

Ottawa Savings Bancorp, Inc.  
Form 10-Q  
August 13, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(mark one)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-51367

**OTTAWA SAVINGS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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**United States**  
 (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 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 equity, as of the latest practicable date:

Common Stock, \$0.01 par value

Class

Outstanding as of August 13, 2008  
 2,124,791

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**OTTAWA SAVINGS BANCORP, INC.**

**FORM 10-Q**

**For the quarterly period ended June 30, 2008**

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**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Balance Sheets****June 30, 2008 and December 31, 2007**

(Unaudited)

|  | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Cash and due from banks  | \$ 1,879,497             | \$ 2,469,629                 |
| Interest bearing deposits  | 5,212,421                | 5,115,608                    |
| <b>Total cash and cash equivalents</b>   | <b>7,091,918</b>         | <b>7,585,237</b>             |
| Securities held to maturity (fair value of \$890,664 and \$961,861 at June 30, 2008 and December 31, 2007, respectively) | 900,062                  | 976,394                      |
| Securities available for sale  | 28,566,785               | 25,834,721                   |
| Non-marketable equity securities   | 2,534,952                | 2,534,952                    |
| Loans, net of allowance for loan losses of \$570,434 and \$605,450 at June 30, 2008 and December 31, 2007, respectively  | 157,238,331              | 157,702,260                  |
| Premises and equipment, net  | 7,625,787                | 7,755,284                    |
| Accrued interest receivable  | 957,452                  | 1,055,328                    |
| Mortgage servicing rights  | 109,788                  | 104,077                      |
| Foreclosed real estate   | 144,140                  | 108,159                      |
| Deferred tax asset   | 1,116,041                | 1,032,798                    |
| Cash value of life insurance   | 1,436,579                | 1,405,380                    |
| Other assets   | 1,306,786                | 1,219,086                    |
| <b>Total assets</b>  | <b>\$ 209,028,621</b>    | <b>\$ 207,313,676</b>        |
| <b>Liabilities and Stockholders Equity</b>   |                          |                              |
| <b>Liabilities</b>   |                          |                              |
| <b>Deposits:</b>   |                          |                              |
| Non-interest bearing   | \$ 2,416,329             | \$ 2,626,967                 |
| Interest bearing   | 182,880,830              | 180,454,652                  |
| <b>Total deposits</b>  | <b>185,297,159</b>       | <b>183,081,619</b>           |
| Accrued interest payable   | 194,273                  | 132,746                      |
| Other liabilities  | 2,209,424                | 2,142,025                    |
| <b>Total liabilities</b>   | <b>187,700,856</b>       | <b>185,356,390</b>           |
| <b>Commitments and contingencies</b>   |                          |                              |
| Redeemable common stock held by ESOP plan  | 218,136                  | 171,709                      |
| <b>Stockholders Equity</b>   |                          |                              |
| Common Stock, \$.01 par value 12,000,000 shares authorized; 2,224,911 shares issued                                      | 22,249                   | 22,249                       |
| Additional paid-in-capital   | 8,642,255                | 8,607,615                    |
| Retained earnings  | 15,010,296               | 14,670,844                   |
| Unallocated ESOP shares  | (585,074)                | (610,512)                    |
| Unearned MRP shares  | (429,590)                | (479,982)                    |
| Accumulated other comprehensive loss   | (171,681)                | (24,928)                     |

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|   |                       |                       |
|---|-----------------------|-----------------------|
|   | 22,488,455            | 22,185,286            |
| Less:   |                       |                       |
| Treasury shares at cost, 100,120 shares at June 30, 2008 and 21,000 shares at December 31, 2007 | (1,160,690)           | (228,000)             |
| Maximum cash obligation related to ESOP shares  | (218,136)             | (171,709)             |
| <b>Total Stockholders Equity</b>  | <b>21,109,629</b>     | <b>21,785,577</b>     |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 209,028,621</b> | <b>\$ 207,313,676</b> |

See accompanying notes to these unaudited consolidated financial statements.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Income****Three and Six Months Ended June 30, 2008 and 2007**

(Unaudited)

|   | <b>Three Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                  |
|---|--|------------------|--------------------------------------|------------------|
|   | <b>2008</b>                            | <b>2007</b>      | <b>2008</b>                          | <b>2007</b>      |
| <b>Interest and dividend income:</b>                          |  |                  |                                      |                  |
| Interest and fees on loans                                    | \$ 2,522,545                           | \$ 2,479,196     | \$ 5,068,342                         | \$ 4,829,687     |
| <b>Securities:</b>  |  |                  |                                      |                  |
| Mortgage-backed and related securities                        | 233,497                                | 268,817          | 475,692                              | 541,234          |
| U.S. agency securities  | 73,347                                 | 215,175          | 152,071                              | 412,732          |
| Dividends on non-marketable equity securities                 |  | 16,204           |                                      | 42,147           |
| Interest-bearing deposits                                     | 40,937                                 | 82,915           | 89,873                               | 184,225          |
| <b>Total interest and dividend income</b>                     | <b>2,870,326</b>                       | <b>3,062,307</b> | <b>5,785,978</b>                     | <b>6,010,025</b> |
| <b>Interest expense:</b>                                      |  |                  |                                      |                  |
| Deposits  | 1,732,931                              | 1,931,576        | 3,600,610                            | 3,814,832        |
| <b>Total interest expense</b>                                 | <b>1,732,931</b>                       | <b>1,931,576</b> | <b>3,600,610</b>                     | <b>3,814,832</b> |
| <b>Net interest income</b>                                    | <b>1,137,395</b>                       | <b>1,130,731</b> | <b>2,185,368</b>                     | <b>2,195,193</b> |
| Provision for loan losses                                     | 51,013                                 | (861,460)        | 33,435                               | (2,042,620)      |
| <b>Net interest income after provision for loan losses</b>    | <b>1,086,382</b>                       | <b>1,992,191</b> | <b>2,151,933</b>                     | <b>4,237,813</b> |
| <b>Other income:</b>  |  |                  |                                      |                  |
| Gain on sale of securities available for sale                 | 54,220                                 |                  | 58,879                               | 110              |
| Gain on sale of loans   | 28,693                                 | 14,003           | 39,518                               | 17,262           |
| Origination of mortgage servicing rights, net of amortization | 1,958                                  | (2,395)          | 5,712                                | (653)            |
| Gain (loss) on sale of foreclosed real estate                 | 163                                    |                  | (8,668)                              |                  |
| Loss on sale of repossessed assets                            |  |                  | (10,157)                             |                  |
| Customer service fees   | 62,005                                 | 57,240           | 119,967                              | 108,346          |
| Income on bank owned life insurance                           | 15,157                                 |                  | 31,199                               |                  |
| Other   | 8,034                                  | 6,969            | 26,879                               | 14,555           |
| <b>Total other income</b>                                     | <b>170,230</b>                         | <b>75,817</b>    | <b>263,329</b>                       | <b>139,620</b>   |
| <b>Other expenses:</b>  |  |                  |                                      |                  |
| Salaries and employee benefits                                | 451,603                                | 451,882          | 869,743                              | 830,166          |
| Directors fees  | 21,079                                 | 21,161           | 42,157                               | 42,321           |
| Occupancy   | 122,418                                | 134,622          | 240,681                              | 240,533          |
| Deposit insurance premium                                     | 5,142                                  | 5,519            | 10,394                               | 10,669           |
| Legal and professional services                               | 64,255                                 | 49,181           | 137,421                              | 103,215          |
| Data processing   | 67,508                                 | 59,492           | 158,167                              | 127,452          |
| Other   | 171,218                                | 134,292          | 294,540                              | 253,088          |
| <b>Total other expenses</b>                                   | <b>903,223</b>                         | <b>856,149</b>   | <b>1,753,103</b>                     | <b>1,607,444</b> |

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|                                   |            |            |            |              |
|-----------------------------------|------------|------------|------------|--------------|
| <b>Income before income taxes</b> | 353,389    | 1,211,859  | 662,159    | 2,769,989    |
| Income tax expense                | 95,331     | 470,918    | 235,500    | 1,037,978    |
| <b>Net income</b>                 | \$ 258,058 | \$ 740,941 | \$ 426,659 | \$ 1,732,011 |
| <b>Basic earnings per share</b>   | \$ 0.13    | \$ 0.35    | \$ 0.21    | \$ 0.82      |
| <b>Diluted earnings per share</b> | \$ 0.13    | \$ 0.35    | \$ 0.21    | \$ 0.82      |
| <b>Dividends per share</b>        | \$ 0.05    | \$ 0.05    | \$ 0.10    | \$ 0.10      |

See accompanying notes to these unaudited consolidated financial statements.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Comprehensive Income (Loss)****Three and Six Months Ended June 30, 2008 and 2007**

(Unaudited)

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |              |
|---|--|-------------|--------------------------------------|--------------|
|   | <b>2008</b>                            | <b>2007</b> | <b>2008</b>                          | <b>2007</b>  |
| Comprehensive income (loss):  |  |             |                                      |              |
| Net income  | \$ 258,058                             | \$ 740,941  | \$ 426,659                           | \$ 1,732,011 |
| Other comprehensive income, net of tax:   |  |             |                                      |              |
| Unrealized loss on securities available for sale arising during period, net of income taxes | (385,177)                              | (346,304)   | (185,613)                            | (244,181)    |
| Reclassification adjustment for gains (losses) included in net income, net of tax expense   | 35,785                                 |             | 38,860                               | (73)         |
| Comprehensive income (loss)   | \$ (91,334)                            | \$ 394,637  | \$ 279,906                           | \$ 1,487,757 |

See accompanying notes to these unaudited consolidated financial statements.



**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Consolidated Statements of Cash Flows****Six Months Ended June 30, 2008 and 2007**

(Unaudited)

|   | <b>2008</b>        | <b>2007</b>         |
|---|--------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>   |                    |                     |
| Net income  | \$ 426,659         | \$ 1,732,011        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |                     |
| Depreciation  | 131,968            | 136,270             |
| Provision for loan losses   | 33,435             | (2,042,620)         |
| Provision for deferred income taxes   | (7,643)            | 378,431             |
| Net amortization of premiums and discounts on securities                                    | 5,503              | 9,152               |
| Gain on sale of available for sale securities   | (58,879)           | (110)               |
| Origination of mortgage loans held for sale   | (1,846,992)        | (1,388,006)         |
| Proceeds from sale of mortgage loans held for sale  | 1,886,510          | 1,203,289           |
| Gain on sale of loans, net  | (39,518)           | (17,262)            |
| Origination of mortgage servicing rights, net of amortization                               | (5,712)            | 653                 |
| Loss on sale of foreclosed real estate  | 8,668              |                     |
| Loss on sale of repossessed assets  | 10,157             |                     |
| ESOP compensation expense   | 29,572             | 32,985              |
| MRP compensation expense  | 50,392             | 50,073              |
| Compensation expense on stock options   | 30,506             | 29,902              |
| Change in assets and liabilities:   |                    |                     |
| Decrease (increase) in accrued interest receivable  | 97,876             | (107,388)           |
| Increase in cash value of life insurance  | (31,199)           |                     |
| Increase in other assets  | (108,399)          | (52,706)            |
| Increase (decrease) in accrued interest payable and other liabilities                       | 128,926            | (160,639)           |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>741,830</b>     | <b>(195,965)</b>    |
| <b>Cash Flows from Investing Activities</b>   |                    |                     |
| Securities available for sale:  |                    |                     |
| Purchases   | (8,601,223)        | (5,466,691)         |
| Sales, calls, maturities and paydowns   | 5,701,505          | 4,215,176           |
| Securities held to maturity:  |                    |                     |
| Maturities and paydowns   | 75,009             | 128,898             |
| Net decrease (increase) in loans  | 157,897            | (9,847,864)         |
| Proceeds from sale of foreclosed real estate  | 178,848            |                     |
| Proceeds from sale of repossessed assets  | 59,643             | 2,500               |
| Purchase of premises and equipment  | (2,471)            | (129,034)           |
| Purchase of non-marketable equity securities  |                    | (137,970)           |
| <b>Net cash used in investing activities</b>  | <b>(2,430,792)</b> | <b>(11,234,985)</b> |
| <b>Cash Flows from Financing Activities</b>   |                    |                     |
| Net increase in deposits  | 2,215,540          | 5,395,432           |
| Cash dividends paid   | (87,207)           | (92,908)            |
| Purchase of treasury stock  | (932,690)          |                     |
| <b>Net cash provided by financing activities</b>  | <b>1,195,643</b>   | <b>5,302,524</b>    |

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|  |              |              |
|--|--------------|--------------|
| <b>Net decrease in cash and cash equivalents</b> | (493,319)    | (6,128,426)  |
| Cash and cash equivalents:                       |              |              |
| Beginning  | 7,585,237    | 10,414,312   |
| Ending   | \$ 7,091,918 | \$ 4,285,886 |

(Continued)

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2008 and 2007**

(Unaudited)

|  | <b>2008</b>  | <b>2007</b>  |
|--|--------------|--------------|
| <b>Supplemental Disclosures of Cash Flow Information</b>                   |              |              |
| Cash payments for:   |              |              |
| Interest paid to depositors  | \$ 3,539,083 | \$ 3,799,624 |
| Income taxes, net of refunds received                                      | 332,246      | 563,750      |
| <b>Supplemental Schedule of Noncash Investing and Financing Activities</b> |              |              |
| Real estate acquired through or in lieu of foreclosure                     | 251,497      |              |
| Other assets acquired in settlement of loans                               | 49,100       | 31,539       |
| Sale of foreclosed real estate through loan origination                    | 28,000       |              |
| Liability due to the recording of ESOP put options                         | 46,427       | 27,501       |

See accompanying notes to these unaudited consolidated financial statements.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**NOTE 1 NATURE OF BUSINESS**

Ottawa Savings Bancorp, Inc. (the Company) is the federally chartered savings and loan holding company of Ottawa Savings Bank (the Bank) and was formed upon completion of the Bank's reorganization from a mutual to stock form of organization on July 11, 2005.

**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, 2007. Certain amounts in the accompanying financial statements and footnotes for 2007 have been reclassified with no effect on net income to be consistent with the 2008 classifications. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

**NOTE 3 USE OF ESTIMATES**

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

At June 30, 2008, there were no material changes in the Company's significant accounting policies or critical accounting estimates from those disclosed in the Form 10-KSB filed with the Securities and Exchange Commission in March 2008.

**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 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, the 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.

**Table of Contents****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 ESOP shares and vested 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 |            | Six Months ended |              |
|---|--------------------|------------|------------------|--------------|
|   | June 30,           |            | June 30,         |              |
|   | 2008               | 2007       | 2008             | 2007         |
| Net income available to common stockholders                       | \$ 258,058         | \$ 740,941 | \$ 426,659       | \$ 1,732,011 |
| Basic potential common shares:                                    |                    |            |                  |              |
| Weighted average shares outstanding                               | 2,139,775          | 2,224,911  | 2,166,359        | 2,224,911    |
| Weighted average unallocated Employee Stock Ownership Plan shares | (59,341)           | (64,429)   | (59,977)         | (65,061)     |
| Weighted average unvested MRP shares                              | (36,197)           | (43,608)   | (36,197)         | (43,608)     |
| Basic weighted average shares outstanding                         | 2,044,237          | 2,116,874  | 2,070,185        | 2,116,242    |
| Dilutive potential common shares:                                 |                    |            |                  |              |
| Weighted average unrecognized compensation on MRP shares          | 6,933              |            | 6,149            |              |
| Weighted average RRP options outstanding                          |                    |            |                  |              |
| Dilutive weighted average shares outstanding                      | 2,051,170          | 2,116,874  | 2,076,334        | 2,116,242    |
| Basic earnings per share  | \$ 0.13            | \$ 0.35    | \$ 0.21          | \$ 0.82      |
| Diluted earnings per share  | \$ 0.13            | \$ 0.35    | \$ 0.21          | \$ 0.82      |

**NOTE 6 EMPLOYEE STOCK OWNERSHIP PLAN**

On July 11, 2005, the Company adopted an employee stock ownership plan ( 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.

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A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60 day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary. At June 30, 2008, 17,807 shares at a fair value of \$12.25 have been classified as mezzanine capital.

**Table of Contents****OTTAWA SAVINGS BANCORP, INC.****Notes to Unaudited Consolidated Financial Statements**

(continued)

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

|                                  | June 30,<br>2008 | December 31,<br>2007 |
|----------------------------------|------------------|----------------------|
| Shares allocated                 | 17,807           | 15,263               |
| Unallocated shares               | 58,507           | 61,051               |
| <b>Total ESOP shares</b>         | <b>76,314</b>    | <b>76,314</b>        |
| Fair value of unallocated shares | \$ 716,711       | \$ 686,824           |

**NOTE 7 INVESTMENT SECURITIES**

The following table reflects securities with gross unrealized losses at June 30, 2008:

|                                      | Less than 12 Months |                      | 12 Months or More |                      | Total         |                      |
|--------------------------------------|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|                                      | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| <b>Securities Available for Sale</b> |                     |                      |                   |                      |               |                      |
| Mortgage-backed securities           | \$ 10,268,097       | \$ 122,185           | \$ 5,745,164      | \$ 203,771           | \$ 16,013,261 | \$ 325,956           |
| <b>Securities Held to Maturity</b>   |                     |                      |                   |                      |               |                      |
| Mortgage-backed securities           | \$ 58,904           | \$ 421               | \$ 513,388        | \$ 11,687            | \$ 572,292    | \$ 12,108            |

The unrealized losses at June 30, 2008, relate principally to interest rates relative to the market. 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. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

**NOTE 8 ASSET QUALITY**

The following is a summary of information pertaining to impaired and non-accrual loans:

|  | At June 30,<br>2008 | At December 31,<br>2007 |
|--|---------------------|-------------------------|
| Impaired loans without a valuation allowance | \$                  | \$                      |
| Impaired loans with a valuation allowance    | 45,750              | 53,787                  |

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|   |              |              |
|---|--------------|--------------|
| Total impaired loans  | \$ 45,750    | \$ 53,787    |
| Valuation allowance related to impaired loans               | \$ 42,500    | \$ 53,787    |
| Total non-accrual loans                                     | \$ 3,189,266 | \$ 2,551,092 |
| Total loans past due ninety days or more and still accruing | \$ 197,474   | \$ 352,923   |



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

On the basis of management's review of its assets at June 30, 2008 and December 31, 2007, we classified \$323,000 and \$729,000, respectively, of our assets as special mention, \$3,075,000 and \$1,216,000, respectively, of our assets as substandard, and \$1,500 and \$1,600, respectively, of our assets as doubtful.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all non-performing assets are classified assets.

Following is a summary of activity in the allowance for loan losses for the six months ended June 30, 2008 and 2007.

|  | <b>2008</b>       | <b>2007</b>       |
|--|-------------------|-------------------|
| Balance at beginning of year               | \$ 605,450        | \$ 419,685        |
| Provision charged (credited) to income     | 33,435            | (2,042,620)       |
| Loans charged off                          | (68,775)          | (22,405)          |
| Recoveries of loans previously charged off | 324               | 2,086,726         |
| <b>Balance at end of period</b>            | <b>\$ 570,434</b> | <b>\$ 441,386</b> |

**NOTE 9 STOCK COMPENSATION**

The total stock-based compensation expense was approximately \$80,000, for the six months ended June 30, 2008 and 2007. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment*, compensation expense is recognized on a straight-line basis over the grantees' vesting period or to the grantees' retirement eligible date, if earlier. For the six months ended June 30, 2008 and 2007, the Company did not grant additional options or shares under the Management Recognition Plan.

**NOTE 10 RECENT ACCOUNTING DEVELOPMENTS**

In December 2007, FASB issued SFAS No. 141(revised), *Business Combinations*. The Statement establishes principles and requirements for how an acquirer recognizes and measures tangible assets acquired, liabilities assumed, goodwill and any noncontrolling interests and identifies related disclosure requirements for business combinations. Measurement requirements will result in all assets, liabilities, contingencies and contingent consideration being recorded at fair value on the acquisition date, with limited exceptions. Acquisition costs and restructuring costs will generally be expensed as incurred. This Statement is effective for the Company for business combinations in which the acquisition date is on or after January 1, 2009. The Company does not expect the adoption of this Statement will have a material impact on its financial position or results of operations and cash flows.

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**OTTAWA SAVINGS BANCORP, INC.**

**Notes to Unaudited Consolidated Financial Statements**

**(continued)**

**NOTE 11 FAIR VALUE DISCLOSURE**

Effective January 1, 2008, the Company adopted FASB Statement No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 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. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs. SFAS No. 157 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 SFAS No. 157 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 utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements 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 the bonds terms and conditions, among other things.

**Loans Held for Sale**

The loans held for sale are recorded at the lower of cost or market value on a non-recurring basis using Level 2 inputs. The fair value of loans held for sale is based on the contractual value of the loans committed to be sold.

**Foreclosed Assets**

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. 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

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further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as non-recurring Level 3.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis at June 30, 2008.

|                               | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total<br/>Fair Value</b> |
|-------------------------------|----------------|----------------|----------------|-----------------------------|
| Securities available for sale | \$             | \$ 28,566,785  | \$             | \$ 28,566,785               |

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

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at June 30, 2008.

|                     | Level 1 | Level 2 | Level 3 | Total<br>Fair Value |
|---------------------|---------|---------|---------|---------------------|
| Loans held for sale | \$      | \$      | \$      | \$                  |
| Foreclosed assets   |         | 186,740 |         | 186,740             |

**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 Ottawa Savings Bancorp, Inc. 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 predict results or the actual effect of future plans or strategies is inherently uncertain and actual results may differ from those predicted. The Company undertakes no obligation to update these forward-looking statements in the future. The Company cautions readers of this report that a number of important factors could cause the Company's actual results subsequent to June 30, 2008, 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 in our market areas, 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 one-to-four family residential loans, consumer loans and other loans. The Bank completed 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. The Bank completed its reorganization on that same date, pursuant to which the Bank 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 Ottawa Savings Bancorp, Inc. As part of the reorganization, Ottawa Savings Bancorp, Inc. issued 1,001,210 shares to the public and 1,223,701 shares to Ottawa Savings Bancorp, MHC.

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During the period from March 2000 until April 2004, as part of our investment activities, the Bank purchased loan participations from Commercial Loan Corporation of Oak Brook, Illinois ( CLC ). In April 2004, the Bank was informed by its regulators, the FDIC and Illinois Office of Banks and Real Estate ( OBRE ), that CLC had misappropriated funds from loans it was servicing for others. At that time, the Bank had 39 outstanding loan participations with CLC in the aggregate amount of approximately \$15.0 million. In May 2004, CLC filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. In December 2004, CLC 's remaining assets were transferred to the CLC Creditors Trust.

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In December 2004, we received a payment of \$5.6 million in cash and loans from the CLC Creditors Trust. As of June 30, 2008, all of the remaining loans are performing according to their terms. Although we have retained certain unsecured claims against the CLC Creditors Trust, we have charged-off the remaining \$9.5 million of our investment in the CLC loan participations. During 2005, 2006, and 2007, the Company received and recorded as recoveries, distributions of \$190,000, \$1.3 million, and \$2.4 million, respectively, from the CLC Creditors Trust on previously charged-off loan participations with CLC. These settlements were recorded as recoveries to the allowance for loan losses.

**COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2008 AND DECEMBER 31, 2007**

The Company's total assets increased \$1.7 million, or 0.83%, to \$209.0 million at June 30, 2008, from \$207.3 million at December 31, 2007. The increase reflects an increase in securities available for sale of \$2.7 million, an increase in other assets of \$88,000, and an increase in deferred tax assets of \$83,000. The increases are offset by a decrease in cash and cash equivalents of \$493,000, a decrease in loans of \$464,000, a decrease in premise and equipment of \$130,000 due to depreciation, and a decrease in accrued interest receivable of \$98,000.

Cash and cash equivalents decreased \$493,000, or 6.50%, to \$7.1 million at June 30, 2008, from \$7.6 million at December 31, 2007. The decrease in cash and cash equivalents is primarily due to the purchase of securities available for sale, offset by funds received by sales, maturities and principal pay-downs of securities and by funds received as deposits.

Securities available for sale increased \$2.7 million, or 10.58%, to \$28.6 million at June 30, 2008, from \$25.8 million at December 31, 2007. The increase was primarily the result of \$8.6 million in purchases, offset by sales, maturities, and principal pay-downs of \$5.7 million and a \$222,000 decrease in the market values of the available for sale securities.

Accrued interest receivable decreased \$98,000, or 9.27%, to \$957,000 at June 30, 2008, from \$1.1 million at December 31, 2007. The decrease was primarily due to a decrease in accrued interest on loans of \$19,000 due to lower interest rates, and an increase in the reserve for uncollected interest on non-accrual loans of \$44,000. Additionally, accrued interest on securities decreased \$35,000 due to decreased market rates.

Loans decreased \$464,000, or 0.29%, to \$157.2 million at June 30, 2008, from \$157.7 million at December 31, 2007. The slight decrease in loans was primarily due to pay-offs and principal reductions on non-residential real estate, commercial, and construction loans, offset by the origination of 1-4 family loans and the purchase of consumer auto loans.

The deferred tax asset increased \$83,000, or 8.06%, to \$1.1 million at June 30, 2008, from \$1.0 million at December 31, 2007. The increase is due to an increase of \$75,000 in deferred taxes on unrealized losses on available for sale securities, and an increase of \$39,000 in deferred federal taxes, offset by a decrease of \$31,000 in state tax carry-forwards from prior year losses applied against current income taxes.

Total deposits increased \$2.2 million, or 1.21%, to \$185.3 million at June 30, 2008, from \$183.1 million at December 31, 2007. The increase reflects deposits to new and existing accounts, offset by slight decreases in certificate of deposit and non-interest bearing checking accounts.

Other liabilities increased \$67,000, or 3.15%, to \$2.2 million at June 30, 2008, from \$2.1 million at December 31, 2007. The increase was due to increases in escrow payable of \$48,000, SERP expenses of \$62,000, accrued retirement payments payable of \$48,000, exam and accounting expenses payable of \$24,000, and data processing expenses payable of \$27,000. The increases were offset by decreases in federal taxes payable of \$89,000 due to lower pre-tax income, and the absence of the \$50,000 accrual for employee incentives. The increase in retirement payments payable is due to continued but decreased accruals for the defined benefit plan, which was terminated effective April 1, 2007, in anticipation of overall costs associated with withdrawing from the defined benefit plan and the absence of quarterly payments to fund the defined benefit plan.

Equity decreased \$676,000, or 3.10%, to \$21.1 million at June 30, 2008, from \$21.8 million at December 31, 2007. The decrease in equity reflects net income for the six months ended June 30, 2008, of approximately \$427,000 and a decrease in other comprehensive income of \$147,000, net of taxes, due to decreases in the market value of the available for sale securities portfolio, offset by dividends of \$87,000 paid to stockholders and the purchase of 79,120 treasury shares for \$933,000. The remaining changes to equity include increases of \$110,000 from the allocation and amortization of ESOP shares, MRP shares, and RRP options, offset by a decrease to equity of \$46,000 to increase the cash obligation related to redeemable common stock held by the ESOP.

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## COMPARISON OF RESULTS OF OPERATION FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007

*Net Income.* The Company had net income of \$258,000 for the three months ended June 30, 2008, compared to net income of \$741,000 for the three months ended June 30, 2007.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the three months ended June 30, 2008 and 2007.

|   | 2008            | Three Months Ended<br>June 30,<br>2007 |              | \$ change | % change       |
|---|-----------------|--|--------------|-----------|----------------|
|   |                 | (Dollars in thousands)                 |              |           |                |
| <b>Interest and dividend income:</b>      |                 |  |              |           |                |
| Interest and fees on loans                | \$ 2,523        | \$ 2,479                               | \$ 44        |           | 1.77%          |
| <b>Securities:</b>                        |                 |  |              |           |                |
| Mortgage-backed and related securities    | 233             | 269                                    | (36)         |           | (13.38)        |
| U.S. agency securities                    | 73              | 215                                    | (142)        |           | (66.05)        |
| Non-marketable equity securities          |                 | 16                                     | (16)         |           | (100.00)       |
| Interest-bearing deposits                 | 41              | 83                                     | (42)         |           | (50.60)        |
| <b>Total interest and dividend income</b> | <b>2,870</b>    | <b>3,062</b>                           | <b>(192)</b> |           | <b>(6.27)</b>  |
| <b>Interest expense:</b>                  |                 |  |              |           |                |
| Deposits                                  | 1,733           | 1,931                                  | (198)        |           | (10.25)        |
| <b>Total interest expense</b>             | <b>1,733</b>    | <b>1,931</b>                           | <b>(198)</b> |           | <b>(10.25)</b> |
| <b>Net interest income</b>                | <b>\$ 1,137</b> | <b>\$ 1,131</b>                        | <b>\$ 6</b>  |           | <b>0.53%</b>   |

The following table summarizes average balances and annualized average yield or cost of funds for the three months ended June 30, 2008 and 2007.

|                                      | 2008                   |              | Three Months Ended June 30, |                    | 2007         |                           |
|--------------------------------------|------------------------|--------------|-----------------------------|--------------------|--------------|---------------------------|
|                                      | AVERAGE<br>BALANCE     | INTEREST     | AVERAGE<br>YIELD/<br>COST   | AVERAGE<br>BALANCE | INTEREST     | AVERAGE<br>YIELD/<br>COST |
|                                      | (Dollars in thousands) |              |                             |                    |              |                           |
| <b>Interest-earning assets</b>       |                        |              |                             |                    |              |                           |
| Securities, net                      | \$ 26,526              | \$ 306       | 4.63%                       | \$ 38,943          | \$ 484       | 4.97%                     |
| Loans receivable, net (1)            | 157,766                | 2,523        | 6.39%                       | 151,376            | 2,479        | 6.55%                     |
| Non-marketable equity securities     | 2,535                  |              |                             | 2,535              | 16           | 2.52%                     |
| Other investments                    | 8,986                  | 41           | 1.83%                       | 4,343              | 83           | 7.64%                     |
| <b>Total interest-earning assets</b> | <b>195,813</b>         | <b>2,870</b> | <b>5.86%</b>                | <b>197,197</b>     | <b>3,062</b> | <b>6.21%</b>              |
| <b>Interest-bearing liabilities</b>  |                        |              |                             |                    |              |                           |
| Money Market accounts                | \$ 12,286              | \$ 62        | 2.02%                       | \$ 8,077           | \$ 50        | 2.48%                     |
| Passbook accounts                    | 11,381                 | 14           | 0.50%                       | 11,784             | 14           | 0.48%                     |
| Certificates of Deposit accounts     | 149,806                | 1,644        | 4.39%                       | 155,217            | 1,852        | 4.77%                     |
| Checking                             | 9,145                  | 13           | 0.57%                       | 11,172             | 15           | 0.54%                     |

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|   |         |          |         |         |          |         |
|---|---------|----------|---------|---------|----------|---------|
| Total interest-bearing liabilities  | 182,618 | 1,733    | 3.80%   | 186,250 | 1,931    | 4.15%   |
| <b>NET INTEREST INCOME</b>  |         | \$ 1,137 |         |         | \$ 1,131 |         |
| <b>NET INTEREST RATE SPREAD (2)</b>   |         |          | 2.06%   |         |          | 2.06%   |
| <b>NET INTEREST MARGIN (3)</b>  |         |          | 2.32%   |         |          | 2.29%   |
| <b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b> |         |          | 107.23% |         |          | 105.88% |

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

(2) 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.

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



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The following table summarizes the changes in average balances due to rate and volume for the three months ended June 30, 2008 and 2007.

|   | <b>Three Months Ended June 30,<br/>2008 COMPARED TO 2007</b> |                 |                 |
|---|--|-----------------|-----------------|
|   | <b>INCREASE (DECREASE) DUE TO<br/>VOLUME</b>                 | <b>RATE</b>     | <b>NET</b>      |
| <b>(Dollars in Thousands)</b>             |  |                 |                 |
| <b>Interest and dividends earned on</b>   |  |                 |                 |
| Securities, net                           | \$ (143)   | \$ (35)         | \$ (178)        |
| Loans receivable, net                     | 102  | (58)            | 44              |
| Non-marketable equity securities          |  | (16)            | (16)            |
| Other investments                         | 21   | (63)            | (42)            |
| <b>Total interest-earning assets</b>      | <b>\$ (20)</b>   | <b>\$ (172)</b> | <b>\$ (192)</b> |
| <b>Interest expense on</b>                |  |                 |                 |
| Money Market accounts                     | \$ 21  | \$ (9)          | \$ 12           |
| Passbook accounts                         | (1)  | 1               |                 |
| Certificates of Deposit accounts          | (59)   | (149)           | (208)           |
| Checking                                  | (3)  | 1               | (2)             |
| <b>Total interest-bearing liabilities</b> | <b>(42)</b>  | <b>(156)</b>    | <b>(198)</b>    |
| <b>Change in net interest income</b>      | <b>\$ 22</b>   | <b>\$ (16)</b>  | <b>\$ 6</b>     |

Net interest income remained consistent with a modest increase of \$6,000, or 0.59%, for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. Interest and dividend income decreased \$192,000, or 6.27%, to \$2.9 million for the three months ended June 30, 2008, from \$3.1 million for the three months ended June 30, 2007 due to a decrease in the average yield on interest earning assets to 5.86% from 6.21% due to decreased market rates and a decrease of \$1.4 million in average interest earning assets to \$195.8 million from \$197.2 million for the three months ended June 30, 2008, compared to the same period in 2007. Interest expense decreased \$198,000, or 10.28%, due to a decrease in the average cost of interest bearing liabilities to 3.80% from 4.15% due to a declining interest rate environment, and a decrease of \$3.6 million in average interest bearing liabilities for the three months ended June 30, 2008, compared to the same period in 2007.

*Provision for Loan Losses.* Management recorded a loan loss provision of \$51,000 for the three months ended June 30, 2008, compared to a negative provision of \$861,000 for the three months ended June 30, 2007. The negative loss provision recorded in 2007 compared to 2008 was primarily due to recoveries from the CLC Creditors Trust on previously charged off loans. Based on a general review of the loans that were in the loan portfolio at June 30, 2008, 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.

*Other Income.* The following table summarizes other income for the three months ended June 30, 2008 and 2007.

|  | <b>Three months ended<br/>June 30,</b> |             |                  |                 |
|--|--|-------------|------------------|-----------------|
|  | <b>2008</b>                            | <b>2007</b> | <b>\$ change</b> | <b>% change</b> |
| <b>(Dollars in thousands)</b>                                  |  |             |                  |                 |
| <b>Other income:</b>   |  |             |                  |                 |
| Gain on sale of securities available for sale                  | \$ 54                                  | \$          | \$ 54            | 100.00%         |
| Gain on sale of loans  | 29                                     | 14          | 15               | 107.14          |
| Amortization of mortgage servicing rights, net of originations | 2                                      | (2)         | 4                | (200.00)        |
| Customer service fees  | 62                                     | 57          | 5                | 8.77            |
| Income on bank owned life insurance                            | 15                                     |             | 15               | 100.00          |

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|                           |        |       |       |         |
|---------------------------|--------|-------|-------|---------|
| Other                     | 8      | 7     | 1     | 14.29   |
| <b>Total other income</b> | \$ 170 | \$ 76 | \$ 94 | 123.68% |

The increase in total other income was primarily due to gains on the sale of available for sale securities, income on bank owned life insurance that was purchased in the fourth quarter of 2007, and increased activity in the origination and sale of loans originated for sale.

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*Other Expenses.* The following table summarizes other expenses for the three months ended June 30, 2008 and 2007.

|                                 | 2008          | Three months ended<br>June 30, |              |              |
|---------------------------------|---------------|--------------------------------|--------------|--------------|
|                                 |               | 2007                           | \$ change    | % change     |
| (Dollars in thousands)          |               |                                |              |              |
| Other expenses:                 |               |                                |              |              |
| Salaries and employee benefits  | \$ 452        | \$ 452                         | \$           | %            |
| Directors fees                  | 21            | 21                             |              |              |
| Occupancy                       | 122           | 135                            | (13)         | (9.63)       |
| Deposit insurance premium       | 5             | 6                              | (1)          | (16.67)      |
| Legal and professional services | 64            | 49                             | 15           | 30.61        |
| Data processing                 | 68            | 59                             | 9            | 15.25        |
| Other                           | 171           | 134                            | 37           | 27.61        |
| <b>Total other expenses</b>     | <b>\$ 903</b> | <b>\$ 856</b>                  | <b>\$ 47</b> | <b>5.49%</b> |

The increase in miscellaneous other expenses was primarily due to an increase in ATM fees of \$14,000, of which approximately \$8,000 was paid to change ATM processors. Additionally, bank service charges increased approximately \$10,000 and the Company incurred \$4,000 in expenses on foreclosed real estate. Legal and professional costs increased primarily due to increased costs incurred in maintaining compliance with various state and federal regulations.

*Income Taxes.* Income tax expense was \$95,000 for the three months ended June 30, 2008, compared to \$471,000 for the same period in 2007. The income tax expense is a direct result of the pre-tax income for the applicable period.

#### COMPARISON OF RESULTS OF OPERATION FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

*Net Income.* The Company had net income of \$427,000 for the six months ended June 30, 2008, compared to net income of \$1.7 million for the six months ended June 30, 2007.

*Net Interest Income.* The following table summarizes interest and dividend income and interest expense for the six months ended June 30, 2008 and 2007.

|   | 2008         | Six Months Ended<br>June 30, |              |               |
|---|--------------|------------------------------|--------------|---------------|
|   |              | 2007                         | \$ change    | % change      |
| (Dollars in thousands)                    |              |                              |              |               |
| Interest and dividend income:             |              |                              |              |               |
| Interest and fees on loans                | \$ 5,068     | \$ 4,830                     | \$ 238       | 4.93%         |
| Securities:                               |              |                              |              |               |
| Mortgage-backed and related securities    | 476          | 541                          | (65)         | (12.01)       |
| U.S. agency securities                    | 152          | 413                          | (261)        | (63.20)       |
| Non-marketable equity securities          |              | 42                           | (42)         | (100.00)      |
| Interest-bearing deposits                 | 90           | 184                          | (94)         | (51.09)       |
| <b>Total interest and dividend income</b> | <b>5,786</b> | <b>6,010</b>                 | <b>(224)</b> | <b>(3.73)</b> |
| Interest expense:                         |              |                              |              |               |
| Deposits                                  | 3,601        | 3,815                        | (214)        | (5.61)        |
| <b>Total interest expense</b>             | <b>3,601</b> | <b>3,815</b>                 | <b>(214)</b> | <b>(5.61)</b> |

|                            |          |          |         |         |
|----------------------------|----------|----------|---------|---------|
| <b>Net interest income</b> | \$ 2,185 | \$ 2,195 | \$ (10) | (0.46)% |
|----------------------------|----------|----------|---------|---------|

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The following table summarizes average balances and annualized average yield or cost of funds for the six months ended June 30, 2008 and 2007.

|   | 2008      |          | Six Months Ended June 30, |           | 2007     |                |
|---|-----------|----------|---------------------------|-----------|----------|----------------|
|   | AVERAGE   |          | AVERAGE                   | AVERAGE   |          | AVERAGE        |
|   | BALANCE   | INTEREST | YIELD/<br>COST            | BALANCE   | INTEREST | YIELD/<br>COST |
| (Dollars in thousands)  |           |          |                           |           |          |                |
| Interest-earning assets   |           |          |                           |           |          |                |
| Securities, net   | \$ 26,526 | \$ 628   | 4.73%                     | \$ 38,969 | \$ 954   | 4.90%          |
| Loans receivable, net (1)   | 157,766   | 5,068    | 6.43%                     | 147,621   | 4,830    | 6.54%          |
| Non-marketable equity securities  | 2,535     |          |                           | 2,535     | 42       | 3.33%          |
| Other investments   | 8,986     | 90       | 2.00%                     | 6,412     | 184      | 5.75%          |
| Total interest-earning assets   | 195,813   | 5,786    | 5.91%                     | 195,537   | 6,010    | 6.15%          |
| Interest-bearing liabilities  |           |          |                           |           |          |                |
| Money Market accounts   | \$ 12,286 | \$ 112   | 1.82%                     | \$ 8,503  | \$ 102   | 2.41%          |
| Passbook accounts   | 11,381    | 28       | 0.50%                     | 11,329    | 28       | 0.50%          |
| Certificates of Deposit accounts  | 149,806   | 3,434    | 4.58%                     | 154,665   | 3,657    | 4.73%          |
| Checking  | 9,145     | 27       | 0.58%                     | 10,081    | 28       | 0.55%          |
| Total interest-bearing liabilities  | 182,618   | 3,601    | 3.94%                     | 184,578   | 3,815    | 4.13%          |
| <b>NET INTEREST INCOME</b>  |           | \$ 2,185 |                           |           | \$ 2,195 |                |
| <b>NET INTEREST RATE SPREAD (2)</b>   |           |          | 1.97%                     |           |          | 2.02%          |
| <b>NET INTEREST MARGIN (3)</b>  |           |          | 2.23%                     |           |          | 2.25%          |
| <b>RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES</b> |           |          | 107.23%                   |           |          | 105.94%        |

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

(2) 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.

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

The following table summarizes the changes in average balances due to rate and volume for the six months ended June 30, 2008 and 2007.

|                                  | Six Months Ended June 30,         |         |          |
|----------------------------------|-----------------------------------|---------|----------|
|                                  | 2008 COMPARED TO 2007             |         |          |
|                                  | INCREASE (DECREASE) DUE TO VOLUME | RATE    | NET      |
| (Dollars in Thousands)           |                                   |         |          |
| Interest and dividends earned on |                                   |         |          |
| Securities, net                  | \$ (294)                          | \$ (32) | \$ (326) |
| Loans receivable, net            | 325                               | (87)    | 238      |
| Non-marketable equity securities |                                   | (42)    | (42)     |

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|                                    |        |          |          |
|------------------------------------|--------|----------|----------|
| Other investments                  | 26     | (120)    | (94)     |
| Total interest-earning assets      | \$ 57  | \$ (281) | \$ (224) |
| Interest expense on                |        |          |          |
| Money Market accounts              | \$ 34  | \$ (25)  | \$ 9     |
| Certificates of Deposit accounts   | (111)  | (111)    | (222)    |
| Checking                           | (3)    | 2        | (1)      |
| Total interest-bearing liabilities | (80)   | (134)    | (214)    |
| Change in net interest income      | \$ 137 | \$ (147) | \$ (10)  |

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Net interest income decreased \$10,000, or 0.45%, to \$2.2 million for the six months ended June 30, 2008, from \$2.2 million for the six months ended June 30, 2007. Interest and dividend income decreased \$224,000, or 3.73%, to \$5.8 million for the six months ended June 30, 2008, from \$6.0 million for the six months ended June 30, 2007 due to a decrease in the average yield on interest earning assets to 5.91% from 6.15% due to decreased market rates, offset by an increase of \$276,000 in average interest earning assets to \$195.8 million from \$195.5 million for the six months ended June 30, 2008, compared to the same period in 2007. Interest expense decreased \$214,000, or 5.62%, due to a decrease in the average cost of interest bearing liabilities to 3.94% from 4.13% due to a declining interest rate environment, and a decrease of \$2.0 million in average interest bearing liabilities for the six months ended June 30, 2008, compared to the same period in 2007.

*Provision for Loan Losses.* Management recorded a loan loss provision of \$33,000 for the six months ended June 30, 2008, compared to a negative provision of \$2.0 million for the six months ended June 30, 2007. The negative loss provision recorded in 2007 compared to 2008 was primarily due to recoveries from the CLC Creditors Trust on previously charged off loans. Based on a general review of the loans that were in the loan portfolio at June 30, 2008, 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.

*Other Income.* The following table summarizes other income for the six months ended June 30, 2008 and 2007.

|  | 2008          | Six months ended<br>June 30, |                                     | % change      |
|--|---------------|------------------------------|-------------------------------------|---------------|
|  |               | 2007                         | \$ change<br>(Dollars in thousands) |               |
| <b>Other income:</b>   |               |                              |                                     |               |
| Gain on sale of securities available for sale                  | \$ 59         | \$ 59                        | \$ 59                               | 100.00%       |
| Gain on sale of loans  | 39            | 17                           | 22                                  | 129.41        |
| Amortization of mortgage servicing rights, net of originations | 6             | (1)                          | 7                                   | (700.00)      |
| Loss on sale of foreclosed real estate                         | (9)           |                              | (9)                                 | (100.00)      |
| Loss on sale of repossessed assets                             | (10)          |                              | (10)                                | (100.00)      |
| Customer service fees  | 120           | 108                          | 12                                  | 11.11         |
| Income on bank owned life insurance                            | 31            |                              | 31                                  | 100.00        |
| Other  | 27            | 15                           | 12                                  | 80.00         |
| <b>Total other income</b>                                      | <b>\$ 263</b> | <b>\$ 139</b>                | <b>\$ 124</b>                       | <b>89.21%</b> |

The increase in total other income was primarily due to gains on the sale of available for sale securities, income on bank owned life insurance that was purchased in the fourth quarter of 2007, and increased activity in the origination and sale of loans originated for sale.

*Other Expenses.* The following table summarizes other expenses for the six months ended June 30, 2008 and 2007.

|                                 | 2008            | Six months ended<br>June 30, |                                     | % change     |
|---------------------------------|-----------------|------------------------------|-------------------------------------|--------------|
|                                 |                 | 2007                         | \$ change<br>(Dollars in thousands) |              |
| <b>Other expenses:</b>          |                 |                              |                                     |              |
| Salaries and employee benefits  | \$ 870          | \$ 830                       | \$ 40                               | 4.82%        |
| Directors fees                  | 42              | 42                           |                                     |              |
| Occupancy                       | 241             | 241                          |                                     |              |
| Deposit insurance premium       | 10              | 11                           | (1)                                 | (9.09)       |
| Legal and professional services | 137             | 103                          | 34                                  | 33.01        |
| Data processing                 | 158             | 127                          | 31                                  | 24.41        |
| Other                           | 295             | 253                          | 42                                  | 16.60        |
| <b>Total other expenses</b>     | <b>\$ 1,753</b> | <b>\$ 1,607</b>              | <b>\$ 146</b>                       | <b>9.09%</b> |





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The increase in salaries and employee benefits is primarily due to increases in the Company's retirement expenses, offset by a decrease in insurance costs. Legal and professional costs increased primarily due to increased costs incurred in maintaining compliance with various state and federal regulations. The increase in miscellaneous other expenses was primarily due to an increase in ATM fees of \$12,000, of which approximately \$8,000 was paid to change ATM processors. Additionally, bank service charges increased approximately \$19,000 and the Company incurred \$8,000 in expenses on foreclosed real estate.

*Income Taxes.* Income tax expense was \$235,000 for the six months ended June 30, 2008, compared to \$1.0 million for the same period in 2007. The income tax expense is a direct result of the pre-tax income for the applicable period.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

At June 30, 2008 the Bank had outstanding commitments to originate \$3.3 million in loans, unfunded lines of credit of \$8.1 million, unfunded commitments on construction loans of \$2.5 million, and unfunded standby letters of credit of \$148,000. In addition, as of June 30, 2008, the total amount of certificates of deposit that were scheduled to mature in the following 12 months was \$112.4 million. The Bank believes that it has adequate resources to fund all of its commitments and that it can adjust the rate on certificates of deposit to retain deposits in changing interest rate environments. If the Bank requires funds beyond its internal funding capabilities, advances from the Federal Home Loan Bank of Chicago are available as an additional source of funds. As of June 30, 2008, the Bank had \$46.9 million of available credit from the Federal Home Loan Bank of Chicago, based on 20% of our capital stock in the FHLB. There were no Federal Home Loan Bank advances outstanding at June 30, 2008.

*Capital.* The Bank is required to maintain regulatory capital sufficient to meet Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. The Bank exceeded each of its capital requirements with ratios at June 30, 2008 of 9.59%, 16.22% and 16.68%, respectively, compared to ratios at December 31, 2007 of 10.02%, 16.66% and 17.15%, respectively.

## **OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit.

For the six months ended June 30, 2008, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

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

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

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**ITEM 4T. CONTROLS AND PROCEDURES**

*Controls and Procedures*

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information to be included in the Company's periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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

**Part II Other Information**

**ITEM 1 - LEGAL PROCEEDINGS**

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

**ITEM 1A - RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1. Description of Business Risk Factors in our Annual Report on Form 10-KSB for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. As of June 30, 2008, the risk factors of the Company have not changed materially from those reported in the Company's Annual Report on Form 10-KSB. However, the risks described in our Annual Report on Form 10-KSB are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Not applicable.

**ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on May 8, 2008. At the meeting, two items were put to a vote of the shareholders. The shareholders voted to approve the ratification of McGladrey & Pullen LLP as independent registered public accountants for the Company for the fiscal year ending December 31, 2008. The shareholders also voted to approve the election of Gary Ocepek as director of the Company for a three year term.

The matters approved by the shareholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions) as to each matter are set forth below:

1. To ratify the selection of McGladrey & Pullen LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2008:

|            |                 |                |
|------------|-----------------|----------------|
| <b>FOR</b> | <b>WITHHELD</b> | <b>ABSTAIN</b> |
| 1,964,204  | 6,500           | 150            |

2. For the election of one director of the Company:

Gary Ocepek

|            |                 |
|------------|-----------------|
| <b>FOR</b> | <b>WITHHELD</b> |
| 1,912,048  | 58,806          |

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Certificate of Incorporation of Ottawa Savings Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Company's Registration Statement on Form SB-2, No. 333-123455, filed on May 3, 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 May 3, 2005, as amended)                       |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1        | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OTTAWA SAVINGS BANCORP, INC.

Registrant

Date: August 13, 2008

/s/ Gary L. Ocepek  
Gary L. Ocepek  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 13, 2008

/s/ Jon L. Kranov  
Jon L. Kranov  
Senior Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)