total interest expense	587	686	(99)	(14.43)
Net interest income	\$1,439	\$1,530	\$(91)	(5.95)%

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.

	2012		AVERAGE		2011		AVERAGE	
	AVERAGE BALANCE	INTEREST	YIELD/ COST	%	AVERAGE BALANCE	INTEREST	YIELD/ COST	%
(Dollars in thousands)								
Interest-earning assets								
Loans receivable, net (1)	\$ 124,141	\$ 1,777	5.73	%	\$ 133,587	\$ 1,954	5.85	%
Securities, net (2)	33,974	247	2.91	%	31,020	260	3.36	%
Non-marketable equity securities								
Interest-bearing deposits	5,219	1	0.08	%	6,776	1	0.06	%
Total interest-earning assets	165,467	2,026	4.90	%	173,918	2,216	5.10	%
Interest-bearing liabilities								
Money Market accounts	\$ 19,505	\$ 26	0.53	%	\$ 21,022	\$ 37	0.70	%
Passbook accounts	14,351	5	0.14	%	13,671	5	0.15	%
Certificates of Deposit accounts	110,710	553	2.00	%	118,162	640	2.17	%
Checking accounts	12,748	3	0.09	%	10,644	4	0.15	%
Total interest-bearing liabilities	157,314	587	1.49	%	163,499	686	1.68	%
NET INTEREST INCOME		\$ 1,439				\$ 1,530		
NET INTEREST RATE SPREAD (3)								
			3.41	%			3.42	%
NET INTEREST MARGIN (4)								
			3.48	%			3.52	%
RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES								
			105.18	%			106.37	%

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

(2) Includes unamortized discounts and premiums.

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

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

The following table summarizes the changes in net interest income due to rate and volume for the three months ended March 31, 2012 and 2011. The column "Net" is segmented into the changes attributable to variations in volume and the changes attributable to changes in interest rates. The variations attributable to simultaneous volume and rate changes have been proportionately allocated to rate and volume.

	Three Months Ended March 31, 2012 Compared to 2011		
	Increase (Decrease) Due to		
	VOLUME	RATE	NET
	(Dollars in Thousands)		
Interest and dividends earned on			
Loans receivable, net	\$(135)	\$(42)	\$(177)
Securities, net	22	(35)	(13)
Non-marketable equity securities	-	-	-
Interest-bearing deposits	-	-	-
Total interest-earning assets	\$(113)	\$(77)	\$(190)
Interest expense on			
Money Market accounts	\$(2)	\$(9)	\$(11)
Passbook accounts	-	-	-
Certificates of Deposit accounts	(37)	(50)	(87)
Checking	-	(1)	(1)
Total interest-bearing liabilities	(39)	(60)	(99)
Change in net interest income	\$(74)	\$(17)	\$(91)

Net interest income decreased \$91,000, or 6.0%, to \$1.4 million for the three months ended March 31, 2012 compared to \$1.5 million for the three months ended March 31, 2011. Interest and dividend income decreased due to the decline in average interest earning assets of \$8.5 million and the yield decreasing on interest earning assets from 5.1% to 4.9%. The decline in the loan portfolio contributed to a significant amount of the decline in earning assets. The yield on the investment portfolio and the loan portfolio continued to decline as the low rate environment continued during the first quarter of 2012. This decline in interest income was partially offset by a \$100,000, or 14.5%, reduction in interest expense. The cost of funds declined 19 basis points or 11.3% for the three months ended March 31, 2012 compared to the three months ended March 31, 2011, due to the continued low rate environment. Additionally, the average balance of interest bearing liabilities declined by \$6.2 million or 3.8%.

Provision for Loan Losses. Management recorded a loan loss provision of \$439,000 for the three months ended March 31, 2012, compared to \$388,000 for the three months ended March 31, 2011. The economic conditions in the local market continue to negatively impact collateral values of real estate. The provision is primarily attributed to the reserves in the one-to-four family segment as there has been a continued decline in payment activity of borrowers which increased the number of impaired loans evaluated individually. As a result of local economic conditions including elevated levels of unemployment as local unemployment increased to 12.3% from year-end 2011 levels of 11.2%, the general reserve was increased slightly during the current quarter.

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

Other Income. The following table summarizes other income for the three months ended March 31, 2012 and 2011.

	2012	Three months ended March 31,		% change
		2011	\$ change	
			(Dollars in thousands)	
Other income:				
Gain on sale of securities	\$14	\$1	\$13	1,300.00 %
Gain on sale of loans	28	8	20	250.00
Gain on sale of OREO	79	23	56	243.48
Origination of mortgage servicing rights, net of amortization	3	(2)	5	(250.00)
Customer service fees	69	68	1	1.47
Income on bank owned life insurance	8	8	-	-
Other	11	22	(11)	(50.00)
Total other income	\$212	\$128	\$84	65.63 %

The increase in total other income was primarily due to gains on the sale of foreclosed real estate and gains on the sale of securities during the first quarter of 2012. Additionally, levels of loan demand for loan sales increased during the first quarter of 2012 as compared to 2011, resulting in an increase in gains on the sale of loans. The increase was slightly offset by a decrease in other income.

Other Expenses. The following table summarizes other expenses for the three months ended March 31, 2012 and 2011.

	2012	2011	Three months ended March 31, \$ change (Dollars in thousands)	% change
Other expenses:				
Salaries and employee benefits	\$340	\$397	\$(57)	(14.36)%
Directors fees	21			