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

FORM 10-K

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

For the fiscal year ended December 31, 2019

or

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

For transition period from ______ to ______

Commission File Number 1-37914

OTTAWA BANCORP, INC.
(Exact Name of Registrant as Specified in Charter)

Maryland **(State or other Jurisdiction of Incorporation)**	**81-2959182** **(I.R.S. Employer Identification No.)**
925 LaSalle Street, Ottawa, Illinois **(Address of Principal Executive Offices)**	**61350** **(Zip Code)**

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	OTTW	The Nasdaq Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐.

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

☐ Large Accelerated Filer	☐ Accelerated Filer
☐ Non-Accelerated filer	☒ Smaller Reporting Company
	☐ Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act. ☐

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

As of June 30, 2019, the aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $40,782,941 (based on the last sale price of the common stock on the NASDAQ Capital Market of $13.83 per share on June 30, 2019).

The number of shares of Common Stock of the registrant issued and outstanding as of March 28, 2020 was 3,160,154.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference into Part III.

OTTAWA BANCORP, INC.

Form 10-K for Fiscal Year Ended

December 31, 2019

TABLE OF CONTENTS

PART I

Forward-Looking Statements

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 December 31, 2019 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, the outbreak of the coronavirus or other highly infectious or contagious disease,our ability to realize estimated benefits (including, but not limited to, cost savings, synergies and growth) from acquired or merged entities, our ability to successfully integrate acquired or merged entities with us, legislative or regulatory changes that adversely affect our business, adverse developments or changes in the composition of our loan or investment portfolios, significant increases in competition, changes in real estate values, difficulties in identifying attractive acquisition opportunities or strategic partners to complement our Company's approach and the products and services the Company offers, the possible dilutive effect of potential acquisitions or expansion, and our ability to raise new capital as needed and the timing, amount and type of such capital raises. The consequence of these factors, many of which could hurt our business, could include, among other things, increased loan delinquencies, an escalation in problem assets and foreclosures, a decline in demand for our products and services, a reduction in the value of certain assets held by us, an inability to meet our liquidity needs and an inability to engage in certain lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements. Except to the extent required by applicable law or regulation the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made. See also "Item 1A. Risk Factors" and other risk factors discussed elsewhere in this Annual Report.

ITEM 1. BUSINESS

General

Ottawa Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in May 2016 to be the successor to Ottawa Savings Bancorp, Inc. ("Ottawa Savings Bancorp") upon completion of the second-step conversion of Ottawa Savings Bank (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Ottawa Savings Bancorp MHC was the former mutual holding company for Ottawa Savings Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, Ottawa Savings Bancorp MHC merged into Ottawa Savings Bancorp (and ceased to exist), and Ottawa Savings Bancorp merged into the Company, with the Company as the surviving entity and unitary savings and loan holding company for Ottawa Savings Bank, a federally chartered savings bank. The second-step conversion was completed on October 11, 2016, at which time the Company sold, for gross proceeds of $23.8 million, a total of 2,383,950 shares of common stock at $10.00 per share, including 190,716 shares purchased by the Bank's employee stock ownership plan. Capital increased an additional $126,000 due to cash contributed by Ottawa Savings Bancorp MHC upon merging into Ottawa Savings Bancorp, Inc. Also as part of the second-step conversion, treasury shares held by Ottawa Savings Bancorp were retired and each of the existing outstanding shares of Ottawa Savings Bancorp common stock owned by persons other than Ottawa Savings Bancorp MHC was converted into 1.1921 of a share of Company common stock. The Company is a publicly traded banking company with assets of $300.5 million at December 31, 2019 and is headquartered in Ottawa, Illinois.

Our business activities are primarily conducted through Ottawa Savings Bank, headquartered in Ottawa, Illinois, which is located in north-central Illinois approximately 80 miles southwest of Chicago. Ottawa Savings Bank conducts business from its main office in Ottawa and through its branch offices located in Marseilles and Morris, Illinois and loan production offices located in Shorewood, LaSalle and Sandwich Illinois. Ottawa Savings Bank's market area includes LaSalle County, Grundy County and parts of contiguous counties in Illinois. On December 31, 2014, Ottawa Savings Bancorp acquired Twin Oaks Savings Bank ("Twin Oaks") and merged Twin Oaks with and into Ottawa Savings Bank, which facilitated Ottawa Savings Bank's expansion into Grundy County.

Ottawa Savings Bank's principal business consists of originating one-to-four family residential real estate mortgage loans and home equity lines of credit, and to a lesser extent, non-residential real estate, multi-family and construction loans. We also offer commercial and industrial loans and other consumer loans. We offer a variety of retail deposits to the general public in the areas surrounding our main office and our branch offices. We offer our customers a variety of deposit products with interest rates that are competitive with those of similar products offered by other financial institutions in our market area. Our revenues are derived primarily from interest on loans and, to a lesser extent, interest on investment securities and mortgage-backed securities. We also generate revenues from other income including realized gains on sales of loans associated with loan production, deposit fees and service charges, realized gains on sales of other real estate owned, realized gains on sales of securities and loan fees.

Business Strategy

The Company's business strategy is to operate as a well-capitalized and profitable community savings bank dedicated to providing high quality customer service and innovative new products. Highlights of our business strategy are as follows:

- Continue to emphasize the origination of one-to four-family mortgage loans, including investor-owned (*e.g.*, non-owner occupied) one-to-four family mortgage loans;
- Aggressively market core deposits;
- Offer a broad range of financial products and services to both retail and commercial customers in our market area;
- Pursue opportunities to increase non-residential real estate lending, which we consider to be comprised of commercial real estate, land and multi-family loans in our market area;
- Continue to utilize conservative underwriting guidelines to limit credit risk in our loan portfolio to achieve a high level of asset quality; and
- Consider judicious expansion into new market areas to grow our business through the addition of new branch locations and/or through possible acquisitions.

Market Area and Competition

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

The Bank faces significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits and loans has historically come from the several financial institutions operating in our market area, including a number of independent banks, and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions, mortgage companies and mortgage brokers. In addition, the Bank faces competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage and consumer credit market, such as securities companies and specialty finance companies. The Bank believes that its long-standing presence in Ottawa, Illinois, its expansion into Grundy County as a result of the Twin Oaks acquisition, and its personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

Lending Activities

General. Our loan portfolio consists primarily of one-to-four family residential mortgage loans. To a lesser extent, our loan portfolio includes multi-family and non-residential real estate, commercial, construction and consumer loans. Excluding our purchased loan portfolio and except as noted below, the majority of our loans are made within our local market. However, on occasion we originate loans to borrowers outside our market area. At December 31, 2019, loans made to borrowers outside our market area totaled $34.1 million, or 13.8% of our total loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan as of the dates indicated, including a reconciliation of gross loans receivable after consideration of the allowance for loan losses.

	At December 31,									
	2019		2018		2017		2016		2015	
	(Dollars in Thousands)									
	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total
One-to-four family	$155,143	61.88%	$141,780	59.43%	$124,118	59.24%	$103,872	63.80%	$ 99,255	69.73%
Multi-family	5,861	2.34%	6,776	2.84%	5,664	2.70%	5,182	3.18%	3,970	2.79%
Non-residential	30,680	12.24%	35,286	14.79%	32,133	15.34%	22,560	13.85%	20,177	14.18%
Commercial	23,915	9.54%	17,242	7.23%	20,759	9.91%	16,645	10.22%	12,069	8.48%
Consumer direct	20,563	8.20%	15,390	6.45%	6,282	3.00%	2,860	1.76%	1,651	1.16%
Purchased auto	14,551	5.80%	22,080	9.26%	20,551	9.81%	11,714	7.19%	5,212	3.66%
Total loans, gross	250,713	100.00%	238,554	100.00%	209,507	100.00%	162,833	100.00%	142,334	100.00%
Allowance for loan losses	(2,937)		(2,628)		(2,472)		(2,247)		(2,224)	
Total loans, net	$247,776		$235,926		$207,035		$160,586		$140,110	

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

	At December 31,				
	2019	2018	2017	2016	2015
	(In Thousands)				
One-to-four family	$ -	$ -	$ -	$ -	$ 1,978
Multi-family	549	566	582	599	-
Non-residential	983	3,983	3,060	1,148	711
Commercial	3,387	3,574	6,750	4,814	2,922
Purchased auto loans	14,551	22,080	20,551	11,714	5,212
Total	$ 19,470	$ 30,203	$ 30,943	$ 18,275	$ 10,823

Maturity of Loan Portfolio. The following tables show the remaining contractual maturity of our loans at December 31, 2019. The tables do not include the effect of possible prepayments or due on sale clause payments.

	At December 31, 2019						
	One-to-four Family	Multi-family	Non-residential real estate	Commercial	Consumer direct	Purchased auto	Total
				(In Thousands)			
Amounts due one year or less	$ 15,234	$ -	$ 3,195	$ 6,656	$ 88	$ 131	$ 25,304
After one year							
More than one year to three years	3,194	562	2,504	10,773	5,304	9,011	31,348
More than three years to five years	2,435	759	944	1,948	12,873	5,409	24,368
More than five years to ten years	7,275	288	6,047	3,305	2,151	-	19,066
More than ten years to twenty years	48,800	2,019	14,918	-	147	-	65,884
More than twenty years	78,205	2,233	3,072	1,233	-	-	84,743
Total due after December 31, 2020	139,909	5,861	27,485	17,259	20,475	14,420	225,409
Gross loans receivable	$ 155,143	$ 5,861	$ 30,680	$ 23,915	$ 20,563	$ 14,551	$ 250,713
Less:							
Allowance for loan losses							2,937
Total loans, net							$ 247,776

	Due After December 31, 2020		
	Fixed	Adjustable	Total
		(In Thousands)	
One-to-four family	$ 65,118	$ 74,791	$ 139,909
Multi-family	1,194	4,667	5,861
Non-residential	11,359	16,126	27,485
Commercial	12,508	4,751	17,259
Consumer direct	20,475	-	20,475
Purchased auto	14,420	-	14,420
Total	$ 125,074	$ 100,335	$ 225,409

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

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

We offer fixed rate loans with terms of either 15, 20 or up to 30 years. We traditionally sell 30-year fixed rate loans into the secondary market, resulting in a fixed rate loan portfolio primarily composed of loans with less than 15 to 20 year terms, however, 30 year loans may be retained. Our adjustable-rate mortgage loans are based on either a 15, 20 or up to 30-year amortization schedule and interest rates and payments on our adjustable-rate mortgage loans adjust every one, three, five or seven years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate that is based on the respective one, three, and five year monthly Constant Maturity Treasury indices. The maximum amount by which the interest rate may be increased or decreased is generally 1% to 2% per adjustment period, depending on the type of loan, and the lifetime interest rate ceiling is generally 5% over the initial interest rate of the loan. The initial and floor rates for owner occupied properties range from are 2.675% to 4.625% for the one, three, five and seven-year adjustable rate loans for non-owner occupied one-to-four family properties, respectively, at this time.

Due to historically low interest rate levels, borrowers generally have preferred fixed-rate loans in recent years. While we anticipate that our adjustable-rate loans will better offset the adverse effects on our net interest income of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loans in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our asset base more responsive to changes in interest rates, the extent of this interest rate sensitivity is limited by the annual and lifetime interest rate adjustment limits.

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

We also regularly make loans secured by non-owner occupied one-to-four family residential properties. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. In reaching a decision on whether to originate a non-owner occupied one-to-four family residential real estate loan, we consider the net operating income of the property, the borrower's credit history and profitability, and the value of the underlying property. At December 31, 2019, loans secured by non-owner occupied one-to-four family properties totaled $29.2 million, or 18.8% of our total one-to-four family residential loan portfolio.

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

Our largest one-to-four family residential loan at December 31, 2019 was a loan for $3.5 million that is secured by multiple one-to-four family and condominium units, of which $3.2 million is outstanding. This loan is performing in accordance with its terms.

We participate with the USDA Rural Development Company to offer loans to qualifying customers. Loans are granted up to 100% of appraised value and the USDA guarantees up to 90% of the loan. These loans require no down payment but are subject to maximum income limitations.

Residential and Commercial Construction Loans. On occasion we originate (i) residential construction loans to individuals and purchase loans that finance the construction of residential dwellings for personal use, which we classify within our one-to-four family loan portfolio, and (ii) commercial construction loans for the development of projects including condominiums, apartment buildings, single-family subdivisions, single-family investor loans, as well as owner-occupied properties used for business, which we classify within our loan portfolio based on the type of property under construction.

Our residential construction loans generally provide for the payment of interest only during the construction phase, which is usually twelve months. At the end of the construction phase, substantially all of our loans automatically convert to permanent mortgage loans. Construction loans generally can be made with a maximum loan to value ratio of 80% or up to 95% with private mortgage insurance of the appraised value with maximum terms of 30 years. We also require periodic inspections of the property during the term of the construction. At December 31, 2019, our largest outstanding residential construction loan was for $1.2 million, of which $0.4 million was disbursed.

Our commercial construction loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent mortgage loan upon the completion of construction. In the case of a single-family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 70% of the appraised value as determined by an appraisal of the property made by an independent licensed appraiser. We also require periodic inspections of the property during the term of the construction loan. At December 31, 2019, our largest outstanding commercial construction loan was for $1.7 million, all of which was disbursed.

Lines of Credit. We offer lines of credit, principally home equity lines of credit, which have adjustable rates of interest that are indexed to the prime rate as published in *The Wall Street Journal* for terms of up to 20 years. These loans are originated with maximum loan-to-value ratios of 80% of the appraised value of the property, and we require that we have a second lien position on the property if we do not have a first lien. We also offer secured and unsecured lines of credit for well-qualified individuals and small businesses. Management includes these loans based on the collateral supporting the line of credit in either the non-residential, multi-family, commercial or one-to-four family categories for the purposes of monitoring and evaluating the portfolio.

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

We originate and purchase multi-family, non-residential real estate and agricultural loans with terms generally up to 30 years. Interest rates and payments on adjustable-rate loans adjust every one, three and five years. Interest rates and payments on our adjustable rate loans generally are adjusted to a rate typically equal to the interest rate used for one- to- four family loan products, plus 50 basis points to 100 basis points based on credit-worthiness and risk. Loan amounts generally do not exceed 80% of the appraised value for well-qualified borrowers.

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

Our largest non-residential real estate loan at December 31, 2019 was for $1.3 million, all of which is outstanding. This loan is performing in accordance with its terms. For adjustable rate loans in this category, there generally is an interest rate floor ranging from 3.75% to 6.00%.

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

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

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

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

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

Purchased Auto Loans. We purchase auto loans from regulated financial institutions. At December 31, 2019 and 2018, we had $14.6 million and $22.1 million of purchased auto loans outstanding, respectively. These types of loans are primarily low balance individual auto loans. We have the opportunity to review the loans at least three days prior to our purchase and we have a right to refuse any specific loan within thirty days of the purchase of any given loan pool. We did not purchase any auto loans during the year ended December 31, 2019 and purchased $10.0 million of auto loans during the year ended December 31, 2018.

Loan Origination, Purchases and Sales. Loan originations come from a number of sources. The primary source of loan originations are our in-house loan originators, and to a lesser extent, advertising and referrals from customers. We occasionally purchase loans or participation interests in loans. As of December 31, 2019, we had an aggregate of $19.5 million in purchased loan participations outstanding, including the auto loan purchases discussed in the previous paragraph. The largest outstanding loan participation as of December 31, 2019 was a commercial loan for $3.1 million. This loan is performing in accordance with its terms.

We sell some of the longer-term fixed-rate one-to-four family mortgage loans that we originate in the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold without recourse and with servicing retained. We sold $18.9 million and $19.8 million of loans in the years ended December 31, 2019 and 2018, respectively. We occasionally sell participation interests in loans and may sell loan participations in the future.

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

	For The Years Ended December 31,				
	2019	2018	2017	2016	2015
			(In Thousands)		
Beginning balance, net	$ 235,926	$ 207,035	$ 160,586	$ 140,110	$ 142,501
Loans originated					
One-to-four family	29,944	52,421	49,105	34,876	19,581
Multi-family	300	3,160	733	901	2,413
Non-residential	5,941	3,481	13,756	5,544	1,898
Commercial	11,461	1,322	11,080	4,288	6,352
Construction	9,903	9,681	6,577	5,199	757
Consumer direct	10,541	9,421	5,309	2,460	842
Total loans originated	68,090	79,486	86,560	53,268	31,843
Loans purchased					
One-to-four family	6,604	3,844	-	-	2,000
Multi-family	-	-	-	600	-
Non-residential	-	-	2,027	1,100	-
Commercial	-	346	3,478	3,146	-
Consumer direct	1,859	3,349	-	-	-
Purchased auto	-	10,013	14,141	10,357	-
Total loans purchased	8,463	17,642	19,646	15,203	2,000
Loan sales (1)	(17,659)	(19,801)	(21,786)	(18,287)	(7,630)
Principal payments	(46,735)	(48,280)	(37,746)	(29,685)	(28,695)
Change in allowance for loan losses	(309)	(156)	(225)	(23)	91
Ending balance, net	$ 247,776	$ 235,926	$ 207,035	$ 160,586	$ 140,110

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

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

For one-to-four family loans and owner occupied residential loans, our President may approve loans up to $500,000. Residential loans and all commercial loans above $500,000 and up to $2 million in the aggregate to any borrower(s) must be approved by a majority of our level one loan committee. This committee consists of our President, Executive Vice-President/Chief Lending Officer and Commercial Loan Officers. For loans to any borrower(s) in the aggregate of more than $2 million up to $4 million, approval is required by a majority of our level two loan committee, which consists of specific members of the level one committee, one designated outside director and our Chairman of the Board. For loan requests above $4 million in the aggregate to any borrower(s), approval is required by a majority of the Board of Directors, as a whole.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited by regulation to generally 15% of our stated capital and reserves. At December 31, 2019, our regulatory maximum was $7.3 million.

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

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

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

Delinquent Loans

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

	December 31, 2019					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	6	$ 607	7	$ 986	13	$ 1,593
Multi-family	-	-	-	-	-	-
Non-residential	1	64	-	-	1	64
Commercial	1	53	-	-	1	53
Purchased auto	1	22	1	19	2	41
Total	9	$ 746	8	$ 1,005	17	$ 1,751

	December 31, 2018					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	8	$ 549	9	$ 788	17	$ 1,337
Multi-family	-	-	-	-	-	-
Non-residential	1	129	1	127	2	256
Commercial	-	-	-	-	-	-
Purchased auto	1	16	-	-	1	16
Total	10	$ 694	10	$ 915	20	$ 1,609

	December 31, 2017					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	10	$ 986	3	$ 100	13	$ 1,086
Multi-family	-	-	-	-	-	-
Non-residential	2	395	-	-	2	395
Commercial	1	10	-	-	1	10
Purchased auto	-	-	1	1	1	1
Total	13	$ 1,391	4	$ 101	17	$ 1,492

	December 31, 2016					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	1	$ 23	9	$ 1,089	10	$ 1,112
Multi-family	-	-	-	-	-	-
Non-residential	-	-	2	681	2	681
Purchased auto	-	-	1	25	1	25
Total	1	$ 23	12	$ 1,795	13	$ 1,818

	December 31, 2015					
	60-89 Days		90 Days or More		Total	
	(Dollars in Thousands)					
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family	5	$ 753	10	$ 737	15	$ 1,490
Multi-family	-	-	-	-	-	-
Non-residential	1	113	1	18	2	131
Purchased auto	-	-	1	3	1	3
Total	6	$ 866	12	$ 758	18	$ 1,624

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

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

On the basis of management’s review of our assets, at December 31, 2019 and 2018, we classified $0.04 million and $0.34 million, respectively, of our assets as special mention and $2.3 million and $1.5 million, respectively, of our assets as substandard. We classified none of our assets as doubtful and there were no assets classified as loss for the years ended December 31, 2019 and 2018. The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

The economy continued to stabilize in our market during 2019 which meant foreclosures and liquidations as a manner of reducing non-performing assets continued but at a much slower pace. This is not our primary means to resolve credit issues, however, there are certain circumstances when foreclosure and liquidations are the remedy pursued. From time to time, the Company as part of our loss mitigation strategy may renegotiate the loan terms (i.e. interest rate, structure, repayment term, A/B note format, etc.) based on the economic or legal reasons related to the borrower’s financial difficulties. There were no new troubled debt restructurings (“TDRs”) during 2019 and 2018. TDRs are considered to be non-performing, except for those that have established a sufficient performance history (generally a minimum of six consecutive months of performance) under the terms of the restructured loan.

At December 31, 2019, one loan (with a balance of $0.1 million) of our 29 substandard loans (with aggregate balances of $2.3 million) was considered a TDR and was included in non-performing assets. At December 31, 2018, one loan (with a balance of $0.1 million) of our 22 substandard loans (with aggregate balances of $1.5 million) was considered a TDR and was included in non-performing assets. The TDR balance included in impaired loans was primarily a result of no new loans being downgraded to TDRs during the year.

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

	December 31,				
	2019	2018	2017	2016	2015
Non-accrual:			(In Thousands)		
One-to-four family	$ 2,089	$ 1,049	$ 1,214	$ 2,693	$ 2,982
Multi-family	-	-	-	-	-
Non-residential real estate	144	455	355	2,265	2,070
Commercial	-	-	10	-	-
Purchased auto	19	-	1	24	3
Total non-accrual loans	2,252	1,504	1,580	4,982	5,055
Past due greater than 90 days and still accruing:					
One-to-four family	-	-	-	-	-
Lines of credit	-	-	-	-	-
Non-residential real estate	-	-	-	-	-
Total nonperforming loans	2,252	1,504	1,580	4,982	5,055
Foreclosed real estate	-	-	84	33	313
Other repossessed assets	13	79	-	2	17
Total nonperforming assets	$ 2,265	$ 1,583	$ 1,664	$ 5,017	$ 5,385

Ratios

	December 31,				
	2019	2018	2017	2016	2015
Allowance for loan losses as a percent of gross loans receivable	1.17%	1.10%	1.18%	1.38%	1.56%
Allowance for loan losses as a percent of total nonperforming loans	130.42%	174.73%	156.46%	45.10%	44.00%
Nonperforming loans as a percent of gross loans receivable	0.90%	0.63%	0.75%	3.06%	3.55%
Nonperforming loans as a percent of total assets	0.75%	0.51%	0.62%	2.16%	2.37%
Nonperforming assets as a percent of total assets	0.75%	0.54%	0.65%	2.18%	2.52%

The total amount of non-accrual loans increased to $2.3 million as of December 31, 2019, from $1.5 million at December 31, 2018. Total non-performing loans consist of 39 loans to 29 borrowers for the year ended December 31, 2019, as compared to 22 loans to 15 borrowers for the year ended December 31, 2018. For the years ended December 31, 2019 and 2018, gross interest income of $97,000 and $108,000, respectively, would have been recorded had the non-accrual loans at the end of the period been on accrual status throughout the period. We recognized no cash basis interest income on impaired loans for the years ended December 31, 2019 and 2018, respectively.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the losses inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. We utilize a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of our loan portfolio. We maintain a loan review system, which allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company using the most recent twelve quarters with heavier weighting given to the most recent quarters.

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

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

The allowance is increased through provisions charged against current earnings and offset by recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. Management uses available information to recognize probable and reasonably estimable loan losses, but future loss provisions may be necessary based on changing economic conditions. The allowance for loan losses as of December 31, 2019 is maintained at a level that represents management's best estimate of losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable. In addition, the OCC, as an integral part of its examination process, periodically reviews our allowance for loan losses.

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

	Year Ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
	(Dollars in Thousands)				
Balance at beginning of year	$ 2,628	$ 2,472	$ 2,247	$ 2,224	$ 2,315
Charge-offs:					
One-to-four family	285	312	259	233	296
Multi-family	-	-	-	-	34
Non-residential	-	-	62	171	18
Commercial	-	-	-	-	-
Consumer	48	-	9	-	64
Purchased auto	161	166	85	109	74
	494	478	415	513	486
Recoveries:					
One-to-four family	138	50	11	60	95
Multi-family	32	16	16	16	16
Non-residential real estate	-	-	8	-	-
Commercial	-	-	-	-	-
Consumer	4	16	8	8	7
Purchased auto	34	24	22	10	7
	208	106	65	94	125
Net charge-offs	285	372	350	419	361
Additions charged to operations	595	528	575	442	270
Balance at end of year	$ 2,937	$ 2,628	$ 2,472	$ 2,247	$ 2,224
Net charge-offs to average gross loans outstanding	0.11%	0.17%	0.18%	0.27%	0.25%

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

	2019		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
	(Dollars in Thousands)		
One-to-four family	$ 2,121	72.22%	61.88%
Multi-family	24	0.82%	2.34%
Non-residential	207	7.05%	12.24%
Commercial	199	6.78%	9.54%
Consumer	192	6.54%	8.20%
Purchased auto	194	6.61%	5.80%
Total allowance for loan losses	$ 2,937	100.00%	100.00%

	2018		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
	(Dollars in Thousands)		
One-to-four family	$ 1,762	67.05%	59.43%
Multi-family	26	0.99%	2.84%
Non-residential	344	13.09%	14.79%
Commercial	135	5.14%	7.23%
Consumer	83	3.16%	6.45%
Purchased auto	278	10.58%	9.26%
Total allowance for loan losses	$ 2,628	100.00%	100.00%

	2017		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
	(Dollars in Thousands)		
One-to-four family	$ 1,477	59.75%	59.24%
Multi-family	22	0.89%	2.70%
Non-residential	371	15.01%	15.34%
Commercial	154	6.23%	9.91%
Consumer	140	5.66%	3.00%
Purchased auto	308	12.46%	9.81%
Total allowance for loan losses	$ 2,472	100.00%	100.00%

	2016		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
		(Dollars in Thousands)	
One-to-four family	$ 1,427	63.51%	63.80%
Multi-family	93	4.14%	3.18%
Non-residential	367	16.33%	13.85%
Commercial	97	4.32%	10.22%
Consumer	79	3.52%	1.76%
Purchased auto	184	8.18%	7.19%
Total allowance for loan losses	$ 2,247	100.00%	100.00%

	2015		
	Amount	Percent Of Allowance To Total Allowance	Percent Of Gross Loans In Each Category To Total Gross Loans
		(Dollars in Thousands)	
One-to-four family	$ 1,728	77.71%	69.73%
Multi-family	142	6.38%	2.79%
Non-residential	198	8.90%	14.18%
Commercial	51	2.29%	8.48%
Consumer	37	1.66%	1.16%
Purchased auto	68	3.06%	3.66%
Total allowance for loan losses	$ 2,224	100.00%	100.00%

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

Total allowance for loan losses increased to $2.9 million at December 31, 2019 as compared to $2.6 million at December 31, 2018. The increase reflected an increase of $0.3 million in the general portion of the reserve while specific reserves on impaired loans were consistent between the years. Impaired loans were $2.3 million with a valuation allowance of $200,000 at December 31, 2019, as compared to $1.5 million with a valuation allowance of $217,000 at December 31, 2018. Of the $2.3 million of impaired loans at December 31, 2019, $0.2 million were acquired in the merger with Twin Oaks and valued per FASB ASC 310-30 (see Note 4 to the Notes to the Consolidated Financial Statements). The increase in the general portion of the reserve was due primarily to balance increases in all categories of the loan portfolio. These increases to the allowance were partially off-set by improvements in historical loss levels resulting from stabilization in nonperforming asset levels and charge-off levels, off-set slightly by changes in the qualitative factors applied to reflect changes in risk.

This analysis process is inherently subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe that we have established the allowance at a level to absorb probable and estimable losses, additions may be necessary if economic or other conditions in the future differ from the current environment.

Investment Activities

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

At December 31, 2019, our investment portfolio consisted primarily of municipal securities with maturities of five to more than ten years and residential mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae with stated final maturities of 30 years or less.

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

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

	December 31,					
	2019		2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)					
Available-for-sale						
State and municipal securities	$ 13,465	$ 13,465	$ 13,187	$ 13,187	$ 13,971	$ 13,971
Residential mortgage-backed securities	11,051	11,051	12,347	12,347	12,075	12,075
Total available-for-sale	$ 24,516	$ 24,516	$ 25,534	$ 25,534	$ 26,046	$ 26,046

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2019 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. Certain mortgage-backed securities have interest rates that are adjustable and will re-price annually within the various maturity ranges. These re-pricing schedules are not reflected in the table below.

	At December 31, 2019									
	One Year or Less		More than One Year Through Five Years		More than Five Years Through Ten Years		More than Ten Years		Total Securities	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in Thousands)									
Available-for-sale securities:										
State and municipal securities	$ 1,770	2.97%	$ 4,446	3.58%	$ 3,968	3.86%	$ 3,281	4.15%	$ 13,465	3.72%
Residential mortgage-backed securities	75	1.19%	10,748	2.63%	228	3.60%	-	0.00%	11,051	2.64%
Total securities available-for-sale	$ 1,845	2.90%	$ 15,194	2.91%	$ 4,196	3.85%	$ 3,281	4.15%	$ 24,516	3.23%

Deposit Activities and Other Sources of Funds

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

Deposit Accounts. The vast majority of our depositors are residents of LaSalle County, with some deposit relationships in Grundy County. Deposits are raised primarily from within our primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, club savings accounts, certificate accounts and various retirement accounts. The Bank also is a member of the Certificate of Deposit Registry Service (CDARS), which allows the Bank to retain high deposit relationships with its depository customer base, while still allowing the customer to enjoy FDIC deposit insurance on amounts in excess of the current limit of $250,000. During 2017, the Bank became a member of the QuickRate CD listing service, which allows the Bank to obtain institutional deposits when needed to help meet loan funding needs. During 2018, the Bank also began a relationship with Financial Northeastern Companies, a CD broker, to obtain institutional deposits when needed to help meet loan funding needs. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit, and the interest rate among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates, but not be the market leader in every type and maturity.

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

	At December 31,					
	2019		2018		2017	
	Amount	Percent Of Total	Amount	Percent Of Total	Amount	Percent Of Total
	(Dollars In Thousands)					
Non-Interest Bearing Checking	$ 13,665	5.78%	$ 14,058	6.29%	$ 11,563	6.32%
Interest Bearing Checking	62,474	26.44%	54,292	24.30%	29,081	15.91%
Money Market accounts	22,452	9.50%	25,033	11.20%	27,560	15.08%
Savings accounts	25,008	10.58%	25,720	11.51%	25,966	14.21%
Certificates of Deposit accounts	112,715	47.70%	104,346	46.70%	88,605	48.48%
Total deposit accounts	$ 236,314	100.00%	$ 223,449	100.00%	$ 182,775	100.00%
Certificate Accounts, by rate						
Less than 1.00%	$ 6,422	5.70%	$ 9,980	9.56%	$ 17,481	19.73%
1.00% to 1.99%	36,587	32.46%	53,673	51.44%	66,410	74.95%
2.00% to 2.99%	59,809	53.06%	39,114	37.49%	4,714	5.32%
3.00% to 3.99%	9,897	8.78%	1,579	1.51%	-	0.00%
Total Certificate Accounts	$ 112,715	100.00%	$ 104,346	100.00%	$ 88,605	100.00%

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

	Years Ended December 31,					
	2019		2018		2017	
	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount	Weighted Avg. Rate	Average Amount
	(Dollars In Thousands)					
Non-Interest Bearing Checking	0.00%	$ 10,052	0.00%	$ 12,210	0.00%	$ 10,784
Interest Bearing Checking	0.84%	43,889	0.90%	42,340	0.07%	29,048
Money Market accounts	0.26%	23,416	0.27%	26,837	0.28%	29,961
Savings accounts	0.06%	26,713	0.06%	26,148	0.06%	26,230
Certificate of Deposit accounts	2.15%	111,866	1.77%	101,025	1.20%	83,283
Total	1.34%	$ 215,936	1.15%	$ 208,560	0.69%	$ 179,306

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

	Years Ended December 31, 2019	2018	2017
		(In Thousands)	
Beginning of period	$ 223,449	$ 182,775	$ 172,547
Net deposits (withdrawals)	10,680	39,448	9,305
Interest credited on deposit accounts	2,185	1,226	923
End of period	$ 236,314	$ 223,449	$ 182,775
Percent change	5.76%	22.25%	5.93%

The following table indicates the dollar amount of certificates of deposit as of December 31, 2019, by time remaining until maturity.

	Three Months Or Less	Over Three To Six Months	Over Six To Twelve Months	Over Twelve Months	Total
			(In Thousands)		
Less than $100,000	$ 8,307	$ 10,493	$ 6,419	$ 23,559	$ 48,777
$100,000 to $250,000	7,459	10,412	7,140	21,817	46,827
Over $250,000	3,327	1,974	1,238	10,571	17,110
Total	$ 19,093	$ 22,879	$ 14,797	$ 55,947	$ 112,715

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
			(In Thousands)			
Less than 1.00%	$ 6,264	$ 158	$ -	$ -	$ -	$ 6,422
1.00% to 1.99%	12,016	14,658	3,176	1,990	4,747	36,587
2.00% to 2.99%	29,584	14,813	9,586	3,182	2,644	59,809
3.00% to 3.99%	8,905	249	494	-	249	9,897
Total	$ 56,769	$ 29,878	$ 13,256	$ 5,172	$ 7,640	$ 112,715

Borrowings. If necessary, we borrow from the Federal Home Loan Bank of Chicago to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank functions as a central reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities that are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's credit-worthiness. Under its current credit policies, the Federal Home Loan Bank generally limits advances to 35% of a member's assets, and short-term borrowings of less than one year may not exceed 10% of the institution's assets. The Federal Home Loan Bank determines specific lines of credit for each member institution. There were $9.1 million of Federal Home Loan Bank advances outstanding at December 31, 2019. At December 31, 2019, we had the ability to borrow an additional $65.8 million from the Federal Home Loan Bank of Chicago. In addition, as of December 31, 2019, the Bank had $7.9 million of available credit from Bankers Bank of Wisconsin to purchase federal funds and $5.0 million of available credit from Midwest Independent Bank to purchase federal funds.

Personnel

At December 31, 2019, we had 57 full-time employees and 13 part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

The Company's only subsidiary is Ottawa Savings Bank.

REGULATION AND SUPERVISION

General

Ottawa Savings Bank as a federal savings bank is currently subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency (OCC), as its primary federal regulator, and the Federal Deposit Insurance Corporation, as the insurer of its deposits. Ottawa Savings Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund ("DIF") managed by the Federal Deposit Insurance Corporation ("FDIC"). Ottawa Savings Bank must file reports with the OCC and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC and, under certain circumstances, the FDIC to evaluate Ottawa Savings Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the OCC, the FDIC or Congress, could have a material adverse impact on Ottawa Bancorp, Inc., and Ottawa Savings Bank and their operations.

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

Federal Banking Regulation

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

Capital Requirements. In July 2013, the OCC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to Ottawa Savings Bank. The final rule implemented the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The final rule included new minimum risk-based capital and leverage ratios, which became effective for Ottawa Savings Bank on January 1, 2015, and refined the definition of what constitutes "capital" for purposes of calculating these ratios. The minimum capital requirements under the final rule are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged); and (iv) a Tier 1 leverage ratio of 4%. The final rule also established a "capital conservation" buffer of 2.5%, and resulted in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and was increased each year until it was fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

Prompt Corrective Regulatory Action. Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept broker deposits. The OCC is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OCC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits, which are $250,000 per depositor by the Deposit Insurance Fund ("DIF") of the FDIC. Under the FDIC's risk-based assessment system, insured institutions are assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned, and certain adjustments specified by Federal Deposit Insurance Corporation regulations. Institutions deemed less risky pay lower assessments. The Federal Deposit Insurance Corporation may adjust the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act required the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The Federal Deposit Insurance Corporation finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity.

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

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

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

A savings association that fails the qualified thrift lender test is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of December 31, 2019, Ottawa Savings Bank maintained 88.0% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

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

Community Reinvestment Act. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. Ottawa Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits Ottawa Savings Bank's authority to engage in transactions with "affiliates" (e.g., any entity that controls or is under common control with Ottawa Savings Bank, including Ottawa Bancorp and their other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings association. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings association's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings associations are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings association may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by Ottawa Bancorp to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, Ottawa Savings Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities such persons' control, is limited. The laws limit both the individual and aggregate amount of loans that Ottawa Savings Bank may make to insiders based, in part, on Ottawa Savings Bank's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

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

Enforcement. The OCC currently has primary enforcement responsibility over savings associations and has authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1.0 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular savings association. If action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Federal Home Loan Bank System. Ottawa Savings Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Ottawa Savings Bank, as a member of the Federal Home Loan Bank of Chicago is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. Ottawa Savings Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2019 of $0.6 million.

Federal Reserve System. The Federal Reserve Act authorizes the Federal Reserve Board to require savings associations to maintain noninterest-earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal "NOW" and regular checking accounts). The amounts are adjusted annually and, for 2019, the regulations provided that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $127.5 million; and a 10% reserve ratio is applied above $127.5 million. The first $16.9 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) were exempted from the reserve requirements. Ottawa Savings Bank complied with the foregoing requirements during 2019. On March 15, 2020, the Federal Reserve Board reduced reserve requirement to 0% effective as of March 26, 2020, which eliminated reserve requirements for all depository institutions.

Other Regulations. Ottawa Savings Bank's operations are also subject to federal laws applicable to credit transactions, such as, but not limited to, the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Ottawa Savings Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), and the related regulations of the Federal Reserve Board, which require savings associations operating in the United States to develop new anti-money laundering compliance programs (including a customer identification program that must be incorporated into the AML compliance program), due diligence policies and controls to ensure the detection and reporting of money laundering; and
- The Bank Secrecy Act of 1970, which requires financial institutions in the United States to keep records of cash purchases of negotiable instruments, file reports of cash purchases of negotiable instruments exceeding a daily amount of $10,000 or more and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities.

Holding Company Regulation

General. As a savings and loan holding company, Ottawa Bancorp, Inc. is subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations regarding its activities. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to Ottawa Savings Bank.

Pursuant to federal law and regulations and policy, a savings and loan holding company such as Ottawa Bancorp may generally engage in the activities permitted for financial holding companies under Section 4(k) of the Bank Holding Company Act and certain other activities that have been authorized for savings and loan holding companies by regulation.

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

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

Capital Requirements. Savings and loan holding companies with less than $3 billion in assets are not subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves.

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

Dividends and Stock Repurchases. The Federal Reserve Board has the power to prohibit dividends by savings and loan holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which also applies to savings and loan holding companies and which expresses the Federal Reserve Board's view that a holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Under the prompt corrective action regulations, the Federal Reserve Board may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Federal Reserve Board policy also provides that a holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

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

Federal Securities Laws

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

FEDERAL AND STATE TAXATION

Federal Income Taxation

General. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. We report our income on a calendar year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. Our federal income tax returns have been either audited or closed under the statute of limitations through tax year 2016. For its 2019 fiscal year, Ottawa Savings Bank's maximum federal income tax rate was 21%.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which amended the Internal Revenue Code of 1986, reducing tax rates and modifying certain policies, credits, and deductions for individuals and businesses. Included in this legislation was a reduction of the federal corporate income tax rate from 35% to 21%. As a result of this reduction, we were required to revalue our existing net deferred tax assets, which resulted in a charge to income tax expense during the fourth quarter of 2017. The Tax Cuts and Jobs Act also added limitations on the deductibility of business interest expense. While this limitation should not impact the deductibility of the Company's interest expense, the limitation could impact our commercial borrowers. The Tax Cuts and Jobs Act also includes changes to personal income taxes that may impact the Bank's borrowers, including: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgages; (ii) the elimination of interest deductions for home equity loans; and (iii) a limitation on the deductibility of property taxes and state and local income taxes.

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

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

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if Ottawa Savings Bank makes a non-dividend distribution to Ottawa Bancorp, Inc., approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 21% federal corporate income tax rate. Ottawa Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

State Taxation

Ottawa Savings Bank is required to file Illinois income tax returns and pay tax at an effective tax rate of approximately 9.5% of Illinois taxable income. For these purposes, Illinois taxable income generally means federal taxable income subject to certain modifications, primarily the exclusion of interest income on United States obligations.

ITEM 1A. RISK FACTORS

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

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

Our origination of non-owner occupied one-to-four family residential mortgage loans may expose us to increased lending risks.

At December 31, 2019, loans secured by non-owner occupied one-to-four family residential properties totaled $29.2 million, or 18.8% of our total residential loan portfolio. We intend to continue to make loans secured by non-owner occupied one-to-four family residential properties in the future. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant’s continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner’s ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties.

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

We established our allowance for loan losses and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2019, our allowance for loan losses as a percentage of total gross loans was 1.17% and as a percentage of total non-performing loans was approximately 130.42%. Because of the concentration of one-to-four family, non-residential and commercial loans in our loan portfolio, the movement of a small number of loans to non-performing status can have a significant impact on this ratio. Although management believes that the allowance for loan losses as of December 31, 2019, was adequate to absorb losses on any existing loans that may become uncollectible, in light of the current economic environment, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future, particularly if economic conditions worsen beyond what management currently expects. Additional provisions to the allowance for loan losses and loan losses in excess of our allowance for loan losses may adversely affect our business, financial condition and results of operations. For additional details, see “Management’s Discussion and Analysis of Financial Condition and Results of Operation -- Comparison of Financial Condition at December 31, 2019 and December 31, 2018-- Provision for Loan Losses.”

We may not be able to realize our deferred tax asset.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 2019, we had $1.7 million of net deferred tax assets. We have determined that no valuation allowance is required as of December 31, 2019, although there is no guarantee that those assets will be fully recognizable in future periods. Management regularly reviews the net deferred tax asset for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of the net deferred tax asset ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. At December 31, 2019, we had federal net operating loss carry forwards of $0.4 million. The federal net operating loss carry forwards will begin to expire in 2034. Future events such as the expiration of net operating loss carry forwards, capital raises or transactions that result in a change in control, could trigger the application of certain tax laws which materially limit the utilization of the net deferred tax assets. This is a complex analysis and requires us to make certain judgments in determining the annual limitation. It is possible that we could ultimately not be able to use or lose a significant portion of the net deferred tax assets. Realization of our net deferred tax assets would significantly improve our earnings and capital.

The outbreak of the recent coronavirus ("COVID-19"), or an outbreak of another highly infectious or contagious disease, could adversely affect our business, financial condition and results of operations.

Our business is dependent upon the willingness and ability of its customers to conduct banking and other financial transactions. The spread of a highly infectious or contagious disease, such as COVID-19, could cause severe disruptions in the U.S. economy, which could in turn disrupt the business, activities, and operations of our customers, as well the business and operations of the Company and the Bank. Moreover, since the beginning of January 2020, the coronavirus outbreak has caused significant disruption in the financial markets both globally and in the United States. The spread of COVID-19, or an outbreak of another highly infectious or contagious disease, may result in a significant decrease in business and/or cause our customers to be unable to meet existing payment or other obligations to us, particularly in the event of a spread of COVID-19 or an outbreak of an infectious disease in our market area. Although we maintain contingency plans for pandemic outbreaks, a spread of COVID-19, or an outbreak of another contagious disease, could also negatively impact the availability of our key personnel necessary to conduct the business of Company and the Bank. Such a spread or outbreak could also negatively impact the business and operations of third party service providers who perform critical services for our business. If COVID-19, or another highly infectious or contagious disease, spreads or the response to contain COVID-19 is unsuccessful, we could experience a material adverse effect on our business, financial condition, and results of operations.

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

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

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

Our net income depends to a great extent upon the level of our net interest income. Changes in interest rates can increase or decrease net interest income and net income. Net interest income is the difference between the interest income earned on loans, investments, and other interest-earning assets, and the interest paid on interest-bearing liabilities, such as deposits and borrowings. Net interest income is affected by changes in market interest rates, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a period, an increase in market rates of interest could reduce net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income.

Changes in market interest rates are affected by many factors beyond our control, including inflation, unemployment, money supply, international events, and events in world financial markets. The Company attempts to manage its risk from changes in market interest rates by adjusting the rates, maturity, re-pricing, and balances of the different types of interest-earning assets and interest-bearing liabilities, but interest rate risk management techniques are not exact. As a result, a rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operations. Changes in the market interest rates for types of products and services in various markets also may vary significantly from location to location and over time based upon competition and local or regional economic factors.

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

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. According to data obtained from the FDIC, as of June 30, 2019, we held approximately 7.2% of all bank and thrift deposits in LaSalle County, which was the 5th largest market share of deposits out of 22 financial institutions (excluding credit unions) in LaSalle County. For Grundy County, we held approximately 3.0% of all bank and thrift deposits which was the 8th largest market share of deposits out of 13 financial institutions (excluding credit unions). We face substantial competition from the other financial institutions that operate in our market area, most of which have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

Our small size makes it more difficult for us to compete.

Our small asset size makes it more difficult to compete with other financial institutions which are generally larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. Our ability to originate larger loans is limited by our lower loans to one borrower limit, which reduces our ability to compete for certain types of loans and can reduce our interest income. Our lower earnings also make it more difficult to offer competitive salaries and benefits. In addition, our smaller customer base makes it difficult to generate meaningful non-interest income. Finally, as a smaller institution, we are disproportionately affected by the ongoing increased costs of compliance with banking and other regulations.

Future expansion strategy may negatively impact our earnings.

We consider our primary market area to consist of LaSalle County, Grundy County and parts of contiguous counties in Illinois. We currently operate three full-service branches with our headquarters located in Ottawa, Illinois and two additional branch locations in Marseilles and Morris, Illinois, and loan production offices in Shorewood, LaSalle, and Sandwich, Illinois. Although we do not currently have any specific plans for expansion, in the future we may consider expanding our presence throughout our market area and may also decide to pursue further expansion through the establishment of one or more branches or additional loan production offices. The profitability of any expansion policy will depend on whether the income that we generate from the additional branches we may establish will offset the increased expenses resulting from operating new branches. It may take a period of time before any new branches would become profitable, especially in areas in which we do not have an established presence. During this period, operating any new branches would likely have a negative impact on our net income.

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

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

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

As of December 31, 2019, most of our total loans were to individuals and/or secured by properties located in our market area. As a result, our revenues and profitability are subject to prevailing economic, regulatory, demographic and other conditions in these counties. Because our business is concentrated in this area, adverse economic, regulatory, demographic or other developments that are limited to this area may have a disproportionately greater effect on us than they would have if we did business in markets outside that particular geographic area. A continued decline in local economic conditions could adversely affect the value of the real estate collateral securing our loans, and a further decline in property values would further diminish our ability to recover on defaulted loans by selling the real estate collateral, making it more likely that we would suffer losses on defaulted loans. Additionally, decreases in asset quality have required and may require further additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. Also, a continued decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Real estate values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, governmental rules or policies and natural disasters.

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

As of December 31, 2019, we had $650,000 of goodwill and $781,000 of other intangible assets, which include core deposit intangible and mortgage servicing rights. A significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or a significant and sustained decline in the price of our common stock, any or all of which could be materially impacted by many of the risk factors discussed herein, may necessitate our taking charges in the future related to the impairment of our goodwill. Future regulatory actions could also have a material impact on assessments of goodwill for impairment. If the fair value of our net assets improves at a faster rate than the market value of our reporting units, or if we were to experience increases in book values of a reporting unit in excess of the increase in fair value of equity, we may also have to take charges related to the impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, we would record the appropriate charge, which could have a material adverse effect on our results of operations.

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

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

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

We are a community bank and our ability to maintain our reputation is critical to the success of our business. The failure to do so may adversely affect our performance.

We are a community bank and our reputation is one of the most valuable assets of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers or otherwise, our business and operating results may be materially adversely affected.

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

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

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

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

Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of popular financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

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

Although our common stock trades on the Nasdaq Capital Market ("Nasdaq"), we cannot predict the extent to which investor interest in us will lead to a more active trading market in our common stock or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control.

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

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

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

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

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

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict the legislative and regulatory changes that will result due to the upcoming election. If a new President of the United States is elected and a change in the make-up of either the Houses of Congress, the White House and/or the House of Representatives and one or all having a majority membership from the same political party or divided between the political parties. The tone of these chambers being willing to advocate for a reduction of financial services regulation, to include amendments to the Dodd-Frank Act and structural changes to the CFPB or possibly an increase in the regulations facing financial services industry. A new Administration, Congress and/or House of Representatives may also cause broader economic changes due to changes in governing ideology and governing style. New appointments to the Board of Governors of the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

We may be adversely affected by recent changes in U.S. tax laws and regulations.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, included a number of provisions that will continue to impact the banking industry, borrowers and the market for residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 35% to 21%. In addition, other changes included: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes.

These changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

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

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

Global economic and political conditions, tariffs and other factors beyond the Company's control may adversely impact our business, financial condition and results of operations.

Negative economic events in other parts of the world may have a negative impact on the U.S. economy, and a severe market reaction to global economic or political conditions could have a material impact on our liquidity, financial condition, results of operations, and ability to meet regulatory requirements. Similarly, tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers' products to increase which could reduce demand for such products, could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer's margins, and adversely impact their revenues, financial results and ability to service debt, which, in turn, could adversely affect our financial condition and results of operations.

We may be subject to more stringent capital requirements.

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

The final rule included new minimum risk-based capital and leverage ratios, which became effective for Ottawa Savings Bank on January 1, 2015, and refined the definition of what constitutes "capital" for purposes of calculating these ratios. Under the final rule, minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged); and (iv) a Tier 1 leverage ratio of 4%. The final rule also established a "capital conservation" buffer of 2.5% and resulted in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased each year until it was fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

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

The implementation of a new accounting standard could require the Company to increase its allowance for loan losses and may have a material adverse effect on its financial condition and results of operations.

FASB has adopted a new accounting standard that will be effective for the Company's first fiscal year after December 15, 2022. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which the Company expects could require it to increase its allowance for loan losses, and will likely greatly increase the data the Company would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in the allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on the Company's financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are located and conduct our business at our main office at 925 LaSalle Street, Ottawa, Illinois, as well as at our two branch offices in Marseilles and Morris, Illinois and our loan production offices in Shorewood, Sandwich and LaSalle, Illinois. The Company believes that the current facilities are adequate to meet its present and immediately foreseeable needs.

The following table sets forth certain information relating to these facilities at December 31, 2019.

Location	Year Opened/ Acquired	Net Book Value at December 31, 2019	Square Footage	Owned/ Leased
925 LaSalle Street, Ottawa, IL 61350	1958	$5,836,478	21,000	Owned
125 West Bluff Street, Marseilles, IL 61341	2014	$286,302	3,286	Owned
1508 Creek Drive, Morris, IL 60450	2014	$395,142	2,729	Owned
119 Joliet Street, LaSalle, IL 61301 (1)	2018	-	350	Leased (2)
566 Brook Forest Avenue, Shorewood, IL 60404 (1)	2017	-	1,239	Leased (3)
100 South Latham Street, Sandwich, IL 60548 (1)	2018	-	850	Leased (4)

(1) Denotes loan production office
(2) Lease expires in August 2020
(3) Lease expires in March 2020
(4) Lease expires in June 2020

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The Company's common stock is currently traded on the Nasdaq Capital Market under the symbol "OTTW". At December 31, 2019, the Company had 304 record holders of its common stock.

Dividend Policy

The Company paid aggregate cash dividends of $0.629 per share during 2019, including a special dividend of $0.35 per share paid on April 12, 2019. We intend to pay cash dividends on a quarterly basis however, the amount of dividends to be paid will be subject to our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. We cannot assure you that we will pay dividends in the future, or that any such dividends will not be reduced or eliminated in the future.

Ottawa Bancorp is subject to state law limitations and federal bank regulatory policy on the payment of dividends. Maryland law generally limits dividends if the corporation would not be able to pay its debts in the usual course of business after giving effect to the dividend or if the corporation's total assets would be less than the corporation's total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution.

Dividends from the Company may depend upon receipt of dividends from the Bank. Federal and state law imposes certain limitations on dividends by savings associations. The Company files a consolidated federal tax return with the Bank. Accordingly, it is anticipated that any cash distributions made by us to our stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal tax purposes.

Issuer Purchases

On November 7, 2018, the Company issued a press release announcing that it had approved a stock repurchase program authorizing the purchase of 337,440 shares, representing 10% of the Company's outstanding shares of common stock. The stock repurchase program was approved in connection with the expiration of the Company's previously approved stock repurchase program, which occurred on November 15, 2018. Repurchases will be conducted through open market purchases, which may include purchases under a trading plan adopted pursuant to Securities and Exchange Commission Rule 10b5-1, or through privately negotiated transactions. Repurchases will be made from time to time depending on market conditions and other factors.

The following table sets forth information regarding the Company's repurchases of its common stock during the year ended December 31, 2019:

	Number of Shares Purchased		Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that may yet be Purchased Under the Program
October 1-31, 2019	3,290	$	13.09	3,290	132,547
November 1-30, 2019	3,330		13.80	3,330	129,217
December 1-31, 2019	6,960		13.92	6,960	122,257
Total	13,580	$	13.69	13,580	122,257

Equity Compensation Plans

The following table sets forth information as of December 31, 2019 about Company common stock that may be issued under the Company's equity compensation plans. All plans were approved by the Company's stockholders.

	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding securities reflected in column a) (c)
Equity Compensation Plans Approved by Stockholders	7,500	3.57	328,503
Equity Compensation Plans not Approved by Stockholders	-	-	-
Total	7,500	5.82	328,503

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected financial and other data of the Company for the periods and at the dates indicated. The information should be read in conjunction with the Consolidated Financial Statements and Notes beginning on page F-1.

	At December 31,					
	2019		2018		2017	
	(In Thousands, except per share data)					
Financial Condition Data:						
Total Assets	$	300,532	$	292,836	$	255,400
Loans, net (1)		247,776		235,926		207,035
Securities available for sale		24,516		25,534		26,046
Deposits		236,314		223,449		182,775
Stockholders' Equity		50,711		52,824		53,102
Book Value per common share	$	16.05	$	15.73	$	15.38
Tangible Book Value per common share (2)	$	15.79	$	15.47	$	15.11

(1) Net of undisbursed portion of construction loans, deferred loan (costs) fees, and allowance for loan losses.
(2) Non-GAAP measure. Excludes goodwill and core deposit intangible.

	Years Ended December 31,		
	2019	2018	2017
	(In Thousands, except per share data)		
Operations Data:			
Total interest and dividend income	$ 12,517	$ 11,099	$ 9,634
Total interest expense	3,100	1,981	1,045
Net interest income	9,417	9,118	8,589
Provision for loan losses	595	528	575
Other income	2,471	2,283	2,209
Other expense	8,630	8,200	7,905
Income tax expense	726	679	1,504
Net income	$ 1,937	$ 1,994	$ 814
Basic earnings per share	$ 0.62	$ 0.62	$ 0.25
Diluted earnings per share	$ 0.61	$ 0.62	$ 0.25
Dividends per share	$ 0.629	$ 0.265	$ 0.16

	At or for the Years Ended December 31,		
	2019	2018	2017
Performance Ratios:			
Return on average assets	0.65%	0.73%	0.34%
Return on average stockholders' equity	3.29	3.77	1.55
Average stockholders' equity to average assets	19.86	19.29	21.66
Stockholders' equity to total assets at end of period	16.87	18.04	20.79
Net interest rate spread (1)	3.17	3.39	3.70
Net interest margin (2)	3.41	3.57	3.84
Average interest-earning assets to average interest-bearing liabilities	121.54	123.14	128.39
Other expense to average assets	2.91	2.99	3.26
Efficiency ratio (3)	72.59	71.92	72.96
Dividend payout ratio	101.45	42.74	64.00
Regulatory Capital Ratios:			
Total risk-based capital (to risk-weighted assets)	22.21	21.08	22.52
Tier 1 core capital (to risk-weighted assets)	20.96	19.88	21.27
Common equity Tier 1 (to risk-weighted assets)	20.96	19.88	21.27
Tier 1 leverage (to adjusted total assets)	15.00	15.16	16.21
Asset Quality Ratios:			
Net charge-offs (recoveries) to average gross loans outstanding	0.11	0.16	0.18
Allowance for loan losses to gross loans outstanding	1.17	1.10	1.18
Non-performing loans to gross loans (4)	0.90	0.63	0.75
Non-performing assets to total assets (4)	0.75	0.54	0.65
Other Data:			
Number of full-service offices	3	3	3

(1) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(2) The net interest margin represents net interest income as a percent of average interest-earning assets.
(3) The efficiency ratio represents other expense as a percent of net interest income before the provision for loan losses and other income.
(4) Non-performing assets consist of non-performing loans, foreclosed real estate, and other foreclosed assets. Non-performing loans consist of all loans 90 days or more past due and all loans no longer accruing interest.

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

General

This discussion and analysis reflects the Company’s consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from and should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements, which appear beginning on page F-1.

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

Critical Accounting Policies

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

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

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

Comparison of Financial Condition at December 31, 2019 and December 31, 2018

The Company's total assets increased $7.7 million, or 2.63%, to $300.5 million at December 31, 2019, from $292.8 million at December 31, 2018. The increase was primarily due to an increase of $11.9 million in the net loan portfolio, an increase in time deposits of $3.0 million and an increase in loans held for sale of $1.2 million. These increases were partially offset by a decrease in cash and cash equivalents of $4.1 million, a decrease in federal funds sold of $1.5 million, a decrease in securities available for sale of $1.0 million and an overall $1.8 million decrease in the remaining other asset categories.

Cash and cash equivalents decreased $2.4 million, or 48.8%, to $4.3 million at December 31, 2019 from $8.4 million at December 31, 2018, primarily as a result of cash used in investing activities of $10.8 million exceeding cash provided by financing activities of $5.1 million and cash provided by operating activities of $3.3 million. The cash used in investing activities includes the purchases of available for sale securities of $3.1 million, increases in time deposits of $1.2 million, increase in loans of $12.9 million, purchase of property and equipment of $0.1 million, partially offset by sales, calls, maturities and paydowns of available for sale securities of $4.5 million, proceeds on sale of OREO of $0.2 million, decrease in federal funds sold of $1.5 million and proceeds on sale of repossessed assets of $0.3 million. The net cash provided by financing activities includes proceeds from Federal Home Loan Bank advances of $11.5 million and increases in deposits of $12.9 million, partially offset by a principal reduction in Federal Home Loan Bank advances of $14.5 million, shares repurchased and cancelled of $2.9 million and dividends paid of $1.9 million.

Federal funds sold decreased approximately $1.5 million, or 26.3%, to $4.2 million at December 31, 2019 from $5.7 million at December 31, 2018.

Securities available for sale decreased $1.0 million, or 3.9%, to $24.5 million at December 31, 2019 from $25.5 million at December 31, 2018. The decrease was primarily due to sales, calls and maturities of $1.4 million and pay-downs of $3.1 million, offset by $3.1 million in purchases. The remaining decreases were attributable to net amortization/accretion of premiums and discounts, and changes in unrealized gains/losses.

Loans, net of the allowance for loan losses, increased $11.9 million, or 5.0%, to $247.8 million at December 31, 2019 from $235.9 million at December 31, 2018. The increase in loans, net of the allowance for loan losses, was primarily due to a $13.4 million increase in one-to-four family loans, a $6.6 million increase in commercial loans and a $5.1 million increase in consumer direct loans. The increases were offset by decreases of $1.0 million in multi-family loans, $4.7 million in non-residential real estate loans and $7.5 million in purchased auto loans. The changes above are net of normal pay-downs and principal reductions.

Total deposits increased $12.9 million, or 5.8%, to $236.3 million at December 31, 2019 from $223.4 million at December 31, 2018. The increase is primarily due to an increase in certificates of deposit of $8.4 million, or 8.0%, and an increase in checking balances of $7.8 million, or 11.4%, partially offset by a decrease in money market balances of $2.6 million, or 10.3% and savings accounts of$0.7 million or 2.8% from December 31, 2018 to December 31, 2019. The increase in certificates of deposit is primarily due to management's continued efforts to strategically price interest rates to position the Bank for changes in interest rate environment, and customers seeking short-term products as they determine where to invest during the current rate environment.

FHLB advances decreased $3.0 million, to $9.1 million at December 31, 2019 compared to $12.1 million at December 31, 2018.

Stockholders' equity decreased $2.1 million to $50.7 million at December 31, 2019 from $52.8 million at December 31, 2018. The decrease reflects $2.8 million used to repurchase and cancel 204,448 outstanding shares of Company common stock and the payment of $1.9 million in cash dividends. The decreases were partially offset by an increase of $0.4 million in other comprehensive income due to an increase in the fair value of securities available for sale, net income of $1.9 million for the year ended December 31, 2019 and proceeds from stock options exercised, equity incentive plan shares issued and the allocation of ESOP shares totaling $0.3 million.

Comparison of Results of Operations for the Years Ended December 31, 2019 and December 31, 2018

General. Net income for the year ended December 31, 2019 decreased approximately $0.1 million, or 2.9%, to $1.9 million compared to net income of $2.0 million for the year ended December 31, 2018. The decrease in net income was primarily the result of total other expense and tax expense increasing more than the increase in total other income and net interest income after provision for loan losses.

Net Interest Income. The following table summarizes interest and dividend income and interest expense for the years ended December 31, 2019 and 2018.

	Years Ended December 31,			
	2019	**2018**	**$ change**	**% change**
	(Dollars in thousands)			
Interest and dividend income:				
Interest and fees on loans	$ 11,541	$ 10,229	$ 1,312	12.83%
Securities:				
Mortgage-backed and related securities	295	281	$ 14	4.98
State and municipal securities	400	409	$ (9)	(2.20)
Non-marketable equity securities	26	25	$ 1	4.00
Interest-bearing deposits	255	155	$ 100	64.52
Total interest and dividend income	12,517	11,099	1,418	12.78
Interest expense:				
Deposits	2,823	1,762	$ 1,061	60.22
Borrowings	277	218	$ 58	26.48
Total interest expense	3,100	1,981	1,119	56.49
Net interest income	$ 9,417	$ 9,118	$ 299	3.28%

Net interest income increased by $0.3 million, or 3.3%, to $9.4 million for the year ended December 31, 2019, from $9.1 million for the year ended December 31, 2018. Interest and dividend income increased $1.4 million, or 12.8%, primarily due to an increase in the average balances of interest-earning assets of $21.3 million. The increase in net interest income was partially offset by an increase in interest expense as the average cost of funds increased 40 basis points to 1.36% for the year ended December 31, 2019. The net interest margin decreased by 16 basis points, or 4.48% to 3.41% during the year ended December 31, 2019.

Provision for Loan Losses. Management recorded a provision for loan losses of $0.6 million and $0.5 million for the years ended December 31, 2019 and 2018, respectively. The allowance for loan losses was $2.9 million, or 1.17% of total gross loans at December 31, 2019 compared to $2.6 million, or 1.10% of gross loans at December 31, 2018. Net charge-offs were $0.3 million for the year ended December 31, 2019 compared $0.4 million for the year ended December 31, 2018. General reserves were higher at December 31, 2019, when compared to December 31, 2018, primarily due to the balances in all loan categories increasing during the year ended December 31, 2019. This increase in the allowance due to loan growth was partially offset by improvements in historical loss levels. Although non-performing loans increased, the necessary reserves on non-performing loans as of December 31, 2019 were approximately $17,000 lower than they were as of December, 2018 due to the transfer of one non-performing loan to foreclosed real estate, the charge-off of the specific reserve for a non-performing loan, improvements in the payment status of several other non-performing loans and the new loans added not requiring as large of specific reserves as those removed. Management's assessment of risk in the portfolio is reflected in the qualitative factors, as discussed on pages 11 and 12. Based on a review of the loans that were in the loan portfolio at December 31, 2019, management believes that the allowance is maintained at a level that represents its best estimate of inherent losses in the loan portfolio that were both probable and reasonably estimable.

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

Other Income. The following table summarizes other income for the years ended December 31, 2019 and 2018.

	Years Ended December 31,			
	2019	**2018**	**$ change**	**% change**
	(Dollars in thousands)			
Other income:				
Gain on sale of loans, net	$ 759	$ 585	$ 174	29.74%
Gain on sale of foreclosed real estate	16	116	(100)	(86.21)
Gain on sale of repossessed assets	19	5	14	280.00
Loan origination and servicing income	949	858	91	10.61
Origination of mortgage servicing rights, net of amortization	88	23	65	282.61
Customer service fees	473	528	(55)	(10.42)
Increase in cash surrender value of life insurance	48	48	-	-
Other	119	120	(1)	(0.83)
Total other income	$ 2,471	$ 2,283	$ 188	8.23%

The increase in total other income was primarily due to an increase in gains on sale of loans, an increase in the origination of mortgage servicing rights, and an increase in loan origination and servicing income all of which were primarily the result of increased loan volume in 2019. These increases were partially offset by a decrease in customer service fees and a decrease in gain on sale of foreclosed real estate.

Other Expenses. The following table summarizes other expenses for the years ended December 31, 2019 and 2018.

	Years Ended December 31,			
	2019	**2018**	**$ change**	**% change**
	(Dollars in thousands)			
Other expenses:				
Salaries and employee benefits	$ 4,730	$ 4,295	$ 435	10.13%
Directors fees	172	181	$ (9)	(4.97)
Occupancy	683	638	$ 45	7.05
Deposit insurance premium	34	66	$ (32)	(48.48)
Legal and professional services	326	388	$ (62)	(15.98)
Data processing	682	665	$ 17	2.56
Loan expense	718	725	$ (7)	(0.97)
Valuation adjustments and expenses on foreclosed real estate	35	26	$ 9	34.62
Other	1,250	1,216	$ 34	2.80
Total other expenses	$ 8,630	$ 8,200	$ 430	5.24%
Efficiency ratio (1)	72.59	71.92		

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

Total other expense increased $0.4 million, or 5.2%, to $8.6 million for the year December 31, 2019, as compared to $8.2 million for the year ended December 31, 2018. The increase was primarily due to higher salaries and employee benefits, occupancy, data processing and other costs. These increases were offset slightly by reductions in loan expense, deposit insurance premiums, and legal and professional fees.

Income Taxes. The Company recorded income tax expense of approximately $0.7 million for both of the years ended December 31, 2019 and 2018.

Average Balance Sheet

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

	Year Ended December 31,								
	2019			2018			2017		
	(Dollars in Thousands)								
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST
ASSETS									
Interest-earning assets									
Securities, net (1)	$ 24,749	$ 695	2.81%	$ 25,277	$ 690	2.73%	$ 37,149	$ 914	2.46%
Loans receivable, net (2)	240,855	11,541	4.79%	221,885	10,229	4.61%	183,508	8,678	4.73%
Non-marketable equity securities	852	26	3.05%	776	25	3.22%	766	12	1.57%
Other investments	9,970	255	2.56%	7,222	155	2.15%	2,476	30	1.21%
Total interest-earning assets	276,426	$ 12,517	4.53%	255,160	$ 11,099	4.35%	223,899	$ 9,634	4.30%
Non-interest-earning assets	19,926			19,336			18,778		
TOTAL ASSETS	$ 296,352			$ 274,496			$ 242,677		
LIABILITIES AND EQUITY									
Interest-bearing liabilities									
Money Market accounts	$ 23,416	$ 61	0.26%	$ 26,837	$ 75	0.28%	$ 29,961	$ 74	0.25%
Savings accounts	26,713	19	0.07%	26,148	19	0.07%	26,229	19	0.07%
Certificates of Deposit accounts	111,866	2,252	2.01%	101,025	1,484	1.47%	83,283	854	1.03%
Checking accounts	53,941	491	0.91%	42,340	185	0.44%	29,047	16	0.06%
Advances and borrowed funds	11,496	277	2.41%	10,856	218	2.01%	5,866	82	1.40%
Total interest-bearing liabilities	227,432	3,100	1.36%	207,206	1,981	0.96%	174,386	1,045	0.60%
Non-interest-bearing liabilities	10,052			14,239			15,736		
TOTAL LIABILITIES	237,484			221,445			190,122		
EQUITY	58,868			52,961			52,555		
TOTAL LIABILITIES AND EQUITY	$ 296,352			$ 274,406			$ 242,677		
NET INTEREST INCOME		$ 9,417			$ 9,118			$ 8,589	
NET INTEREST RATE SPREAD (3)			3.17%			3.39%			3.70%
NET INTEREST MARGIN (4)			3.41%			3.57%			3.84%
RATIO OF AVERAGE INTEREST-EARNING ASSETS TO AVERAGE INTEREST-BEARING LIABILITIES			121.54%			123.14%			128.39%

(1) Includes unamortized discounts and premiums
(2) Amount is net of deferred loan origination (costs) fees, undisbursed loan funds, unamortized discounts and allowance for loan losses and includes non-performing loans.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average interest-earning assets.

Rate/Volume Analysis

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

	Year Ended December 31,					
	2019 COMPARED TO 2018 INCREASE (DECREASE) DUE TO			2018 COMPARED TO 2017 INCREASE (DECREASE) DUE TO		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(Dollars in Thousands)					
Interest earned on						
Securities, net	$ (15)	$ 20	$ 5	$ (324)	$ 100	$ (224)
Loans receivable, net	909	403	1,312	1,771	(220)	1,551
Non-marketable equity securities	2	(1)	1	-	13	13
Other investments	70	30	100	102	23	125
Total interest-earning assets	$ 967	$ 451	$ 1,418	$ 1,544	$ (84)	$ 1,465
Interest expense on						
Money Market accounts	$ (9)	$ (5)	$ (14)	$ (9)	$ 9	$ -
Certificates of Deposit accounts	218	550	768	265	365	630
Checking accounts	106	200	306	60	109	169
Borrowed funds	15	44	59	101	36	137
Total interest-bearing liabilities	331	788	1,119	417	519	936
Change in net interest income	$ 636	$ (337)	$ 299	$ 1,132	$ (603)	$ 529

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of residential mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Management Committee, which consists of senior management operating under a policy adopted by the Board of Directors, meets as needed to review our asset/liability policies and interest rate risk position.

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

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

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

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

Year Ended December 31, 2019

Change In Interest Rates (Basis Points)	Net Portfolio Value: Estimated NPV	Net Portfolio Value: Amount Of Change	Net Portfolio Value: Percent Of Change	Net Portfolio Value As A Percentage Of Present Value Assets: NPV Ratio	Net Portfolio Value As A Percentage Of Present Value Assets: Change In Basis Points
	(Dollars In Thousands)				
+400	$ 50,495	$ (9,984)	-16.51%	18.10%	(150)
+300	53,847	(6,632)	-10.97%	18.80%	(90)
+200	56,692	(3,787)	-6.26%	19.30%	(40)
+100	58,984	(1,495)	-2.47%	19.60%	(10)
0	60,479	-	-	19.70%	-
-100	60,976	497	0.82%	19.40%	(30)
-200	61,980	1,501	2.48%	19.40%	-

Year Ended December 31, 2018

Change In Interest Rates (Basis Points)	Net Portfolio Value: Estimated NPV	Net Portfolio Value: Amount Of Change	Net Portfolio Value: Percent Of Change	Net Portfolio Value As A Percentage Of Present Value Assets: NPV Ratio	Net Portfolio Value As A Percentage Of Present Value Assets: Change In Basis Points
	(Dollars In Thousands)				
+400	$ 54,362	$ (10,286)	-15.91%	20.30%	(150)
+300	57,194	(7,454)	-11.53%	20.80%	(120)
+200	60,293	(4,355)	-6.74%	21.40%	(60)
+100	62,977	(1,671)	-2.58%	21.80%	(20)
0	64,648	-	-	22.00%	-
-100	65,327	679	1.05%	21.80%	(20)
-200	65,301	(26)	-0.04%	21.40%	(40)

The table above indicates that at December 31, 2019, in the event of a 100-basis point increase in interest rates, we would experience a decrease of approximately 2.5% in net portfolio value. In the event of a 200-basis point increase in interest rates, we would experience a decrease of approximately 6.3% in net portfolio value. For a 300-basis point increase in interest rates, we would experience a decreased value of approximately 10.9% in net portfolio value. In the event of a 400-basis point increase in interest rates, we would experience a decrease of approximately 16.5% in net portfolio value. In the event of a 100-basis point decrease in interest rates, we would experience an increase of approximately 0.8% in net portfolio value. In the event of a 200-basis point decrease in interest rates, we would experience an increase of approximately 2.5% in net portfolio value.

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

Liquidity and Capital Resources

We maintain liquid assets at levels we believe are adequate to meet our liquidity needs. Our liquidity ratio averaged 6.13% for the year ended December 31, 2019 compared to 5.00% for the year ended December 31, 2018. We adjust our liquidity levels to fund deposit outflows, pay real estate taxes on mortgage loans, repay our borrowings, and to fund loan commitments. We also adjust liquidity as appropriate to meet asset and liability management objectives.

Our liquidity ratio cannot be calculated using amounts disclosed in our consolidated financial statements, as many of the calculations involve monthly, quarterly, or annual averages. To calculate our liquidity ratio, the average liquidity base from the prior month is used as the denominator to calculate a daily liquidity ratio. The liquidity base consists of savings account balances, certificate of deposit balances, checking and money market balances, deposit loans and borrowings. The daily balances of these components are averaged to arrive at the liquidity base for the month, and the daily cash balances in selected general ledger accounts are used to derive our liquidity position. A daily liquidity ratio is calculated using the liquidity for the day divided by the prior month's average liquidity base. At the end of each month, a monthly liquidity position is calculated using the average liquidity position for the month divided by the prior month's average liquidity base. To calculate quarterly and annual liquidity ratios, we take the average liquidity for the three- or twelve-month period, respectively, and average it.

We maintain a liquidity ratio policy that establishes a target range of 1% to 5% for the liquidity ratio to assist in the management of this metric. However, during the existing low interest rate environment, we have strategically allowed this metric to at times be above 5% to provide for the effective management of extension risk and other interest rate risks.

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

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included with the Consolidated Financial Statements which begin on page F-1 of this Form 10-K.

Our primary investing activities are the origination and purchase of one-to-four family, non-residential and multi-family real estate and other loans, including loans originated for sale, and the purchase of investment securities. For the years ended December 31, 2019 and 2018, our loan originations totaled $68.1 million and $79.5 million, respectively. For the year ended December 31, 2019, we purchased loans totaling $8.5 million, compared to the purchase of loans totaling $17.6 million for the year ended December 31, 2018. For the years ended December 31, 2019 and 2018, we received $18.4 million and $20.4 million, respectively, from the sale of loans, resulting in gains of $0.8 million and $0.6 million, respectively. Cash received from the sales, calls, maturities and pay-downs on securities totaled $4.5 million and $4.3 million for the years ended December 31, 2019 and 2018 respectively. We purchased $3.1 million and $4.2 million in securities for the years ended December 31, 2019 and 2018, respectively. For a more detailed breakdown of our loan activity, see the section entitled "*Item 1. Business-Lending Activities.*"

Deposit flows are generally affected by the level of interest rates, the interest rates and products offered by local competitors, and other factors. Deposits increased $12.9 million for the year ended December 31, 2019 and increased $40.6 million for the year ended December 31, 2018. For a more detailed breakdown of our deposit activity, see the section entitled "*Item 1. Business-Deposit Activities and Other Sources of Funds.*"

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago ("FHLBC") to provide advances and with Bankers Bank of Wisconsin to purchase Federal Funds. As a member of the FHLBC, we are required to own capital stock in the Federal Home Loan Bank of Chicago and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. We had an available borrowing limit of $65.8 million and $74.6 million from the FHLBC as of December 31, 2019 and 2018, respectively. In addition, as of December 31, 2019 and 2018, the Bank had $7.9 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds. Additionally, at December 31, 2019 and 2018, we had a $5.0 million line of credit available with Midwest Independent Bank to purchase federal funds. There were $9.1 million and $12.1 million, respectively of Federal Home Loan Bank advances at December 31, 2019 and 2018 and no Federal Funds purchased outstanding at December 31, 2019 and 2018.

At December 31, 2019, we had outstanding commitments to originate loans of $6.9 million, unfunded commitments under lines of credit of $14.1 million, unfunded commitments on construction loans of $5.0 million, and $10.0 thousand unfunded standby letters of credit. At December 31, 2019, certificates of deposit scheduled to mature in less than one year totaled $56.8 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In the event a significant portion of our deposits are not retained by us, we will have to utilize other funding sources, such as FHLBC advances, in order to maintain our level of assets. Alternatively, we could reduce our level of liquid assets, such as our cash and cash equivalents. In addition, the cost of such deposits may be significantly higher if market interest rates are higher at the time of renewal.

The Company is a separate legal entity from Ottawa Savings Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders, and interest and principal on outstanding debt, if any. The Company's primary source of income is dividends received from Ottawa Savings Bank. The amount of dividends that Ottawa Savings Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Federal Reserve Board, but with prior notice to the Federal Reserve Board, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At December 31, 2019, the Company had liquid assets of $2.2 million.

Off-Balance Sheet Arrangements and Contractual Obligations

For the year ended December 31, 2019, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material adverse effect on its financial condition, results of operations or cash-flows.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and will also require additional disclosures. The new authoritative guidance was originally effective for reporting periods after December 15, 2016. In August 2015, *ASU 2015-14,* Revenue from Contracts with Customers (Topic 606) was issued to delay the effective date of ASU 2014-09 by one year. The FASB issued four subsequent ASUs in 2016 which are intended to improve and clarify the implementation guidance related to ASU 2014-09. The Company's revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The Company has completed its overall assessment of non-interest income and review of related contracts potentially affected by the guidance. The Company adopted the guidance on January 1, 2018 and a cumulative effect adjustment to retained earnings was not necessary.

The standard allowed the use of either the full retrospective or modified retrospective transition method. We elected to apply the modified retrospective transition method to incomplete contracts as of the initial date of application on January 1, 2018. The adoption of the new standards did not have a material impact on our financial condition or results of operations as the revenue recognition patterns under the new standards did not change significantly from our current practice of recognizing the in-scope non-interest income. In addition, we did not retroactively revise prior period amounts or record a cumulative adjustment to retained earnings upon adoption. We considered the nature, amount, timing, and uncertainty of revenue from contracts with customers and determined that significant revenue streams are sufficiently disaggregated in the consolidated statements of income.

Descriptions of our significant revenue-generating transactions that are within the scope of the new revenue recognition standards, which are presented in the consolidated statements of income as components of non-interest income, are as follows:

- **Service charges on deposit accounts.** The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Similarly, overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation. Service charges on deposit accounts are withdrawn from the customer's account balance.

- **Gains/losses on sale of foreclosed real estate and repossessed assets.** The Company records a gain or loss from the sale of foreclosed real estate and repossessed assets when control of the property transfers to the buyer, which generally occurs at the time of the executed deed. When the Company finances the sale of foreclosed real estate and repossessed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate and repossessed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant component is present.

- **Other.** Other noninterest income consists of other recurring revenue streams such as transaction fees, safe deposit rental income, and insurance commissions. Transaction fees primarily include check printing sales commissions, collection fees, and wire transfer fees which arise from in-branch transactions. Insurance commissions are agent commissions earned by the Company and earned upon the effective date of the bound coverage. Merchant referral income is associated with a program whereby the Company receives a share of processing revenue that is generated from clients that were referred by the Company to the service provider. Revenue is recognized at the point in time when the transaction occurs.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 was effective for the Company on January 1, 2018. The adoption of the new financial instruments standard did not have a material impact on the consolidated financial statements. There was no cumulative effect adjustment recorded with the adoption of this guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance in this ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee`s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 was effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company adopted the guidance on January 1, 2019 and the standard did not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. On October 16, 2019, the FASB unanimously approved to delay the required implementation date for this guidance until fiscal years beginning after December 12, 2022 for certain entities. The delay would apply to small reporting companies (as defined by the SEC), such as the Company, non-SEC public companies and private companies. The Company is currently evaluating the provisions of ASU 2016-13, to determine the potential impact of the new accounting guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This ASU simplifies measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)*, Premium Amortization on Purchased Callable Debt Securities, which shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. Currently, generally accepted accounting principles (“GAAP”) excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. ASU 2017-08 requires that premiums on certain callable debt securities be amortized to the shortest call date. Securities within the scope of this ASU are those that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. This ASU was effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The impact of adopting this ASU did not have an effect as our current bond accounting is consistent with the requirements of this guidance.

Impact of Inflation and Changing Prices

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is contained on pages F-1 through F-50 of this Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Internal Controls Over Financial Reporting

Management's annual report on internal control over financial reporting is incorporated herein by reference to page 46 of this Annual Report on Form 10-K.

(c) Changes to Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) that occurred during the fourth quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required in response to this item regarding the Company's directors, executive officers, the audit committee, the audit committee financial expert, the code of ethics and business conduct and compliance with Section 16(a) of the Exchange Act will be contained in the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 16, 2020 (the "Proxy Statement") under the captions *"Proposal 1—Election of Directors," "Corporate Governance—Meetings and Committees of the Board of Directors," "Corporate Governance—Code of Ethics and Business Conduct,"* and *"Section 16(a) Beneficial Ownership Reporting Compliance"* and the information included therein is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

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

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

(a) *Securities Authorized for Issuance under Equity Compensation Plans.* The information required in response to this item is included in Part II, Item 5, *"Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities"* and is incorporated herein by reference.

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS

Exhibit No.	Description of Exhibits
3.1	Articles of Incorporation of Ottawa Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed with the Securities and Exchange Commission on June 6, 2016)
3.2	Bylaws of Ottawa Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed on June 6, 2016)
4.0	Form of Stock Certificate of Ottawa Bancorp, Inc. (incorporated by reference to Exhibit 4.0 to Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed on June 6, 2016)
4.1	Description of Common Stock
10.1	Ottawa Savings Bank Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit 10.3 the Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed with the Securities and Exchange Commission on June 6, 2016) *
10.2	Amendment to Ottawa Savings Bank Voluntary Deferred Compensation Plan for Directors (incorporated by reference to Exhibit 10.4 the Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed with the Securities and Exchange Commission on June 6, 2016) *
10.3	Ottawa Bancorp, Inc. 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 the Company's Registration Statement on Form S-1 (File No. 333-211860) initially filed with the Securities and Exchange Commission on June 6, 2016) *
10.4	Ottawa Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (File No. 001-37914) filed with the Securities and Exchange Commission on April 11, 2018) *
10.5	Change in Control Agreement by and between Ottawa Savings Bank, Ottawa Bancorp, Inc. and Craig M. Hepner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-37914) filed with the Securities and Exchange Commission on October 4, 2019) *
10.6	Change in Control Agreement by and between Ottawa Savings Bank, Ottawa Bancorp, Inc. and Marc N. Kingry (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-37914) filed with the Securities and Exchange Commission on October 4, 2019) *
10.7	Change in Control Agreement by and between Ottawa Savings Bank, Ottawa Bancorp, Inc. and Mark M. Stoudt (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-37914) filed with the Securities and Exchange Commission on October 4, 2019) *
21.0	Subsidiaries
23.1	Consent of RSM US, LLP

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certifications

101.0 The following materials from the Ottawa Savings Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2019 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Statements of Comprehensive Income; (iv) the Condensed Statements of Stockholders' Equity; (V) The Condensed Consolidated Statements of Cash Flows and (vi) related notes.

* Indicates management contract or compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, utilizing the framework established in Internal Control – Integrated Framework of 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2019, is effective.

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

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

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

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Financial Statements
December 31, 2019

Ottawa Bancorp, Inc. & Subsidiary

Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
Ottawa Bancorp, Inc. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ottawa Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2005.

Chicago, Illinois
March 30, 2020

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 5,272,925	$ 2,416,568
Interest bearing deposits	765,486	6,013,890
Total cash and cash equivalents	6,038,411	8,430,458
Time deposits	1,483,500	250,000
Federal funds sold	4,185,000	5,663,000
Securities available for sale	24,515,759	25,533,767
Loans, net of allowance for loan losses of $2,937,632 and $2,627,738 at December 31, 2019 and 2018, respectively	247,775,814	235,926,419
Loans held for sale	1,225,526	-
Premises and equipment, net	6,517,922	6,621,080
Accrued interest receivable	875,104	824,542
Deferred tax assets	1,743,161	1,898,141
Cash surrender value of life insurance	2,389,530	2,341,453
Goodwill	649,869	649,869
Core deposit intangible	169,999	228,000
Other assets	2,962,101	4,469,350
Total assets	$ 300,531,696	$ 292,836,079
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 13,664,986	$ 14,057,719
Interest bearing	222,648,518	209,390,810
Total deposits	236,313,504	223,448,529
Accrued interest payable	8,146	5,648
FHLB advances	9,068,030	12,087,152
Other liabilities	4,431,141	4,470,384
Total liabilities	249,820,821	240,011,713
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.01 par value, 12,000,000 shares authorized; 3,159,494 and 3,358,922 shares issued at December 31, 2019 and 2018, respectively	$ 31,594	$ 33,589
Additional paid-in-capital	32,845,639	35,579,606
Retained earnings	18,938,633	18,859,232
Unallocated ESOP shares	(1,398,600)	(1,576,616)
Unearned management recognition plan shares	(30,944)	(40,361)
Accumulated other comprehensive income (loss)	324,553	(31,084)
Total stockholders' equity	50,710,875	52,824,366
Total liabilities and stockholders' equity	$ 300,531,696	$ 292,836,079

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Interest and dividend income:		
Interest and fees on loans	$ 11,540,665	$ 10,229,270
Securities:		
Residential mortgage-backed and related securities	295,450	281,418
State and municipal securities	399,547	408,467
Dividends on non-marketable equity securities	25,786	24,535
Interest-bearing deposits	255,664	155,322
Total interest and dividend income	12,517,112	11,099,012
Interest expense:		
Deposits	2,822,675	1,762,113
Borrowings	277,051	218,512
Total interest expense	3,099,726	1,980,625
Net interest income	9,417,386	9,118,387
Provision for loan losses	595,000	527,500
Net interest income after provision for loan losses	8,822,386	8,590,887
Other income:		
Gain on sale of loans, net	759,015	584,929
Gain on sale of foreclosed real estate	16,128	116,295
Loan origination and servicing income	949,439	858,087
Origination of mortgage servicing rights, net of amortization	87,895	23,230
Customer service fees	472,973	527,739
Increase in cash surrender value of life insurance	48,077	47,653
Gain on sale of repossessed assets	18,502	4,917
Other	118,604	119,977
Total other income	2,470,633	2,282,827
Other expenses:		
Salaries and employee benefits	4,729,967	4,295,121
Directors fees	172,000	180,750
Occupancy	683,060	637,872
Deposit insurance premium	33,565	66,010
Legal and professional services	326,100	388,199
Data processing	682,547	664,601
Loan expense	718,198	725,125
Valuation adjustments and expenses on foreclosed real estate	34,714	26,102
Other	1,250,018	1,216,412
Total other expenses	8,630,169	8,200,192
Income before income tax expense	2,662,850	2,673,522
Income tax expense	725,503	679,216
Net income	$ 1,937,347	$ 1,994,306
Basic earnings per share	$ 0.62	$ 0.62
Diluted earnings per share	$ 0.62	$ 0.62
Dividends per share	$ 0.629	$ 0.265

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
Net income	$ 1,937,347	$ 1,994,306
Other comprehensive income, before tax:		
Securities available for sale:		
Unrealized holding gains (losses) arising during the period	497,429	(256,890)
Other comprehensive income (loss), before tax	497,429	(256,890)
Income tax expense (benefit) related to items of other comprehensive (loss) income	141,792	(73,227)
Other comprehensive income (loss), net of tax	355,637	(183,663)
Comprehensive income	$ 2,292,984	$ 1,810,643

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unallocated ESOP Shares	Unearned MRP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ 34,518	$36,949,508	$17,720,962	$(1,754,632)	$ -	$ 152,579	$53,102,935
Net income	-	-	1,994,306	-	-	-	1,994,306
Other comprehensive (loss)	-	-	-	-	-	(183,663)	(183,663)
Allocation of 18,779 of ESOP shares	-	80,341	-	178,016	-	-	258,357
Compensation expense on MRP awards granted	-	-	-	-	28,888	-	28,888
Grant of 5,250 MRP shares	53	69,196	-	-	(69,249)	-	-
RRP options exercised	204	118,862	-	-	-	-	119,066
Cash dividends paid, $0.265 per share	-		(856,036)	-	-	-	(856,036)
Repurchase 118,621 shares	(1,186)	(1,638,301)	-	-	-	-	(1,639,487)
Balance, December 31, 2018	$ 33,589	$35,579,606	$18,859,232	$(1,576,616)	$ (40,361)	$ (31,084)	$52,824,366
Net income	-	-	1,937,347	-	-	-	1,937,347
Other comprehensive income	-	-	-	-	-	355,637	355,637
Allocation of 18,780 of ESOP shares	-	73,345	-	178,016	-	-	251,361
Compensation expense on MRP awards granted	-	-	-	-	9,417	-	9,417
Grant of 2,520 MRP shares	25	34,625	-	-	-	-	34,650
RRP options exercised	25	8,900	-	-	-	-	8,925
Cash dividends paid, $0.629 per share	-		(1,857,946)	-	-	-	(1,857,946)
Repurchase 204,448 shares	(2,045)	(2,850,837)	-	-	-	-	(2,852,882)
Balance, December 31, 2019	$ 31,594	$32,845,639	$18,938,633	$(1,398,600)	$ (30,944)	$ 324,553	$50,710,875

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 1,937,347	$ 1,994,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	215,913	245,762
Provision for loan losses	595,000	527,500
Provision for deferred income taxes	13,188	45,576
Net amortization of premiums and discounts on securities	138,521	217,838
Origination of mortgage loans held for sale	(18,884,798)	(19,301,192)
Proceeds from sale of mortgage loans held for sale	18,418,287	20,385,496
Gain on sale of loans	(759,015)	(584,929)
Origination and purchase of mortgage servicing rights, net of amortization	(87,895)	(22,128)
Gain on sale of foreclosed real estate	(16,128)	(116,295)
Gain on sale of repossessed assets, net	18,502	(4,917)
Compensation expense on ESOP shares released	251,361	258,357
ESOP Compensation Expense	9,417	-
Compensation expense on MRP options granted	34,650	28,888
Amortization of core deposit intangible	58,001	58,000
Amortization of fair value adjustments on acquired:		
Loans	17,580	26,904
Federal Home Loan Bank Advances	4,371	5,014
Increase in cash surrender value of life insurance	(48,077)	(47,653)
Change in assets and liabilities:		
Increase in accrued interest receivable	(50,562)	(30,093)
Increase (decrease) in other assets	1,496,144	(262,729)
Increase (decrease) in accrued interest payable and other liabilities	(36,745)	59,003
Net cash provided by operating activities	3,325,062	3,482,708
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(3,100,784)	(4,223,564)
Sales, calls, maturities and paydowns	4,477,700	4,260,744
Sale of non-marketable equity securities	-	149,266
Net increase in time deposits	(1,233,500)	-
Net increase in loans	(12,852,175)	(29,717,439)
Net decrease (increase) in federal funds sold	1,478,000	(4,724,000)
Proceeds from sale of foreclosed real estate	212,128	247,408
Proceeds from sale of repossessed assets	274,698	121,973
Purchase of property and equipment	(112,755)	(196,754)
Net cash used in investing activities	(10,856,688)	(34,082,366)
Cash Flows from Financing Activities		
Net increase in deposits	12,864,975	40,673,905
Proceeds from Federal Home Loan Bank advances	11,500,000	9,750,000
Principal reduction of Federal Home Loan Bank advances	(14,523,493)	(12,773,149)
Proceeds from stock options exercised	8,925	119,066
Shares repurchased and cancelled	(2,852,882)	(1,639,487)
Dividends paid	(1,857,946)	(856,036)
Net cash provided by financing activities	5,139,579	35,274,299
Net (decrease) increase in cash and cash equivalents	(2,392,047)	4,674,641
Cash and cash equivalents:		
Beginning of period	8,430,458	3,755,817
End of period	$ 6,038,411	$ 8,430,458

Ottawa Bancorp, Inc. & Subsidiary

Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$ 2,820,177	$ 1,757,126
Interest paid on borrowings	277,050	218,512
Income taxes paid, net of refunds received	448,000	766,077
Supplemental Schedule of Noncash Investing and Financing Activities		
Real estate acquired through or in lieu of foreclosure	196,000	109,000
Other assets acquired in settlement of loans	194,200	207,507
Sale of foreclosed real estate through loan origination	-	44,800

See Accompanying Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Entity structure

Ottawa Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in May 2016 as the successor to Ottawa Savings Bancorp, Inc. ("Ottawa Savings Bancorp") upon completion of the second-step conversion of Ottawa Savings Bank (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Ottawa Savings Bancorp MHC was the former mutual holding company for Ottawa Savings Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, Ottawa Savings Bancorp MHC merged into Ottawa Savings Bancorp (and ceased to exist), and Ottawa Savings Bancorp merged into the Company, with the Company as the surviving entity. The second-step conversion was completed on October 11, 2016, at which time the Company sold, for gross proceeds of $23.8 million, a total of 2,383,950 shares of common stock at $10.00 per share, including 190,716 shares purchased by the Bank's employee stock ownership plan. Capital increased an additional $126,000 due to cash contributed by Ottawa Savings Bancorp MHC upon merging into Ottawa Savings Bancorp, Inc. Also, as part of the second-step conversion, treasury shares held by Ottawa Savings Bancorp, Inc. were retired and each of the existing outstanding shares of Ottawa Savings Bancorp common stock owned by persons other than Ottawa Savings Bancorp MHC was converted into 1.1921 of a share of Company common stock.

On December 31, 2014, Ottawa Savings Bancorp completed a merger with Twin Oaks Savings Bank ("Twin Oaks"), whereby Twin Oaks was merged with and into the Bank, with the Bank as the surviving institution. As a result of the Merger, Ottawa Savings Bancorp increased its market share in the LaSalle County market and expanded into Grundy County.

Nature of business

The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in providing a variety of financial services to individual and corporate customers in the Ottawa, Marseilles, and Morris, Illinois areas, which are primarily agricultural areas consisting of several rural communities with small to medium sized businesses. The Bank's primary source of revenue is interest and fees related to single-family residential loans to middle-income individuals and interest and fees related to commercial loans to small businesses.

Principles of consolidation

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

Reclassifications

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

Use of estimates

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

Note 1. Summary of Significant Accounting Policies (Continued)

Concentration of credit risk

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

Cash and cash equivalents

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

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

Time deposits

Time deposits held at other financial institutions are carried at cost and include any time deposits with an original maturity of greater than three months. Time deposits held at other financial institutions with an original maturity of less than three months were $1,483,500 as of December 31, 2019 and are included in cash and cash equivalents. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on time deposits.

Investment securities

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

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, management monitors market trends and current events in order to identify trends and circumstances that might impact the carrying value of securities.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Non-marketable equity securities

Nonmarketable equity securities, consisting primarily of the Bank’s investment in the Federal Home Loan Bank of Chicago stock, is carried at cost within other assets and periodically evaluated for impairment.

Loans

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

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

When a loan is placed on nonaccrual status, income recognition is ceased. Previously recorded but uncollected amounts of interest on nonaccrual loans are reversed at the time the loan is placed on nonaccrual status. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

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

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

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

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

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

Allowance for loan losses

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

For all portfolio segments, the allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Company to make additions to the allowance based upon their judgment about information available to them at the time of their examinations.

Note 1. Summary of Significant Accounting Policies (Continued)

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company using the most recent twelve quarters with heavier weighting given to the most recent quarters.

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

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

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

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

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

- Ability and stability of current management of the borrower;
- Stable earnings with positive financial trends;
- Sufficient cash flow to support debt repayment;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Company hires an independent firm to perform a loan review every 12 months to validate the risk ratings on selected commercial and non-residential loans. Additionally, the reviews include an analysis of debt service requirements, covenant compliance, if applicable, and collateral adequacy. They also perform a documentation review on selected loans to determine if the credit is properly documented and closed in accordance with approval authorities and conditions.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Loans Acquired in a Transfer

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Mortgage Partnership Finance Program

In 2018, the Company began participating in the Mortgage Partnership Finance ("MPF") Program of the Federal Home Loan Bank of Chicago ("FHLBC"). The program is intended to provide member institutions with an alternative to holding fixed-rate mortgage in their loan portfolios or selling in the secondary market. The Company participates in the MPF Program by either originating individual loans on a "flow" basis as an agent for the FHLBC pursuant to the "MPF Original Program" and the "MPF 125 Program" or by selling, as a principal, closed loans owned by the Company to the FHLBC pursuant to one of the FHLBC's closed loan programs. Under the MPF Program, credit risk is shared by the Company and the FHLBC by structuring the loss exposure in several layers, with the Company being liable for losses after application of an initial layer of losses (after any private mortgage insurance) is absorbed by the FHLBC, subject to an agreed-upon maximum amount of such secondary credit enhancement which is intended to be in an amount equivalent to a "AA" credit risk by a rating agency. The Company may also be liable for certain first layer losses after a specified period of time. The Company received credit enhancement fees from the FHLBC for providing this credit enhancement and continuing to manage the credit risk of the MPF Program loans. The Company does not retain the servicing rights of these loans.

Servicing

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

Transfers of financial assets

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

Foreclosed real estate

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

The Company had no foreclosed residential real estate property as of December 31, 2019 and 2018. There were two residential real estate loan in the process of foreclosure as of December 31, 2019, totaling $607,268 and one residential real estate loan in the process of foreclosure as of December 31, 2018, totaling $276,815.

Income taxes

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

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company has no uncertain tax positions for which a liability has been recorded. The Company is no longer subject to examination by federal or state taxing authorities for the tax year 2016 and the years prior.

Note 1. Summary of Significant Accounting Policies (Continued)

Premises and equipment

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

	Years
Buildings	5 - 50
Furniture and equipment	3 - 39

Employee stock ownership plan

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

Stock-based compensation

The Company recognizes compensation cost for all stock-based awards based on the estimated grant date fair value. The fair value of stock options is estimated using a Black-Scholes option pricing model and amortized to expense over the option's vesting periods, as more fully disclosed in Note 11.

Off-balance-sheet financial instruments

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

Comprehensive income (loss)

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

Loss contingencies

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

Fair value measurements

In accordance with the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a framework for measuring fair value and disclosure of fair value measurements. See Note 15 for additional information.

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Cash surrender value of life insurance

The Company has purchased bank-owned life insurance on certain directors and officers. Bank-owned life insurance is recorded at its cash surrender value. Changes in the cash surrender values are included in other income.

Goodwill

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. On December 31, 2014, the Company completed a merger, which resulted in the recognition of goodwill of approximately $650,000.

Goodwill acquired in a purchase business combination is not amortized, but tested for impairment at least annually or more frequently if events or circumstances exist that indicate that a goodwill test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2019, the Company's evaluation of goodwill indicated that goodwill was not impaired.

Core deposit intangible

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

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

Year Ending December 31,	Amount
2020	38,000
2021	38,000
2022	38,000
2023	38,000
Thereafter	17,999
	$ 169,999

Earnings per share

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan ("ESOP") shares and vested Management Recognition Plan ("MRP") shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards. See Note 11 for additional information on the MRP and Recognition and Retention Plan ("RRP") plans.

Note 1. Summary of Significant Accounting Policies (Continued)

	Years ended December 31, 2019	2018
Net income available to common stockholders	$ 1,937,347	$ 1,994,306
Basic potential common shares:		
Weighted average shares outstanding	3,253,484	3,401,565
Weighted average unvested MRP shares	(2,624)	-
Weighted average unallocated ESOP shares	(150,283)	(168,768)
Basic weighted average shares outstanding	3,100,577	3,232,797
Dilutive potential common shares:		
Weighted average unrecognized compensation on MRP shares	47	12
Weighted average RRP options outstanding	5,488	8,313
Dilutive weighted average shares outstanding	3,106,112	3,241,121
Basic earnings per share	$ 0.62	$ 0.62
Diluted earnings per share	$ 0.62	$ 0.62

Segment reporting

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

Recent accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and will also require additional disclosures. The new authoritative guidance was originally effective for reporting periods after December 15, 2016. In August 2015, *ASU 2015-14*, Revenue from Contracts with Customers (Topic 606) was issued to delay the effective date of ASU 2014-09 by one year. The FASB issued four subsequent ASUs in 2016 which are intended to improve and clarify the implementation guidance related to ASU 2014-09. The Company's revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The Company has completed its overall assessment of non-interest income and review of related contracts potentially affected by the guidance. The Company adopted the guidance on January 1, 2018 and a cumulative effect adjustment to retained earnings was not necessary.

The standard allowed the use of either the full retrospective or modified retrospective transition method. We elected to apply the modified retrospective transition method to incomplete contracts as of the initial date of application on January 1, 2018. The adoption of the new standards did not have a material impact on our financial condition or results of operations as the revenue recognition patterns under the new standards did not change significantly from our current practice of recognizing the in-scope non-interest income. In addition, we did not retroactively revise prior period amounts or record a cumulative adjustment to retained earnings upon adoption. We considered the nature, amount, timing, and uncertainty of revenue from contracts with customers and determined that significant revenue streams are sufficiently disaggregated in the consolidated statements of income.

Note 1. Summary of Significant Accounting Policies (Continued)

Descriptions of our significant revenue-generating transactions that are within the scope of the new revenue recognition standards, which are presented in the consolidated statements of income as components of non-interest income, are as follows:

- **Service charges on deposit accounts.** The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Similarly, overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation. Service charges on deposit accounts are withdrawn from the customer's account balance.

- **Gains/losses on sale of foreclosed real estate and repossessed assets.** The Company records a gain or loss from the sale of foreclosed real estate and repossessed assets when control of the property transfers to the buyer, which generally occurs at the time of the executed deed. When the Company finances the sale of foreclosed real estate and repossessed assets to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate and repossessed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant component is present.

- **Other.** Other noninterest income consists of other recurring revenue streams such as transaction fees, safe deposit rental income, and insurance commissions. Transaction fees primarily include check printing sales commissions, collection fees, and wire transfer fees which arise from in-branch transactions. Insurance commissions are agent commissions earned by the Company and earned upon the effective date of the bound coverage. Merchant referral income is associated with a program whereby the Company receives a share of processing revenue that is generated from clients that were referred by the Company to the service provider. Revenue is recognized at the point in time when the transaction occurs.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 was effective for the Company on January 1, 2018. The adoption of the new financial instruments standard did not have a material impact on the consolidated financial statements. There was no cumulative effect adjustment recorded with the adoption of this guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new guidance in this ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee`s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company adopted the guidance on January 1, 2019 and the standard did not have a material impact on its consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. On October 16, 2019, the FASB unanimously approved to delay the required implementation date for this guidance until fiscal years beginning after December 12, 2022 for certain entities. The delay would apply to small reporting companies (as defined by the SEC), such as the Company, non-SEC public companies and private companies. The Company is currently evaluating the provisions of ASU 2016-13, to determine the potential impact of the new accounting guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This ASU simplifies measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20),* Premium Amortization on Purchased Callable Debt Securities, which shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. Currently, generally accepted accounting principles ("GAAP") excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. ASU 2017-08 requires that premiums on certain callable debt securities be amortized to the shortest call date. Securities within the scope of this ASU are those that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. This ASU was effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The impact of adopting this ASU did not have an effect as our current bond accounting is consistent with the requirements of this guidance.

Subsequent events

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain. The economic uncertainties that have arisen will likely have a negative impact on net interest income. Other financial impacts could occur though such potential impact is unknown at this time.

Note 2. Restrictions on Cash and Amounts Due from Banks

At December 31, 2019 and December 31, 2018, the Bank was not required to maintain a minimum average balance on hand with the Federal Reserve Bank.

Note 3. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019:				
Available for Sale				
State and municipal securities	$ 13,126,074	$ 339,243	$ -	$ 13,465,317
Residential mortgage-backed securities	10,935,731	144,845	30,136	$ 11,050,442
	$ 24,061,805	$ 484,088	$ 30,136	$ 24,515,759
December 31, 2018:				
Available for Sale				
State and municipal securities	$ 13,092,077	$ 116,127	$ 21,416	$ 13,186,788
Residential mortgage-backed securities	12,485,167	59,282	197,470	12,346,979
	$ 25,577,244	$ 175,409	$ 218,886	$ 25,533,767

At December 31, 2019 and December 31, 2018, there were no pledged securities.

The amortized cost and fair value at December 31, 2019, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in three months or less	$ 372,480	$ 373,288
Due after three months through one year	1,383,663	1,397,096
Due after one year through five years	4,340,262	4,446,310
Due after five years through ten years	3,847,841	3,967,774
Due after ten years	3,181,828	3,280,849
Residential mortgage-backed securities	10,935,731	11,050,442
	$ 24,061,805	$ 24,515,759

There were no proceeds from the sale of securities for the years ended December 31, 2019 and December 31, 2018 respectively.

Note 3. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2019 and 2018 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Securities Available for Sale						
Residential mortgage-backed securities	$ 1,912,778	$ 6,049	$ 2,943,044	$ 24,087	$ 4,855,822	$ 30,136
	$ 1,912,778	$ 6,049	$ 2,943,044	$ 24,087	$ 4,855,822	$ 30,136
December 31, 2018						
Securities Available for Sale						
State and municipal securities	$ 1,831,305	$ 9,610	$ 1,345,990	$ 11,806	$ 3,177,295	$ 21,416
Residential mortgage-backed securities	2,865,546	25,266	6,034,053	172,204	8,899,599	197,470
	$ 4,696,851	$ 34,876	$ 7,380,043	$ 184,010	$ 12,076,894	$ 218,886

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

At December 31, 2019, 15 securities had unrealized losses with aggregate depreciation of 0.62% from their 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 did not consider these investments to be other than temporarily impaired at December 31, 2019.

Note 4. Loans and Allowance for Loan Losses

Loans

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

	December 31, 2019	December 31, 2018
Mortgage loans:		
One-to-four family	$ 155,143,081	$ 141,779,340
Multi-family	5,861,428	6,776,424
Total mortgage loans	161,004,509	148,555,764
Other loans:		
Non-residential	30,679,614	35,286,236
Commercial loans	23,915,335	17,241,698
Consumer direct	20,562,789	15,390,263
Purchased auto	14,551,199	22,080,196
Total other loans	89,708,937	89,998,393
Gross loans	250,713,446	238,554,157
Less: Allowance for loan losses	(2,937,632)	(2,627,738)
Loans, net	$ 247,775,814	$ 235,926,419

Loans acquired in the merger with deteriorated credit quality and accounted for under FASB ASC Topic 310-30 as of the acquisition date, which was December 31, 2014, had a contractual balance due of approximately $3,194,000 and an estimated fair value of approximately $1,324,000. The estimate of the contractual cash flows not expected to be collected due to credit quality was approximately $1,870,000 which consists of an accretable discount of $(362,000) and non-accretable discount of $(1,508,000).

The following table reflects activity for the loans acquired with deteriorated credit quality for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 93,427	$ 144,528
Payment activity	(28,389)	(60,413)
Advance on lines of credit	100,000	-
Accretion into interest income	280	9,312
	$ 164,758	$ 93,427

The contractual amount outstanding for the loans acquired with deteriorated credit quality totaled $448,000 and $432,000 as of December 31, 2019, and December 31, 2018, respectively.

Note 4. Loans and Allowance for Loan Losses (Continued)

The following table reflects activity in the accretable yield for the loans acquired with deteriorated credit quality for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, beginning of year	$ 280	$ 9,592
Accretion into interest income	(280)	(9,312)
	$ -	$ 280

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

	Years Ended December 31,	
	2019	2018
Purchased auto loans	$ -	$ 10,012,800

Note 4. Loans and Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment as of or for the years ended December 31, 2019 and 2018:

December 31, 2019	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$1,761,736	$ 26,562	$ 343,663	$ 135,165	$ 82,947	$ 277,665	$2,627,738
Provision charged to income	505,357	(34,149)	(136,253)	63,400	152,566	44,079	595,000
Loans charged off	(284,980)	-	-	-	(47,898)	(161,332)	(494,210)
Recoveries of loans previously charged off	138,969	31,920	-	-	4,206	34,009	209,104
Balance at end of period	$2,121,082	$ 24,333	$ 207,410	$ 198,565	$ 191,821	$ 194,421	$2,937,632
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 90,359	$ -	$ -	$ -	$ -	$ 9,595	$ 99,954
Loans acquired with deteriorated credit quality	100,172	-	-	-	-	-	100,172
Loans collectively evaluated for impairment	1,930,551	24,333	207,410	198,565	191,821	184,826	2,737,506
Balance at end of period	$2,121,082	$ 24,333	$ 207,410	$ 198,565	$ 191,821	$ 194,421	$2,937,632

December 31, 2018	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$1,477,419	$ 21,970	$ 371,093	$ 153,596	$ 140,269	$ 308,099	$2,472,446
Provision charged to income	546,217	(11,295)	(27,430)	(18,431)	(72,930)	111,369	527,500
Loans charged off	(312,175)	-	-	-	-	(166,021)	(478,196)
Recoveries of loans previously charged off	50,275	15,887	-	-	15,608	24,218	105,988
Balance at end of period	$1,761,736	$ 26,562	$ 343,663	$ 135,165	$ 82,947	$ 277,665	$2,627,738
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 160,822	$ -	$ 38,674	$ -	$ -	$ -	$ 199,496
Loans acquired with deteriorated credit quality	17,817	-	-	-	-	-	17,817
Loans collectively evaluated for impairment	1,583,097	26,562	304,989	135,165	82,947	277,665	2,410,425
Balance at end of period	$1,761,736	$ 26,562	$ 343,663	$ 135,165	$ 82,947	$ 277,665	$2,627,738

Note 4. Loans and Allowance for Loan Losses (Continued)

The following table presents the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018:

December 31, 2019	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	$ 1,724,694	$ -	$ 343,720	$ -	$ -	$ 19,190	$ 2,087,604
Loans acquired with deteriorated credit quality	164,758	-	-	-	-	-	164,758
Loans collectively evaluated for impairment	153,253,629	5,861,428	30,335,894	23,915,335	20,562,789	14,532,009	248,461,084
Ending Balance	$155,143,081	$5,861,428	$30,679,614	$23,915,335	$20,562,789	$14,551,199	$250,713,446

December 31, 2018	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Loans individually evaluated for impairment	$ 955,317	$ -	$ 455,196	$ -	$ -	$ -	$ 1,410,513
Loans acquired with deteriorated credit quality	93,427	-	-	-	-	-	93,427
Loans collectively evaluated for impairment	140,730,596	6,776,424	34,831,040	17,241,698	15,390,263	22,080,196	237,050,217
Ending Balance	$141,779,340	$6,776,424	$35,286,236	$17,241,698	$15,390,263	$22,080,196	$238,554,157

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

Note 4. Loans and Allowance for Loan Losses (Continued)

The following table presents loans individually evaluated for impairment, including loans acquired with deteriorated credit quality, by class of loans, at December 31, 2019 and 2018:

December 31, 2019	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	$ 1,889,452	$ 1,357,280	$ 532,172	$ 1,889,452	$ 190,531	$ 1,298,425
Multi-family	-	-	-	-	-	-
Non-residential	343,720	343,720	-	343,720	-	377,632
Commercial	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-
Purchased auto	19,190	-	19,190	19,190	9,595	5,736
	$ 2,252,362	$ 1,701,000	$ 551,362	$ 2,252,362	$ 200,126	$ 1,681,793

December 31, 2018	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	$ 1,048,744	$ 427,825		$ 1,048,744	$ 178,639	$ 1,074,284
Multi-family	-	-	-	-	-	-
Non-residential	455,196	141,804	313,392	455,196	38,674	366,226
Commercial	-	-	-	-	-	1,282
Consumer direct	-	-	-	-	-	-
Purchased auto	-	-	-	-	-	5,708
	$ 1,503,940	$ 569,629	$ 934,311	$ 1,503,940	$ 217,313	$ 1,447,500

The Company recognized no cash basis interest income on impaired loans for the years ended December 31, 2019 and 2018.

Our loan portfolio also includes certain loans that have been modified in a troubled debt restructuring (“TDR”), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower’s sustained repayment performance for a reasonable period of at least six months.

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

Impaired loans at December 31, 2019 included one loan of approximately $60,000 whose term had been modified in a troubled debt restructuring, compared to one loan of $70,000 at December 31, 2018. The amount of TDR loans included in impaired loans decreased approximately $10,000 as a result of payments. The remaining restructured loans are being monitored by management and remain on nonaccrual status as they have not, per accounting guidelines, performed in accordance with their restructured terms for the requisite period of time (generally at least six consecutive months) to be returned to accrual status.

Note 4. Loans and Allowance for Loan Losses (Continued)

There were no loan modifications during the year ended December 31, 2019 and 2018 that were classified as troubled debt restructurings.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual status, by class of loans, as of December 31, 2019 and 2018:

December 31, 2019	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One-to-four family	$ 1,889,452	$ -
Multi-family	-	-
Non-residential	343,720	-
Commercial	-	-
Consumer direct	-	-
Purchased auto	19,190	-
	$ 2,252,362	$ -

December 31, 2018	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One-to-four family	$ 1,048,744	$ -
Multi-family	-	-
Non-residential	455,196	-
Commercial	-	-
Consumer direct	-	-
Purchased auto	-	-
	$ 1,503,940	$ -

The following table presents the aging of the recorded investment in loans, by class of loans, as of December 31, 2019 and 2018:

December 31, 2019	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	$ 2,635,464	$ 607,023	$ 986,029	$ 4,228,516	$150,914,565	$155,143,081
Multi-family	104,716	-	-	104,716	5,756,712	5,861,428
Non-residential	272,138	64,116	-	336,254	30,343,360	30,679,614
Commercial	368,448	52,629	-	421,077	23,494,258	23,915,335
Consumer direct	29,243	-	-	29,243	20,533,546	20,562,789
Purchased auto	64,489	21,673	19,190	105,352	14,445,847	14,551,199
	$ 3,474,498	$ 745,441	$ 1,005,219	$ 5,225,158	$245,488,288	$250,713,446

Note 4. Loans and Allowance for Loan Losses (Continued)

December 31, 2018	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	$ 1,293,142	$ 549,331	$ 788,127	$ 2,630,600	$139,148,740	$141,779,340
Multi-family	-	-	-	-	6,776,424	6,776,424
Non-residential	1,413,392	129,464	127,464	1,670,320	33,615,916	35,286,236
Commercial	3,989	-	-	3,989	17,237,709	17,241,698
Consumer direct	9,044	-	-	9,044	15,381,219	15,390,263
Purchased auto	31,671	16,069	-	47,740	22,032,456	22,080,196
	$ 2,751,238	$ 694,864	$ 915,591	$ 4,361,693	$234,192,464	$238,554,157

Credit Quality Indicators:

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

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

The Company uses the following definitions for risk ratings:

- Pass – loans classified as pass are of a higher quality and do not fit any of the other "rated" categories below (e.g. special mention, substandard or doubtful). The likelihood of loss is considered remote.
- Special Mention – loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- 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 Company 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 category are not evaluated on an individual basis.

Note 4. Loans and Allowance for Loan Losses (Continued)

As of December 31, 2019 and 2018, the risk category of loans by class is as follows:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Not rated	Total Loans
One-to-four family	$ 29,089,454	$ 40,429	$ 1,889,452	$ -	$124,123,746	$155,143,081
Multi-family	-	-	-	-	5,861,428	5,861,428
Non-residential	30,335,894	-	343,720	-	-	30,679,614
Commercial	23,915,335	-	-	-	-	23,915,335
Consumer direct	-	-	-	-	20,562,789	20,562,789
Purchased auto	-	-	19,190	-	14,532,009	14,551,199
Total	$ 83,340,683	$ 40,429	$ 2,252,362	$ -	$165,079,972	$250,713,446

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Not rated	Total Loans
One-to-four family	$ 29,653,633	$ 335,758	$ 1,048,744	$ -	$110,741,205	$141,779,340
Multi-family	-	-	-	-	6,776,424	6,776,424
Non-residential	34,831,040	-	455,196	-	-	35,286,236
Commercial	17,241,698	-	-	-	-	17,241,698
Consumer direct	-	-	-	-	15,390,263	15,390,263
Purchased auto	-	-	-	-	22,080,196	22,080,196
Total	$ 81,726,371	$ 335,758	$ 1,503,940	$ -	$154,988,088	$238,554,157

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and companies in which these parties have a 10% or more beneficial ownership. In the opinion of management, these loans are made with substantially the same terms, including interest rate and collateral, as those prevailing for comparable transactions with other customers and do not involve more than the normal risk of collectability. Loans to directors, principal officers, and their immediate families at December 31, 2019 and 2018 were $33,292 and $22,000 respectively.

Note 5. Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $83,307,285 and $73,390,811 at December 31, 2019 and 2018, respectively. The carrying value of mortgage servicing rights associated with loans serviced for others included in other assets on the consolidated balance sheets, as of December 31, 2019 and 2018, was $534,646 and $446,751, respectively.

Note 6. Accrued Interest Receivable

Accrued interest receivable at December 31, 2019 and 2018, are summarized as follows:

	2019	2018
State and municipal securities	$ 111,607	$ 114,424
Residential mortgage-backed securities	32,907	38,805
Loans	730,590	671,313
	$ 875,104	$ 824,542

Note 7. Premises and Equipment

Premises and equipment at December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Cost:		
Land	$ 2,190,649	$ 2,190,649
Buildings	7,561,302	7,427,612
Furniture and equipment	1,499,063	1,519,998
	11,251,014	11,138,259
Less: Accumulated depreciation	4,733,092	4,517,179
	$ 6,517,922	$ 6,621,080

Note 8. Deposits

Deposits at December 31, 2019 and 2018, are summarized as follows:

	2019		2018	
	Amount	Percent	Amount	Percent
Non-interest bearing checking	$ 13,664,986	5.78%	$ 14,057,719	6.29%
Interest bearing checking	62,473,596	26.44%	54,292,074	24.30%
Money market	22,452,316	9.50%	25,032,543	11.20%
Savings	25,008,034	10.58%	25,719,932	11.51%
Certificates of deposit	112,714,572	47.70%	104,346,261	46.70%
Interest bearing	222,648,518	94.22%	209,390,810	93.71%
Total	$236,313,504	100.00%	$223,448,529	100.00%

Interest expense on deposits is summarized as follows:

	Years Ended December 31,	
	2019	2018
Money market	$ 60,802	$ 75,107
Savings	18,742	18,854
Certificates of deposit	2,252,016	1,483,780
Interest bearing checking	491,115	184,372
	$ 2,822,675	$ 1,762,113

Deposits from directors, principal officers, and their immediate families at December 31, 2019 and 2018 were $2,990,865 and $2,458,030 respectively.

The aggregate amount of public deposits at December 31, 2019 and 2018 was $36,835,122 and $24,778,080, respectively.

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was approximately $63.9 million and $56.3 million at December 31, 2019 and 2018, respectively. Of these certificates of deposit, there was approximately $17.1 million and $17.0 million at December 31, 2019 and 2018, respectively with minimum denominations of $250,000.

Note 8. Deposits (Continued)

At December 31, 2019, scheduled maturities of certificates of deposit are as follows:

2020	$ 56,769,146
2021	29,877,614
2022	13,255,921
2023	5,171,822
2024	7,640,069
	$ 112,714,572

The Company held brokered deposits of approximately $20.8 million and $21.1 million, respectively at December 31, 2019 and 2018. The broker receives a fee from the Company for the brokered deposits. Total fee expenses of $1,950 were recognized for the years ended December 31, 2019 and 2018, respectively.

Note 9. Borrowings

Our borrowings consist of open line and term advances from the Federal Home Loan Bank of Chicago ("FHLBC") and Federal Funds purchased from Bankers Bank of Wisconsin. As a member, we are required to own capital stock in the FHLBC and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. At December 31, 2019, we had the ability to borrow $65.8 million from the FHLBC. In addition, as of December 31, 2019, the Bank had $7.9 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds and $5.0 million of available credit from Midwest Independent Bank to purchase federal funds. There were Federal Home Loan Bank advances outstanding of approximately $9.1 million and $12.1 million, respectively at December 31, 2019 and 2018. There were no Federal Funds purchased outstanding at December 31, 2019 or 2018.

A summary of outstanding advances is as follows:

	December 31,	
	2019	2018
Matured 03/15/2019 at 2.42%, fixed	$ -	$ 1,500,000
Matured 04/01/2019 at 2.00%, fixed	-	499,272
Matured 08/30/2019 at 1.56%, fixed	-	3,000,000
Matured 12/16/2019 at 2.08%, fixed	-	2,000,000
Matures 03/22/2021 at 3.03%, fixed	1,000,000	1,000,000
Matures 09/21/2021 at 3.07%, fixed	1,000,000	1,000,000
Matures 03/21/2022 at 3.09%, fixed	1,000,000	1,000,000
Matures 09/21/2022 at 3.11%, fixed	1,000,000	1,000,000
Matures 10/03/2022 at 1.48%, fixed	68,030	87,880
Matures 03/21/2023 at 3.15%, fixed	500,000	500,000
Matures 09/21/2023 at 3.18%, fixed	500,000	500,000
Matures 08/28/2024 at 1.59%, fixed	1,500,000	-
Matures 08/28/2029 at 1.93%, fixed	1,500,000	-
Matures 10/23/2029 at 1.96%, fixed	1,000,000	-
	$ 9,068,030	$ 12,087,152

Note 10. Employment Benefit and Retirement Plans

Employee stock ownership plan

On May 6, 2005, the Company adopted an employee stock ownership plan (ESOP) for the benefit of substantially all employees. On July 8, 2005, 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. On October 11, 2016, the ESOP borrowed $1,907,160 from the Company and used those funds to acquire 190,716 shares of the Company's stock in its conversion to a fully-public stock holding company 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 $239,000 are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share (EPS) computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unallocated ESOP shares reduce accrued interest. During 2019, 18,780 shares, with an average fair value of $13.38 per share were committed to be released, resulting in ESOP compensation expense of $251,361 as compared to 18,779 shares, with an average fair value of $13.76 per share were committed to be released, resulting in ESOP compensation expense of $258,357 for 2018.

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.

	December 31,	
	2019	2018
Shares allocated	141,831	123,051
Shares withdrawn from the plan	(28,365)	(28,278)
Unallocated shares	139,860	158,639
Total ESOP shares	253,326	253,412
Fair value of unallocated shares	$ 1,934,264	$ 2,114,657

Supplemental executive retirement plan (SERP)

On September 19, 2007, the Bank entered into salary continuation agreements with certain of its executive officers to provide additional benefits upon retirement. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.5 percent ratably over the remaining years to the date when each executive is first eligible for benefits. The recorded SERP liability included in other liabilities on the consolidated balance sheets was $590,953 and $541,392 as of ended December 31, 2019 and 2018, respectively. The SERP compensation charged to expense totaled $75,252 and ($3,367) for the years ended December 31, 2019 and 2018, respectively.

Note 10. Employment Benefit and Retirement Plans (Continued)

401(k) plan

The Bank maintains a voluntary 401(k) plan for substantially all employees. Employees may contribute a percentage of their compensation to the plan subject to certain limits based on federal tax laws. The Bank makes matching contributions to the 401(k) plan of 50 percent of the first 6 percent of an employee's compensation contributed to the plan. The Bank also makes Safe Harbor contributions, in addition to any matching contributions, equal to 3 percent of an eligible employee's compensation to the 401(k) plan each pay period. Employer contributions vest to the employee ratably over a six-year period. Employer contribution expense was $189,624 and $162,090 for the years ended December 31, 2019 and 2018, respectively.

Deferred compensation

The Bank has deferred compensation agreements with certain directors. Contributions to the plan for the years ended December 31, 2019 and 2018 were $75,884 and $73,409, respectively. The deferred compensation liability included on the balance sheet in other liabilities was $1,780,544 and $1,538,862 at December 31, 2019 and 2018, respectively. Additionally, in November 2018, the Board approved a cash payment to the Nonqualified Deferred Compensation plan of $33,000 on behalf of the President.

Director retirement plan

The Bank has, as a result of the Twin Oaks merger, a director retirement plan for six of the former members of the Twin Oak's Board of Directors. The plan provides monthly retirement benefits equal to one-twelfth of the annual Board fees. Payments are based on years of service on the Twin Oaks Board of Directors prior to the merger, with ten years of payments guaranteed. Three of the former members are retired and collecting benefit payments. Two former members became part of the Bank's board as of the merger date and will not commence their benefit until they retire. As of the merger date, the Plan was frozen as to benefit accruals and years of service. The compensation liability included on the balance sheet in other liabilities was $305,400 and $285,053 as of December 31, 2019 and 2018, respectively. This is an unfunded plan.

Director retirement plan valuation

	December 31,	
	2019	2018
Number of participants:		
Retirees	3	3
Active directors - not yet eligible	2	2
Total	5	5

Obligations and funded status:

	Years ended December 31,	
	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 285,053	$ 311,283
Service cost	-	-
Interest cost	12,000	12,000
Actuarial gain/(loss)	30,847	(14,345)
Benefits paid	(22,500)	(23,885)
Assumed liability	-	-
Benefit obligation at end of year	$ 305,400	$ 285,053

Note 10. Employment Benefit and Retirement Plans (Continued)

Change in plan assets				
Employer contributions	$	22,500	$	23,885
Benefits paid		(22,500)		(23,885)
Fair value of plan assets at year end		-		-
Funded status		(285,053)		(270,708)
Actuarial loss		(20,347)		(14,345)
Net amount recognized	$	(305,400)	$	(285,053)

Amounts recognized in the statement of financial position consist of:

	December 31,			
	2019		2018	
Accumulated post-retirement benefit obligation:				
Active participants	$	(128,469)	$	(106,093)
Retired participants including beneficiaries		(176,931)		(164,615)
Total		(305,400)		(270,708)
Plan assets at fair value		-		-
Funded status		(285,053)		(270,708)
Actuarial gain		(20,347)		(14,345)
(Accrued) cost included in other liabilities	$	(305,400)	$	(285,053)

Components of Net Periodic Benefit Cost:

	Years ended December 31,			
	2019		2018	
Service cost	$	-	$	-
Interest cost		12,000		12,000
Amortization net gain		(20,347)		(14,345)
Net benefit	$	(8,347)	$	(2,345)

Post-retirement health benefit plan

The Bank has a contributory post-retirement health benefit plan for officers that meet eligibility requirements outlined in the employee handbook. The accounting for the health care plan anticipates future cost-sharing changes that are consistent with the Bank's expressed intent to increase retiree contributions. In March 2019, the Board approved the termination of this plan as of December 31, 2019.

Note 10. Employment Benefit and Retirement Plans (Continued)

Post-retirement health benefits valuation

	December 31, 2019	December 31, 2018
Number of participants:		
Retirees	3	3
Active employees - fully eligible	-	-
Active employees - not yet eligible	2	2
Termination of Plan	(5)	-
Total	-	5

Obligations and funded status:

	Years ended December 31, 2019	Years ended December 31, 2018
Change in benefit obligation		
Benefit obligation at beginning of year	$ 303,220	$ 293,449
Service cost	-	16,589
Interest cost	-	11,560
Actuarial (gain)	-	(14,989)
Plan amendments	-	-
Benefits paid	-	(7,533)
Retiree contributions	-	4,144
Termination of plan	(303,200)	-
Benefit obligation at end of year	-	303,220
Change in plan assets		
Employer contributions	3,203	3,389
Retiree contributions	3,767	4,299
Benefits paid	(6,970)	(7,533)
Fair value of plan assets at year end	-	-
Funded status	(298,921)	(303,220)
Actuarial (gain) loss	(4,299)	4,299
Termination of Plan	303,200	-
Net amount recognized	$ -	$ (298,921)

Note 10. Employment Benefit and Retirement Plans (Continued)

Amounts recognized in the statement of financial position consist of:

	December 31,	
	2019	2018
Accumulated post-retirement benefit obligation:		
Retirees	$ -	$ (59,636)
Active employees - fully eligible	-	-
Active employees - not yet eligible	-	(239,285)
Total	-	(298,921)
Plan assets at fair value	-	-
Funded status	-	(303,220)
Actuarial (gain)	-	4,299
(Accrued) cost included in other liabilities	$ -	$ (298,921)

Components of Net Periodic Benefit Cost:

	Years ended December 31,	
	2019	2018
Service cost	$ -	$ 16,589
Interest cost	-	11,560
Amortization net gain	-	(40,096)
Net cost (benefit)	$ -	$ (11,947)

Note 11. Stock Compensation

Management recognition plan

A Management Recognition and Retention Plan ("MRP") provides for the issuance of shares to directors and officers. Pursuant to the Ottawa Savings Bancorp, Inc. 2018 Equity Incentive Plan, 333,753 shares were authorized by the Company in May, 2018. Additionally, 30,000 of incentive stock options were also authorized. Granted shares vest in equal installments over a five-year period, with ownership of the share transferring to the recipient upon vesting. During 2019, there were 2,520 shares granted all of which vested immediately. There were 5,250 shares granted in 2018. Of these, 2,190 vested immediately. As of December 31, 2019, there were 2,445 shares not yet vested. At December 31, 2018, there were 3,060 shares not yet vested.

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

Year ended December 31, 2019	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	$ 3,060	$ 13.19
Granted	2,520	13.75
Vested and transferred to recipients	(3,135)	13.63
Outstanding and non-vested at end of year	2,445	13.19

Note 11. Stock Compensation (Continued)

Year ended December 31, 2018	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	-	$ -
Granted	5,250	13.19
Vested and transferred to recipients	(2,190)	13.19
Outstanding and non-vested at end of year	3,060	$ 13.19

At December 31, 2019 there were 3,135 shares vested and 2,445 shares not vested. Therefore, there was $30,944 of future compensation cost related to non-vested shares not yet recognized at December 31, 2019. The Company recognized compensation expense of $44,067 for the year ended December 31, 2019. For December 31, 2018, there were 2,190 shares vested and 3,060 shares not vested. Therefore, there was $40,361 of future compensation cost related to non-vested shares not yet recognized at December, 2018. The Company recognized compensation expense of approximately $29,000 for the year ended December 31, 2018.

Stock option plan

A Recognition and Retention Plan ("RRP") provides for the issuance of stock options to directors, officers and employees. Pursuant to the Ottawa Savings Bancorp, Inc. 2006 Equity Incentive Plan, on November 21, 2006, the Company granted stock options to purchase 92,666 shares of the Company's common stock, at an exercise price of $12.35 per share. Under the same plan, the Company granted stock options to purchase 5,451 shares of the Company's common stock, at an exercise price of $9.90 per share on December 21, 2008, 8,722 shares of the Company's common stock, at an exercise price of $6.00 per share

on November 17, 2010, and 13,083 shares of the Company's common stock, at an exercise price of $4.25 per share on November 16, 2011. The options become exercisable in equal installments over a five-year period from the grant date. The options expire ten years from the grant date.

The fair value of the stock options granted has been estimated using a Black-Scholes option pricing model. This option pricing model requires management to make subjective assumptions, such as expected stock price volatility, dividend rates, and expected time to exercise. There were no options granted during 2019 and 2018.

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

Year ended December 31, 2019	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of year	10,000	$ 3.57	2.88	$ 97,600
Forfeited	-	-	-	-
Granted	-	-	-	$ -
Exercised	(2,500)	$ 3.57		$ 25,650
Outstanding at end of year	7,500	$ 3.57	1.88	$ 76,950
Exercisable at year end	7,500	$ 3.57	1.88	$ 76,950

Note 11. Stock Compensation (Continued)

Year ended December 31, 2018	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of year	30,491	$ 5.08	2.92	$ 285,522
Forfeited	-	-	-	-
Granted	-	-		$ -
Exercised	(20,491)	$ 5.81		$ 163,905
Outstanding at end of year	10,000	$ 3.57	2.88	$ 97,600
Exercisable at year end	10,000	$ 3.57	2.88	$ 97,600

Note 12. Income Taxes

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

Income tax expense is summarized as follows:

	Years Ended December 31,	
	2019	2018
Federal:		
Current	$ 437,095	$ 363,531
Deferred	26,658	71,504
	463,753	435,035
State:		
Current	275,220	270,109
Deferred	(13,470)	(25,928)
	261,750	244 181
	$ 725,503	$ 679,216

	Years Ended December 31,	
	2019	2018
Expected income taxes	$ 559,199	$ 561,440
Income tax effect of:		
State taxes, net of federal tax benefit	206,783	192,903
Tax exempt interest	(79,712)	(77,569)
Other	39,233	2,442
	$ 725,503	$ 679,216

Note 12. Income Taxes (Continued)

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

	December 31, 2019	December 31, 2018
Deferred tax assets		
Unrealized loss on securities available for sale	$ -	$ 12,393
Employee benefit plans	814,181	842,860
Allowance for loan losses	837,225	748,905
Net operating loss carryforwards	89,940	135,576
Loans	71,588	76,599
Purchase accounting - acquisition expenses	75,064	82,570
Other	89,910	108,505
	1,977,908	2,007,408
Deferred tax liabilities		
Unrealized gain on securities available for sale	(129,399)	-
Prepaid expenses	(30,808)	(27,229)
MRP compensation	(12,561)	-
Origination of mortgage servicing rights	(13,522)	(17,048)
Core deposit intangible	(48,457)	(64,990)
	(234,747)	(109,267)
Net deferred tax asset	$ 1,743 161	$ 1,898,141

Stockholders' equity at December 31, 2019 and 2018 includes approximately $2.3 million for which no federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses or adjustments arising from carry-back of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $646,000 at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Company had federal net operating loss carry forwards of approximately $0.4 million and $0.6 million, respectively. Per Internal Revenue Code Section 382 limitations, our use of the acquired federal net operating loss carry forward of approximately $0.4 million at December 31, 2019 is limited to approximately $0.2 million per year until fully realized. The federal net operating loss carry forwards will begin to expire in 2034.

Management believes that it is more likely than not that the deferred tax assets included in the accompanying consolidated balance sheets will be fully utilized. We have determined that no valuation allowance is required as of December 31, 2019, although there is no guarantee that those assets will be fully recognizable in future periods.

Note 13. Regulatory Matters

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

Note 13. Regulatory Matters (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the tables below). In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national banks and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening the international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, and a higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio is 4.00%. Management believes as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject.

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

The new minimum capital requirements were effective for the Company on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time. Beginning on January 1, 2016, the Bank must begin holding 0.625% of risk-weighted assets and would increase by that amount annually, until fully implemented in January 2019, as a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments. As a savings and loan holding company with less than $3.0 billion in assets, the Company is not subject to separate capital requirements.

As of December 31, 2019, the most recent examination conducted by the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common equity Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events that management believes have occurred that would change the Bank's capitalization classification.

The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018, are presented below:

	Actual		For Capital Adequacy Purposes:		Minimum Capital Adequacy With Capital Buffer:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019:			(Dollars in thousands)					
Total Risk-Based Capital (to risk-weighted assets)	$48,411	22.210%	$17,438	8.000%	$ 21,906	10.500%	$ 21,797	10.000%
Tier I Capital (to risk-weighted assets)	$45,684	20.959%	$13,078	6.000%	$ 18,527	8.500%	$ 17,438	8.000%
Common Equity Tier I (to risk-weighted assets)	$45,684	20.959%	$ 9,809	4.500%	$ 15,258	7.000%	$ 14,168	6.500%
Tier I Leverage (to adjusted total assets)	$45,684	14.997%	$12,185	4.000%	$ 12,185	4.000%	$ 15,231	5.000%
December 31, 2018:								
Total Risk-Based Capital (to risk-weighted assets)	$45,968	21.081%	$17,445	8.000%	$ 21,533	9.875%	$ 21,806	10.000%
Tier I Capital (to risk-weighted assets)	$43,340	19.875%	$13,083	6.000%	$ 17,172	7.875%	$ 17,445	8.000%
Common Equity Tier I (to risk-weighted assets)	$43,340	19.875%	$ 9,813	4.500%	$ 13,901	6.375%	$ 14,174	6.500%
Tier I Leverage (to adjusted total assets)	$43,340	15.158%	$11,437	4.000%	$ 11,437	4.000%	$ 14,296	5.000%

Note 14. Commitments and Contingencies

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

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

At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Variable rate	Fixed rate	Total	Range of rates on fixed rate commitments
As of December 31, 2019:				
Commitments to originate loans	$ 6,186,780	$ 753,600	$ 6,940,380	3.75% - 6.375%
Unfunded commitments on construction loans	656,247	4,304,146	4,960,393	3.50% - 5.00%
Unfunded commitments under lines of credit	14,126,052	-	14,126,052	-
	20,969,079	5,057,746	26,026,825	
Standby letters of credit	-	10,000	10,000	
	$ 20,969,079	$ 5,067,746	$ 26,036,825	
As of December 31, 2018:				
Commitments to originate loans	$ 615,000	$ 5,142,737	$ 5,757,737	3.65% - 8.25%
Unfunded commitments on construction loans	5,618,741	1,614,824	7,233,565	2.75% - 5.13%
Unfunded commitments under lines of credit	15,501,253	-	15,501,253	-
	21,734,994	6,757,561	28,492,555	
Standby letters of credit	-	-	-	
	$ 21,734,994	$ 6,757,561	$ 28,492,555	

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

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be fully drawn upon to the total extent of the approximately $14.1 million to which the Bank is committed. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet obligations.

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

Note 15. Fair Values Measurements and Disclosures

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

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.

<u>Securities Available for Sale</u>

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

<u>Foreclosed Assets</u>

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.

<u>Impaired Loans</u>

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.

Note 15. Fair Values Measurements (continued)

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

The tables below present the recorded amount of assets measured at fair value on a recurring basis at December 31, 2019 and 2018.

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities available for sale	$ -	$13,465,317	$ -	$ 13,465,317
Residential mortgage-backed securities available for sale	-	11,050,442	-	11,050,442
	$ -	$24,515,759	$ -	$ 24,515,759

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities available for sale	$ -	$13,186,788	$ -	$ 13,186,788
Residential mortgage-backed securities available for sale	-	12,346,979	-	12,346,979
	$ -	$25,533,767	$ -	$ 25,533,767

The tables below present the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at December 31, 2019 and December 31, 2018.

December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Foreclosed assets	$ -	$ -	$ 12,926	$ 12,926
Impaired loans, net	-	-	351,236	351,236

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Foreclosed real estate	$ -	$ -	$ 78,926	$ 78,926
Impaired loans, net	-	-	841,522	841,522

Note 15. Fair Values Measurements (continued)

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands):

	Quantitative Information about Level 3 Fair Value Measurements					
	Fair Value Estimate		**Valuation Techniques**	**Unobservable Input**	**Range**		
December 31, 2019							
Foreclosed assets	$	12,926	Appraisal of collateral	Appraisal adjustments	(50)%	to	(76)%
Impaired loans, net	$	287,815	Appraisal of collateral	Appraisal adjustments		(46.67)%	
Impaired loans, net	$	63,421	Discounted Future Cash Flows	Payment Stream		N/A	
				Discount Rate		10%	
December 31, 2018							
Foreclosed assets	$	78,926	Appraisal of collateral	Appraisal adjustments	(36)%	to	(49)%
Impaired loans, net	$	662,799	Appraisal of collateral	Appraisal adjustments	(44)%	to	(69)%
Impaired loans, net	$	54,199	Discounted Future Cash Flows	Payment Stream		N/A	
				Discount Rate		10%	

Note 16. Fair Values of Financial Instruments

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

	Carrying Amount	December 31, 2019 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 6,038,411	$ 6,038,411	$ -	$ -	$ 6,038,411
Time deposits	1,483,500	1,483,500	-	-	1,483,500
Federal funds sold	4,185,000	4,185,000	-	-	4,185,000
Securities	24,515,759	-	24,515,759	-	24,515,759
Net loans	247,775,814	-	-	248,373,122	248,373,122
Loans held for sale	1,225,526	-	1,225,526	-	1,225,526
Accrued interest receivable	875,104	875,104	-	-	875,104
Mortgage servicing rights	534,646	-	-	534,646	534,646
Financial Liabilities:					
Non-interest bearing deposits	13,664,986	13,664,986	-	-	13,664,986
Interest bearing deposits	222,648,518	-	-	226,125,337	226,125,337
Accrued interest payable	8,146	8,146	-	-	8,146
FHLB advances	9,068,030	-	9,158,597	-	9,158,597

Note 16. Fair Values of Financial Instruments (continued)

	Carrying Amount	December 31, 2018 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 8,430,458	$ 8,430,458	$ -	$ -	$ 8,430,458
Time deposits	250,000	250,000	-	-	250,000
Federal funds sold	5,663,000	5,663,000	-	-	5,663,000
Securities	26,302,888	-	26,302,888	-	26,302,888
Net loans	235,926,419	-	-	232,996,807	232,996,807
Accrued interest receivable	824,542	824,542	-	-	824,542
Mortgage servicing rights	446,375	-	-	446,375	446,375
Financial Liabilities:					
Non-interest bearing deposits	14,057,719	14,057,719	-	-	14,057,719
Interest bearing deposits	209,390,810	-	-	209,576,569	209,576,569
Accrued interest payable	5,648	5,648	-	-	5,648
FHLB advances	12,087,152	-	12,136,386	-	12,136,386

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

Note 17. Condensed Parent Only Financial Statements

	December 31, 2019	2018
Balance sheets		
Assets:		
Interest bearing deposits	$ 2,434,794	$ 6,958,943
Equity in net assets of Ottawa Savings Bank	46,828,871	44,187,104
ESOP note receivable	1,451,262	1,630,875
Other assets	(4,052)	47,444
Total assets	$ 50,710,875	$ 52,824,366
Stockholders' Equity	50,710,875	52,824,366
Total liabilities and stockholders' equity	$ 50,710,875	$ 52,824,366

	Years Ended December 31, 2019	2018
Statements of operations		
Equity in net income of subsidiary	$ 1,990,700	$ 2,062,622
Interest income	69,003	68,665
Operating income	2,059,703	2,131,287
Other expenses	143,628	163,798
Income before income tax benefit	1,916,075	1,967,489
Income tax (benefit)	(21,272)	(26,817)
Net income	$ 1,937,347	$ 1,994,306

Note 17. Condensed Parent Only Financial Statements (continued)

Statement of cash flows		
Operating activities:		
Net income	$ 1,937,347	$ 1,994,306
Adjustments to reconcile net income to net cash used in operating activities:		
Increase in other assets	51,496	(33,424)
Undistributed net income of subsidiary	(1,990,700)	(2,062,622)
Net cash used in operating activities	(1,857)	(101,740)
Investing activities:		
Payments received on ESOP notes receivable	179,613	171,717
Net cash provided by investing activities	179,613	171,717
Financing activities:		
Options exercised	8,925	119,066
Shares repurchased and cancelled	(2,852,882)	(1,639,487)
Dividends paid	(1,857,946)	(856,036)
Net cash (used in) financing activities	(4,701,903)	(2,376,457)
Net (decrease) in cash and cash equivalents	(4,524,147)	(2,306,480)
Cash and cash equivalents:		
Beginning of period	6,958,943	9,265,423
End of period	$ 2,434,796	$ 6,958,943
Supplemental Disclosures of Cash Flow Information		
Cash paid for taxes, net of refunds received	$ (33,000)	$ (40,808)

SIGNATURES

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

OTTAWA BANCORP, INC.

Date: March 30, 2020

By: /s/ CRAIG M. HEPNER
Craig M. Hepner
President, Chief Executive Officer and Director

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

Name	Title	Date
/s/ CRAIG M. HEPNER Craig M. Hepner	President, Chief Executive Officer and Director (principal executive officer)	March 30, 2020
/s/ MARC N. KINGRY Marc N. Kingry	Chief Financial Officer (principal accounting and financial officer)	March 30, 2020
/s/ JAMES A. FERRERO James A. Ferrero	Director	March 30, 2020
/s/ KEITH JOHNSON Keith Johnson	Director	March 30, 2020
/s/ ARTHUR C. MUELLER Arthur C. Mueller	Director	March 30, 2020
/s/ JOHN M. ARMSTRONG John M. Armstrong	Director	March 30, 2020

/s/ THOMAS M. ADLER Thomas M. Adler	Director	March 30, 2020
/s/ WILLIAM J. KUIPER William J. Kuiper	Director	March 30, 2020
/s/ JON L. KRANOV Jon L. Kranov	Director	March 30, 2020