

**Osage  
Bancshares, Inc.**



**2011 PROXY STATEMENT  
AND ANNUAL REPORT**

**OSAGE BANCSHARES, INC.**  
**2011 PROXY STATEMENT AND ANNUAL REPORT**

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**bank more**

**Osage Bancshares, Inc.**  
**239 E. Main Street**  
**Pawhuska, OK 74056**

To Our Shareholders and Customers:

We are pleased to announce that Osage Federal had net income of \$1.1 million, or \$0.48 per diluted share for the fiscal year ended June 30, 2011. Our net income was only \$23,000 less than the record earnings we had for the fiscal year ended June 30, 2010.

During the current fiscal year, we sold our entire holdings in the AMF Ultra-Short Mortgage Fund. We recognized a gain of \$615,000, tax expense of \$209,000 and an additional deferred tax asset valuation allowance of \$307,000 related to the sale. In previous fiscal years, we had recognized other-than-temporary impairment charges on our investment in the Fund. During the current and prior fiscal years, we incurred \$437,000 and \$181,000, respectively, of credit impairment charges on two of our held-to-maturity securities. Excluding the after-tax effect of these charges, and the net positive impact of the sale of the Fund, our net income would have been \$1.27 million for the year ended June 30, 2011, and \$1.24 million for the year ended June 30, 2010. Our net interest income during the year was only slightly less than the prior year, and, excluding the credit impairment charges and gain on sale of the fund, our noninterest income was slightly above the prior year, while our noninterest expense was slightly below the prior year. Our loan losses, classified loans and nonaccrual loans are at higher levels than at June 30, 2010, but we don't see any negative trends caused by the economy or other events.

We finished the fiscal year with assets of \$155.1 million, a \$4.7 million decrease from last year. On the lending side, long-term rates stayed at record lows throughout the year. We continued to have high levels of refinancing, both from our own customers and from new customers, and we sold \$11.8 million of loans to Freddie Mac during the year. We saw a slight drop in loan demand in our local area. As a result of these factors, our net loans declined \$8.8 million from the year ended June 30, 2010.

Our deposits declined \$1.2 million, including a \$4.5 million drop in certificates of deposit. All other deposit categories had healthy increases. We have made significant reductions in the rates we pay on deposit accounts, while remaining competitive in the marketplace. At the same time, many customers have opted to "park" their money in transaction accounts, waiting to see what will happen to interest rates in the future.

We continue our history of paying quarterly dividends, including an \$.085 dividend paid August 22, 2011 to shareholders of record August 8, 2011. We have maintained or increased our dividend each quarter for the past eighteen quarters.

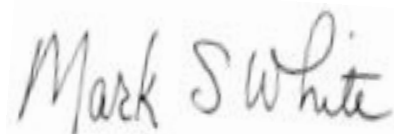
We announced a sixth buyback of our common stock in February 2011. Since the buybacks began in early 2008, we have repurchased 1,101,757 shares, or almost 31%, of our original outstanding shares. We believe these buybacks add value to our franchise, and are in the best interests of our stockholders.

On July 21<sup>st</sup> of this year, the Office of Thrift Supervision, our primary regulator, was abolished. Osage Federal Bank is now regulated by the Office of the Comptroller of the Currency (OCC), and our holding company, Osage Bancshares, Inc., is now regulated by the Board of Governors of the Federal Reserve System (Fed). We don't anticipate any major changes as a result of these regulatory shifts.

National unemployment has remained at high levels throughout 2010 and the first half of 2011. The economic outlook in northeastern Oklahoma continues to be more positive than that of the nation, where Washington County and Osage County have unemployment rates of 4.1% and 5.9%, respectively. Our local economy has been shielded for the most part from the economic storms facing other parts of the nation.

Osage Federal has had another great year, and we want to thank you, our shareholders and customers, for contributing to our success.

Sincerely,



Mark S. White  
President & CEO

**bank more**

**OSAGE BANCSHARES, INC.**

**239 East Main Street  
Pawhuska, Oklahoma 74056  
(918) 287-2919**

October 17, 2011

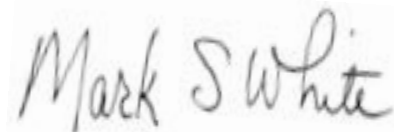
Dear Fellow Stockholder:

You are cordially invited to attend the 2011 Annual Meeting of Stockholders of Osage Bancshares, Inc., the holding company for Osage Federal Bank. The Annual Meeting will be held at the main office of the Bank, 239 East Main Street, Pawhuska, Oklahoma on Wednesday, November 16, 2011 at 1:00 p.m., Central Time.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. During the meeting, we will also report on the operations of the Company. Directors and officers of the Company will be present to respond to any questions stockholders may have.

**WE URGE YOU TO SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING.** Your vote is important, regardless of the number of shares you own. Voting by proxy will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the meeting. On behalf of your Board of Directors, we thank you for your interest and support.

Sincerely,



Mark S. White  
*President and Chief Executive Officer*

# OSAGE BANCSHARES, INC.

239 East Main Street  
Pawhuska, Oklahoma 74056  
(918) 287-2919

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON NOVEMBER 16, 2011

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Stockholders of Osage Bancshares, Inc. will be held at the main office of Osage Federal Bank, 239 East Main Street, Pawhuska, Oklahoma on Wednesday, November 16, 2011 at 1:00 p.m., Central Time, for the following purposes:

1. To elect one director; and
2. To consider any other matters that may properly come before the Annual Meeting.

Any action may be taken on any one of the above proposals at the Annual Meeting on the date specified above or on any date or dates to which, by original or later adjournment, the Annual Meeting may be adjourned. Only stockholders of record at the close of business on October 7, 2011 are entitled to vote at the Annual Meeting and any adjournments thereof.

You are requested to complete and sign the accompanying proxy card which is solicited by the Board of Directors and to mail it promptly in the accompanying envelope. The proxy card will not be used if you attend the Annual Meeting and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS



FRANCES ALTAFFER  
*Secretary*

Pawhuska, Oklahoma  
October 17, 2011

**IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE US THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO INSURE A QUORUM. THE ENCLOSED PROXY CARD IS ACCOMPANIED BY A SELF-ADDRESSED ENVELOPE FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

**PROXY STATEMENT**  
**of**  
**OSAGE BANCSHARES, INC.**  
**239 East Main Street**  
**Pawhuska, Oklahoma 74056**  
**(918) 287-2919**

**ANNUAL MEETING OF STOCKHOLDERS**  
**November 16, 2011**

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**GENERAL**

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This proxy statement is being furnished to stockholders of Osage Bancshares, Inc. by the Company's Board of Directors in connection with its solicitation of proxies for use at the 2011 Annual Meeting of Stockholders to be held at the main office of Osage Federal Bank, 239 East Main Street, Pawhuska, Oklahoma on Wednesday, November 16, 2011 at 1:00 p.m., Central Time.

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**VOTING AND PROXY PROCEDURES**

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**Who Can Vote at the Annual Meeting**

You are only entitled to vote at the Annual Meeting if our records show that you held shares of our common stock, \$.01 par value (the "Common Stock"), as of the close of business on October 7, 2011 (the "Record Date"). If your shares are held by a broker or other intermediary, you can only vote your shares in person at the Annual Meeting if you have a properly executed proxy from the record holder of your shares (or their designee). As of the Record Date, a total of 2,479,260 shares of Common Stock were outstanding. Each share of Common Stock has one vote in each matter presented.

**Voting by Proxy**

The Board of Directors is sending you this Proxy Statement for the purpose of requesting that you allow your shares of Common Stock to be represented at the Annual Meeting by the persons named in the enclosed Proxy Card. All shares of Common Stock represented at the Annual Meeting by properly executed and dated proxies will be voted according to the instructions indicated on the Proxy Card. If you sign, date and return the Proxy Card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. **The Board of Directors recommends a vote "FOR" the nominee for director.**

If any matters not described in this Proxy Statement are properly presented at the Annual Meeting, the persons named in the Proxy Card will vote your shares as determined by a majority of the Board of Directors. If the Annual Meeting is postponed or adjourned, your Common Stock may be voted by the persons named in the Proxy Card on the new Annual Meeting dates as well, unless you have revoked your proxy. The Company does not know of any other matters to be presented at the Annual Meeting.

You may revoke your proxy at any time before the vote is taken at the Annual Meeting. To revoke your proxy you must either advise the Company's Secretary in writing before your Common Stock has been voted at the Annual Meeting, deliver a later-dated proxy, or attend the Annual Meeting and vote your shares in person. Attendance at the Annual Meeting will not in itself revoke your proxy.

If you hold your Common Stock in “street name,” you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this Proxy Statement. If you wish to change your voting instructions after you have returned a voting instruction form to your broker, bank or other nominee, you must contact your broker, bank or other nominee.

### **Participants in the Osage Federal Bank Employee Stock Ownership Plan and Employees’ Savings and Profit Sharing Plan**

If you are a participant in the Osage Federal Bank Employee Stock Ownership Plan (the “ESOP”) or hold Common Stock through the Osage Federal Bank Employees’ Savings and Profit Sharing Plan (the “401(k) Plan”), you will receive a voting instruction form from each plan that reflects all shares you may vote under these plans. Under the terms of the ESOP, all shares held by the ESOP are voted by the ESOP trustees, but each participant in the ESOP may direct the trustees on how to vote the shares of Common Stock allocated to his or her account. Unallocated shares and allocated shares for which no timely voting instructions are received will be voted by the ESOP trustees as directed by the ESOP Committee consisting of the outside directors of the Board. Under the terms of the 401(k) Plan, you are entitled to direct the trustee how to vote the shares of Common Stock credited to your account in the 401(k) Plan. The 401(k) Plan trustee will vote all shares for which it does not receive timely instructions from participants at the direction of the Company’s Board of Directors or the Plan Committee of the Board. The deadline for returning your voting instruction form to the trustees of the ESOP and 401(k) Plan is November 10, 2011.

### **Vote Required**

The Annual Meeting can only transact business if a majority of the outstanding shares of Common Stock entitled to vote is represented at the Annual Meeting. If you return a valid proxy or attend the Annual Meeting in person, your shares will be counted for purposes of determining whether there is a quorum even if you abstain or withhold your vote or do not vote your shares at the Annual Meeting. Broker non-votes will be counted for purposes of determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not have discretionary voting power with respect to the agenda item and has not received voting instructions from the beneficial owner.

In voting on the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees, or vote in favor of all nominees except nominees you specify as to which you withhold your vote. There is no cumulative voting in the election of directors. Directors must be elected by a plurality of the votes cast at the Annual Meeting. This means that the nominees receiving the greatest number of votes will be elected. Votes that are withheld and broker non-votes will have no effect on the outcome of the election.

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**PRINCIPAL HOLDERS OF OUR COMMON STOCK**

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The following table sets forth, as of the Record Date, certain information as to those persons who were known to be the beneficial owners of more than five percent (5%) of the Company’s outstanding shares of Common Stock and as to the shares of Common Stock beneficially owned by all executive officers and directors of the Company as a group.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u> <sup>(1)</sup>	<u>Percent of Shares of Common Stock Outstanding</u> <sup>(2)</sup>
Osage Federal Bank Employee Stock Ownership Plan & Trust 239 East Main Street Pawhuska, Oklahoma 74056	288,000 <sup>(3)</sup>	11.62%
Theodore Friedlander, III Friedlander & Co., Inc. 322 East Michigan Street, Suite 250 Milwaukee, Wisconsin 53202	204,398	8.24%
Wellington Management Company LLP 280 Congress Street Boston, Massachusetts 02210	251,600 <sup>(4)</sup>	10.15%
Mark S. & Peggy J. White 239 East Main Street Pawhuska, Oklahoma 74056	191,050 <sup>(5)</sup>	7.49%
Mark A. & Debbie Formby 239 East Main Street Pawhuska, Oklahoma 74056	156,682 <sup>(6)</sup>	6.29%
All directors and executive officers as a group (8 persons)	872,510 <sup>(7)</sup>	32.32%

<sup>(1)</sup> For purposes of this table, a person is deemed to be the beneficial owner of shares of Common Stock if he or she has or shares voting or investment power with respect to such shares or has a right to acquire beneficial ownership at any time within 60 days from the Record Date. As used herein, “voting power” is the power to vote or direct the voting of shares and “investment power” is the power to dispose or direct the disposition of shares. Except as otherwise noted, ownership is direct, and the named persons or group exercise sole voting and investment power over the shares of the Common Stock.

<sup>(2)</sup> In calculating the percentage ownership of an individual or group, the number of shares outstanding is deemed to include any shares which the individual or group have the right to acquire through the exercise of options or otherwise within 60 days of the Record Date.

<sup>(3)</sup> The ESOP has shared voting and dispositive power over 288,000 shares of Common Stock. The Board of Directors has appointed a committee consisting of the outside directors to serve as the ESOP administrative committee (“ESOP Committee”) and to serve as the ESOP trustees (“ESOP Trustees”). The ESOP Committee or the Board instructs the ESOP Trustees regarding investment of ESOP plan assets. The ESOP Trustees must vote all shares allocated to participant accounts under the ESOP as directed by participants.

Unallocated shares and shares for which no timely voting direction is received, will be voted by the ESOP Trustees as directed by the ESOP Committee. As of the Record Date, 142,261 shares have been allocated to participant accounts under the ESOP.

- (4) According to the most recent amendment to their Schedule 13G, Wellington Management has shared voting power over 168,800 shares and shared dispositive power over 251,600 shares.
- (5) Includes 82,073 shares owned jointly, and 37,026 shares allocated to Mr. White's accounts in the ESOP and the 401(k) Plan, and 71,951 shares that he may acquire pursuant to the exercise of options exercisable within 60 days of the record date.
- (6) Includes 85,357 shares owned jointly, and 10,798 shares that he may acquire pursuant to the exercise of options exercisable within 60 days of the record date.
- (7) Includes 220,373 shares which directors and executive officers have the right to acquire pursuant to options which are or will become exercisable with 60 days of the Record Date, 101,494 shares held in the accounts of executive officers in the 401(k) Plan and 62,871 shares allocated to the accounts of executive officers in the ESOP. Includes 39,108 shares pledged by directors and executive officers as security. Excludes 145,739 shares held by the ESOP which have not been allocated to participant accounts. The non-employee directors of the Bank serve as the ESOP trustees and vote such shares as directed by the ESOP Committee, subject to such trustees' fiduciary duties.

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## **PROPOSAL I – ELECTION OF DIRECTORS**

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The Company's Board of Directors is composed of five members. Under the Company's Articles of Incorporation, directors are divided into three classes, as nearly equal in number as possible. Each class serves for a three-year term, with one class of directors standing for election at each annual meeting. The Board of Directors has nominated director Mark A. Formby (the "Nominee") to serve as a director for an additional three-year term.

The Nominee has consented to be named in this proxy statement and to serve, if elected. If the Nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board of Directors may recommend. At this time, the Board knows of no other reason why the Nominee might be unavailable to serve.

Under our Bylaws, directors are elected by a plurality of the votes cast at an Annual Meeting at which a quorum is present. Votes which are not cast at the Annual Meeting, either because of abstentions or broker non-votes, are not considered in determining the number of votes which have been cast for or withheld from a nominee. Unless otherwise specified on the proxy, it is intended that the persons named in the proxies solicited by the Board will vote for the election of the named Nominees.

The following table sets forth the name of the Board's nominee for election as director of the Company and of those directors who will continue to serve as such after the Annual Meeting. Also set forth is certain other information with respect to each such person's age, their positions with the Company, the year he first became a director of the Company's wholly owned subsidiary, Osage Federal Bank (the "Bank" or "Osage Federal"), the expiration of his current term as a director, and the number and percentage of shares of the Common Stock beneficially owned. All of the directors were initially appointed as directors of the Company in 2006 in connection with the Company's incorporation.

<u>Name and Positions with the Company</u>	<u>Age <sup>(1)</sup></u>	<u>Year First Elected as Director of the Bank</u>	<u>Current Term to Expire</u>	<u>Shares of Common Stock Beneficially Owned <sup>(1)(2)</sup></u>	<u>Percent of Class <sup>(3)</sup></u>
<b>BOARD NOMINEE FOR TERM TO EXPIRE IN 2014</b>					
Mark A. Formby <i>Director</i>	55	1996	2011	156,682 <sup>(4)</sup>	6.29%
<b>DIRECTORS CONTINUING IN OFFICE</b>					
Mark S. White <i>Chairman of the Board, President, Chief Executive Officer and Director</i>	63	1994	2012	191,050	7.49%
Harvey Payne <i>Director</i>	64	1996	2012	121,926 <sup>(4)</sup>	4.90%
Gary D. Strahan <i>Director</i>	58	1994	2013	92,766 <sup>(4)</sup>	3.72%
Richard J. Trolinger <i>Executive Vice President and Director</i>	55	1998	2013	97,664	3.87%

<sup>(1)</sup> As of the Record Date.

<sup>(2)</sup> Includes stock held in joint tenancy; stock owned as tenants in common; stock owned or held by a spouse or other member of the individual's household; stock allocated through certain employee benefit plans of the Company; stock in which the individual either has or shares voting and/or investment power and shares which the individual has the right to acquire at any time within 60 days of the Record Date. Each person or relative of such person whose shares are included herein exercises sole or shared voting and dispositive power as to the shares reported. Includes 10,798 shares which each of Messrs. Formby and Payne have the right to acquire pursuant to options exercisable within 60 days of the Record Date, 12,593 shares which Mr. Strahan has the right to acquire pursuant to options exercisable within 60 days of the Record Date, 71,951 shares which Mr. White has the right to acquire, and 43,171 shares which Mr. Trolinger has the right to acquire. Includes 17,934 and 13,689 shares allocated to the ESOP accounts of Messrs. White and Trolinger, respectively, and 19,092 and 28,872 shares held in their respective accounts in the 401(k) Plan. Includes 39,108 shares pledged by Mr. White as security.

<sup>(3)</sup> In calculating the percentage ownership of an individual or group, the number of shares outstanding is deemed to include any share which the individual or group has the right to acquire through the exercise of options or otherwise within 60 days of the Record Date.

<sup>(4)</sup> Excludes 288,000 shares held by the Bank's ESOP for which such individual serves as a plan trustee.

The principal occupation of each director and executive officer of the Company for the last five years is set forth below.

**Mark A. Formby** has been a director since 1996. Mr. Formby is a private investor. He is currently on the board of directors of the Oklahoma Baptist General Convention Foundation. Mr. Formby is past deacon chairman of the First Baptist Church in Pawhuska, Oklahoma. He is a past president of the Pawhuska Quarterback Club and past commissioner of the Pawhuska Little League Football. Mr. Formby is a past member of the board of directors of the Oklahoma Grocers' Association. He is a licensed ordained minister in the Southern Baptist Convention and currently serves First Baptist Church in Hominy, Oklahoma.

**Mark S. White** has been the president and chief executive officer of Osage Federal Bank and a director since 1994. He was appointed Chairman of the Board in 2010. Prior to joining Osage Federal, he had served as the President and Chief Operating Officer of Green Country Federal Savings and Loan Association in Miami, Oklahoma since 1990. Mr. White serves as vice president and treasurer of the Bartlesville Area United Way. In addition, Mr. White is a former director and former president of the Kiwanis Club of Pawhuska. He also serves as a director and vice president of the Bartlesville Symphony, and a director of Heartland Community Bankers. Mr. White is a director of the Southeastern Conference of Community Bankers.

**Harvey Payne** has been a director since 1996. Mr. Payne is a self-employed attorney and is also the Community Relations Coordinator for the Tallgrass Prairie Preserve owned by the Nature Conservancy in Arlington, Virginia. Mr. Payne serves as a director of the Pawhuska Community Foundation and as attorney for the Osage County Historical Society.

**Gary D. Strahan** has been a director since 1994. Mr. Strahan is a self-employed certified public accountant. Mr. Strahan serves as a trustee and vice president of the Pawhuska Education Trust.

**Richard J. Trolinger** serves as executive vice president and has been the chief lending officer since 1994 and became a director in 1998. Mr. Trolinger is past president of the Bartlesville Builders Association and a past member of the Bartlesville Chamber of Commerce. Mr. Trolinger is past president of the Bartlesville Public School Foundation.

#### **Executive Officers Who Are Not Directors**

**Sue Allen McClain**, 54, has been employed with Osage Federal Bank since 2001. She is a certified public accountant. Mrs. McClain is on the finance committee of Good Shepherd Presbyterian Church, is a member of P.E.O. International, a philanthropic educational organization, and is a past director of the Midwest Conference of Community Bankers.

**Martha M. Hayes**, 71, has been employed by Osage Federal Bank since 1974 and serves as a senior vice president. She manages the collections function. Mrs. Hayes is a member of the Pawhuska Hospital Auxiliary, the American Legion Auxiliary and the First Baptist Church of Pawhuska.

**Frances Altaffer**, 69, has been employed by Osage Federal Bank since 1984 and has been vice president and corporate secretary since 1993. Mrs. Altaffer is a member of the First United Methodist Church of Pawhuska, a member of P.E.O. International, a philanthropic educational organization, and also serves on the Pawhuska Hospital board.

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## **CORPORATE GOVERNANCE**

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### **Director Independence**

The Board of Directors has determined that Directors Mark A. Formby, Harvey Payne and Gary D. Strahan are independent under the independence standards of The Nasdaq Stock Market, if the Company were listed thereon. In determining which directors are independent, the Board of Directors considered the deposit and other relationships which directors have with the Bank, past service with the Bank as well as the relationships described under “Related Party Transactions” but determined that these relationships did not affect their independence. No directors were vendors of the Bank or the Company, and any loans and deposits made by or accepted by the Bank were on substantially the same terms that would be granted to other customers with similar credit or deposit balances. There are no members of the

Audit Committee who do not meet the independence standards of The Nasdaq Stock Market, if the Company were listed thereon, for Audit Committee members and no members of the Audit Committee who could only serve under exceptions to these standards.

### **Director Attendance**

Our Board of Directors holds regular and special meetings as needed. During the fiscal year ended June 30, 2011, the Company's Board of Directors met five times and the Bank's Board of Directors held twelve regular meetings and one special meeting. No director attended fewer than 75% of the total number of meetings of the Board of Directors held during fiscal year 2011 and the total number of meetings held by all committees on which the director served during the year. We encourage directors to attend annual meetings of stockholders. All five directors attended last year's annual meeting.

### **Committees of the Board of Directors**

In addition to other committees, the Company has an Audit Committee, Compensation Committee and Nominating Committee as described below.

***Audit Committee.*** The Audit Committee consists of Directors Formby, Strahan and Payne. The Board of Directors has determined that each of the members of the Audit Committee, including Mr. Strahan, is independent in accordance with the listing requirements for The Nasdaq Stock Market, (if the Company were listed thereon), including the requirements specifically applicable to audit committee members. The committee meets quarterly with the internal auditors. This committee's main responsibilities include oversight of the external and internal auditors and review of audit reports. The Company has adopted a written charter for the Audit Committee. The Audit Committee met four times during fiscal year 2011.

***Compensation Committee.*** The Compensation Committee consists of Directors Formby, Payne and Strahan. This committee meets as needed. The responsibilities of this committee include review of salary and bonus recommendations made by management. President White makes salary recommendations to the Compensation Committee but does not participate in committee decisions regarding his own compensation. The Compensation Committee does not use consultants, but relies on peer bank information regarding salary levels when reviewing recommendations. The Board of Directors has not adopted a charter for the Compensation Committee. The Compensation Committee met two times during fiscal year 2011.

***Nominating Committee and Director Nominations Process.*** Osage Bancshares, Inc. does not have a standing nominating committee or committee performing similar functions. Instead, the full Board of Directors acts as a nominating committee for the selection of management's nominees for director and each director participates in the nomination process. All nominees are approved by a majority of the independent directors. The Board of Directors believes that its procedures provide adequate assurance that nominations are approved by independent directors. The Board of Directors will consider director candidates recommended by stockholders. Any such recommendations must be submitted to the Secretary at least 120 days prior to the date of the Annual Meeting and should include the nominee's name and qualifications for board membership. The Board believes that all nominees for director, including stockholder nominees, should have the highest personal and professional ethics and integrity; substantial business or other professional experience in the primary market area served by the Bank; commitment to enhancing the business and prospects of the Bank; ability to work with existing board members and management; ability to make appropriate level of commitment of time and resources to their duties as director; an understanding of banking and financial matters and the role of directors in the management of the Company; and substantial personal investment in the common stock. All Board nominees for election

at this year's annual meeting are incumbent directors standing for re-election. The Board of Directors held one meeting as a nominating committee during fiscal year 2011 in order to make nominations for directors.

### **Communications with Directors**

Stockholders who wish to communicate with the Board of Directors should send their communications to the Secretary at the Company's main office, 239 East Main Street, Pawhuska, Oklahoma 74056.

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## **DIRECTOR COMPENSATION**

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**Board Fees.** Each non-employee director received board fees of \$1,000 per month. Members of the Audit Committee are also paid a fee of \$1,000 per regular meeting. The aggregate fees paid to the directors for the fiscal year ended June 30, 2011 were \$87,800.

**Supplemental Income Agreements.** Osage Federal Bank has entered into Supplemental Income Agreements with Messrs. Formby, Payne and Strahan pursuant to which we will pay them an annual benefit of \$6,000 upon their attainment of age 65, assuming that they remain directors until such time. They may be eligible for reduced benefits at age 62 if they remain with Osage Federal Bank until such time. In the event one of the directors should die prior to age 65 while in active service, Osage Federal Bank will pay the accrued liability for the benefit of his designated beneficiary or, if no beneficiary has been designated, to his estate. In the event a director terminates service due to disability, he will be entitled to receive a distribution of his accrued liability account. If, prior to age 65, a director is terminated within three years after Osage Federal Bank is merged into another institution or undergoes a stock conversion, or after a stock conversion, there is a change in control and he is terminated for any reason other than discharge for cause or his base fee is reduced without his consent, he will be entitled to receive the early retirement benefit to which he would be otherwise entitled if he is 62 or older or the minimum early retirement benefit to which he would be entitled at age 62 if he is less than age 62. For purposes of the Supplemental Income Agreements, change in control is defined as the transfer of 10% or more of the voting stock of Osage Federal Bank by any means other than by will or intestate succession and acquired by one party or parties acting in concert other than a transfer to a trust for the benefit of Osage Federal Bank's employees. As of June 30, 2011, the Bank had accrued \$11,233, \$43,017 and \$19,325 for its liabilities under the Supplemental Income Agreements with Messrs. Formby, Payne and Strahan, respectively.

We have purchased life insurance policies on Messrs. Formby, Payne and Strahan, the earnings on which are expected to offset the costs of the supplemental income program. We have entered into Split Dollar Agreements with each of Messrs. Formby, Payne and Strahan or their estates pursuant to which they are entitled to receive 50% of the net at-risk insurance portion of the proceeds of the policy if they should die while serving on the board or if they are retired or terminated due to disability. The net at-risk portion is the total proceeds less the cash value of the policy. If the director is not serving on the board at the time of death, he will be entitled to the vested portion of the death benefit. The directors are vested in \$20,000 in proceeds at age 62 and vest ratably in the remainder of the death benefit to 100% at age 65.

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## **RELATED PARTY TRANSACTIONS**

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During the two years ended June 30, 2011, no directors, officers or their immediate family members had a material interest in any transaction in which the Company or any of its subsidiaries was a participant involving more than \$120,000 (other than through a loan as part of Osage Federal Bank's regular lending operations).

Osage Federal Bank makes loans to its directors, officers and employees in the ordinary course of business. Directors and officers do not receive any discounts or waivers of fees. Employees are offered loans on the same terms and conditions as if offered to the general public with two exceptions. If an employee has been employed by Osage Federal for at least six months, the employee will receive an interest rate discount of 0.5% for a mortgage loan on their personal residence while they are employed. This rate reduction ceases at termination of employment. In addition, employees receive a waiver of the \$25 document preparation fee for consumer loans. Loans to directors, officers and employees are otherwise on substantially the same terms and conditions as those of comparable transactions prevailing at the time with other persons. Such loans also do not include more than the normal risk of collectability or present other unfavorable features.

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## **RELATION WITH INDEPENDENT AUDITORS**

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BKD, LLP served as the Company's independent auditing firm for the last fiscal year and the Board of Directors has appointed BKD, LLP to serve as the Company's independent auditing firm for the current fiscal year. The engagement of BKD, LLP was approved in advance by the Audit Committee of the Board of Directors. A representative of BKD, LLP is not expected to attend the Annual Meeting.

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## **OTHER MATTERS**

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The Board of Directors is not aware of any business to come before the Annual Meeting other than those matters described above in this Proxy Statement. However, if any other matters should properly come before the Annual Meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the determination of the Board of Directors.

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## **MISCELLANEOUS**

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The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock. Directors, officers and regular employees of the Company may solicit proxies personally or by telephone or other electronic communications without additional compensation.

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**STOCKHOLDER PROPOSALS**

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To be eligible for consideration at next year's Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be stated in writing and delivered to the Secretary of the Company, at the Company's main office at 239 East Main Street, Pawhuska, Oklahoma 74056 no later than July 20, 2012.

BY ORDER OF THE BOARD OF DIRECTORS



FRANCES ALTAFFER  
*Secretary*

Pawhuska, Oklahoma  
October 17, 2011

## CORPORATE PROFILE

Osage Bancshares, Inc. (the “Company”) is the holding company for Osage Federal Bank (the “Bank”), a federal savings bank serving Osage and Washington Counties, Oklahoma from its corporate office in Pawhuska and branch offices in Bartlesville and Barnsdall. The Company is the successor to Osage Federal Financial, Inc., the Bank’s former mid-tier holding company, which ceased to exist when the Bank’s former mutual holding company, Osage Federal MHC, converted to stock form in January 2007. As part of the transaction, each outstanding publicly held share of common stock of Osage Federal Financial, Inc. was converted into 1.5739 shares of common stock of the Company. The Company also sold a total of 2,513,880 additional shares to the public at \$10 per share, including 201,828 shares purchased by the Company’s employee stock ownership plan with funds borrowed from the Company.

Osage Federal Bank was originally chartered by the State of Oklahoma in 1918 as the National Building and Loan Association and converted to a federally-chartered savings association in 1935. The Bank’s deposits are insured to applicable limits by the Federal Deposit Insurance Corporation (“FDIC”) and it is a member of the Federal Home Loan Bank of Topeka (“FHLB”).

Our executive offices are located at 3309 S.E. Frank Phillips Boulevard, Bartlesville, Oklahoma 74006 and our main telephone number is (918) 333-8300. The Bank maintains a website at [www.osagefed.com](http://www.osagefed.com).

## STOCK MARKET INFORMATION

The Company’s common stock trades on the OTC Bulletin Board under the symbol “OSBK.OB” The following table shows, for each quarter during the past two fiscal years, dividends declared and high and low sale prices. The Company’s ability to pay dividends to stockholders is dependent upon the dividends it receives from the Bank which is subject to certain regulatory restrictions on the payment of dividends.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared</u>
June 30, 2011	\$ 8.50	\$ 8.00	\$ 0.085
March 31, 2011	10.00	6.90	0.085
December 31, 2010	7.60	6.57	0.085
September 30, 2010	7.50	6.75	0.085
June 30, 2010	\$ 9.20	\$ 7.25	\$ 0.085
March 31, 2010	9.98	7.50	0.085
December 31, 2009	9.99	7.39	0.085
September 30, 2009	10.00	7.70	0.085

At June 30, 2011, there were 2,501,833 shares of the Company’s common stock outstanding and approximately 237 stockholders of record, excluding accounts held with brokers. This number does not reflect the number of persons or entities who held stock in nominee or street name through various brokerage firms.

## SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except per share data)

	At or for the year ended June 30,	
	2011	2010
<b>Balance Sheet Data:</b>		
Assets	\$ 155,098	\$ 159,821
Loans receivable, net	88,359	97,170
Securities	42,361	40,051
Cash and cash equivalents	14,547	12,996
Deposits	109,763	110,977
FHLB advances	19,194	22,904
Stockholders' equity	23,092	22,839
<b>Summary of Operations:</b>		
Interest income	\$ 7,275	\$ 8,019
Interest expense	2,373	3,081
Net interest income	4,902	4,938
Provision for loan losses	60	100
Net interest income after provision for loan losses	4,842	4,838
Noninterest income	1,803	1,185
Noninterest expense <sup>(1)</sup>	4,535	4,299
Income before income taxes	2,110	1,724
Provision for income taxes	1,009	600
Net income	<u>\$ 1,101</u>	<u>\$ 1,124</u>
<b>Per Share Data:</b>		
Earnings per share:		
Basic	\$ 0.48	\$ 0.46
Diluted	0.48	0.46
Dividends per share	0.34	0.34
<b>Performance Ratios:</b>		
Return on average assets	0.71%	0.71%
Return on average equity	4.54	4.47
Interest rate spread	2.95	2.79
Net interest margin	3.29	3.23
Average interest-earning assets to average interest-bearing liabilities	121.76%	121.92%
Efficiency ratio	67.63	70.21
Dividend payout ratio	77.41	81.35
<b>Asset Quality Ratios:</b>		
Non-performing loans to total loans, net	1.08%	0.67%
Non-performing assets to total assets	1.12	0.51
Net charge-offs (recoveries) to average loans	0.08	(0.03)
Allowance for loan losses to total loans	0.65	0.61
Allowance for loan losses to non-performing loans	60.00	90.15
<b>Capital Ratios:</b>		
Average equity to average assets	15.63%	15.80%
Equity to assets at period end	14.89	14.29

<sup>(1)</sup> Noninterest expense for the years ended June 30, 2011 and 2010 included \$437,000 and \$181,000 in net impairment losses on investments, respectively.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of the consolidated financial condition and results of operations of the Company should be read in conjunction with the accompanying Consolidated Financial Statements.

### **Overview**

During fiscal 2011, the Company continued to experience high liquidity levels. Long-term rates remained at near-record low levels, so we maintained our business plan of selling almost all of our conforming one- to four-family fixed-rate loans to Freddie Mac. Many of our customers refinanced their existing mortgages, some of which we previously had in our portfolio. Because of the current low rates, we sold most of these to Freddie Mac. We anticipate continuing to sell longer-term conforming loans to Freddie Mac to help improve our interest rate risk. In addition to a decline in our one-to four-family mortgage balances, we also saw decreases in our nonresidential, construction and automobile loan balances, as customers worked to pay down debt. As a result of this refinancing and paydown activity, loans receivable, net decreased 9.1% from June 30, 2010 to June 30, 2011. We used some of the liquidity to purchase short-duration bank-qualified investment securities. During the fiscal year ended June 30, 2011, we increased the percentage of our assets invested in securities and other liquid investments, which generally yield less than mortgage loans. Securities and other liquid investments increased from 33.2% of assets at June 30, 2010 to 36.7% of assets at June 30, 2011. This increase is in spite of the fact that, during the fiscal year ended June 30, 2011, we sold our entire holdings in the AMF Ultra-Short Mortgage Fund (the AMF Fund). This sale accounted for the majority of the decline in our available-for-sale securities, which decreased by \$12.0 million from June 30, 2010. During the year, we purchased approximately \$27.9 million of held-to-maturity securities, including mortgage-backed pass-through securities and collateralized mortgage-backed obligations. We are getting better yields on these securities when compared to overnight investments, and the purchases tend to have short average lives, generally less than four years. In addition, we used some of our liquidity to reduce our Federal Home Loan Bank (FHLB) advances, which have decreased by \$3.7 million from June 30, 2010. We have continued our certificate of deposit (CD) program called "You Pick 'Em," which allows a depositor to choose a CD term of 9 to 15 months, and to receive the same rate no matter which term is chosen. This allows us to retain and attract customers, but does not lock us into paying high rates for long periods of time. We also offer higher rates for higher-balance CD's with terms of 9, 11, 13, 18, 25, 30, 37, 49, and 61 months. Our strategy is to retain and attract customers who are rate-sensitive, without driving up rates on all of our standard CD products. As of June 30, 2011, we have approximately 22.3% of our CD's in these odd-termed categories, and 26.9% in the "You Pick 'Em" program. We announced our sixth stock buyback during the third quarter of fiscal 2011. Our intent is to repurchase up to 18% (approximately 452,000 shares) of our outstanding common stock shares. We had repurchased 4,100 shares in the current buyback as of June 30, 2011.

### **Business Strategy**

Our business strategy is to operate as a well-capitalized independent financial institution dedicated to providing quality service at competitive prices and emphasizing local control and decision-making. During February 2010, we made the decision to deregister from the Securities and Exchange Commission and de-list from the Nasdaq Global Market, because our stock is

thinly traded, and because of the high costs of being registered and listed. Our stock is now listed on the OTC Bulletin Board. As a result, we have seen our professional services expense decrease more than \$120,000 from the prior fiscal year.

We maintain a substantial part of our assets in loans secured by one- to four-family residential real estate located in our market area. To the extent that new deposits have exceeded loan originations, we have invested these deposits primarily in various types of securities, as well as reducing our borrowings at the FHLB. Our loan sales to Freddie Mac have generated a substantial amount of cash, which has also been invested in these securities and more liquid assets. As long as the low rate environment persists, we plan on selling loans to Freddie Mac and buying short-duration securities with excess cash. To counter any rise in long-term rates, we continue to emphasize the origination of shorter term fixed-rate loans and adjustable-rate loans for the loan portfolio consistent with our asset/liability management policies. These loans include multi-family and commercial real estate loans, consumer, commercial, construction, and home equity loans. We have employed a variety of strategies to control funding costs including seeking lower cost non-certificate accounts, lowering deposit rates while remaining competitive in the market, laddering the maturities of our FHLB advances, and paying off some advances at maturity.

In our local market, the unemployment rate has improved slightly compared to the previous year. Housing construction has slowed, and housing supply slightly exceeds demand. The economic outlook in our largest market, which is in Bartlesville, Oklahoma, in Washington County, is more favorable than the national outlook. Area home prices are typically much more stable in our geographic area than in some other states, and we have not had the large increases over the last several years that other geographical areas have experienced. We have also not seen the dramatic declines that other areas are currently experiencing.

### **Comparison of Financial Condition at June 30, 2011 and June 30, 2010**

Our total assets decreased by \$4.7 million to \$155.1 million at June 30, 2011 from \$159.8 million at June 30, 2010, primarily due to a contraction in loans and a reduction in our FHLB advances.

Loans decreased to \$88.4 million at June 30, 2011 from \$97.2 million at June 30, 2010. The most significant changes in loans occurred in one- to four-family, nonresidential real estate, and construction loans. One- to four-family mortgages decreased \$4.3 million, or 7.7%, to \$51.9 million at June 30, 2011 from \$56.2 million at June 30, 2010. With the continued low interest rate environment, our customers are refinancing both their existing Osage Federal loans, as well as loans at other institutions. However, to lessen interest rate risk, we are selling almost all of our conforming one- to four-family fixed rate loans to Freddie Mac. Nonresidential real estate loans decreased \$2.2 million, or 9.6% to \$21.1 million at June 30, 2011 from \$23.3 million at June 30, 2010. There have been no significant new loans, and we have had normal payoffs and two loans totaling \$680,000 transferred to foreclosed assets. Construction loans were \$4.6 million, a decrease of \$782,000, or 14.5% from the prior year. Residential construction has slowed down in the area, and we have no construction-permanent residential lending as of June 30, 2011. There were \$197,000 in loans held for sale at June 30, 2011 and \$301,000 in loans held for sale at June 30, 2010.

Cash and cash equivalents (consisting primarily of federal funds sold and our balances at our correspondent banks) increased by \$1.5 million, or 11.9%, to \$14.5 million at June 30, 2011 from \$13.0 million at June 30, 2010. At June 30, 2011, we had federal funds sold of \$11.5

million. These funds are placed at various institutions to minimize credit risk. We also had \$1.1 million of overnight balances, which typically earn a slightly lower rate than federal funds sold.

Securities, which consist of mortgage-backed securities, private label securities, collateralized mortgage obligations, bonds issued by Freddie Mac, and municipal securities, increased to \$42.4 million at June 30, 2011 from \$40.1 million at June 30, 2010. We used some of the liquidity obtained from loan sales and the sale of our investment in the AMF Fund to purchase \$27.9 million in held-to-maturity securities. The increase was partially offset by normal paydowns in the held-to-maturity and available-for-sale portfolios.

Our total liabilities decreased \$5.2 million to \$130.8 million at June 30, 2011 from \$136.0 million at June 30, 2010, primarily due to a \$1.2 million decrease in deposits and a \$3.7 million decrease in FHLB advances. Our CD's decreased \$4.5 million, because of lower interest rates and the loss of some customers with no other relationships. We experienced some of the CD runoff going into some of our other deposit products, while customers are waiting to see when interest rates will change. The most significant growth in deposits occurred in money market accounts, which increased \$1.3 million. Much of this growth was due to the amount of money put into new accounts, and transfers from CD's. Demand and NOW accounts, including our high-yield checking accounts, increased \$1.1 million, while passbook savings accounts increased \$900,000. FHLB advances were down \$3.7 million due to maturities of higher rate advances, several of which we opted not to renew.

Stockholders' equity increased \$253,000 to \$23.1 million at June 30, 2011 from \$22.8 million at June 30, 2010. This increase in stockholders' equity was primarily due to our net income, which increased stockholders' equity by \$1.1 million, while amortization of awards under the stock option plans and restricted stock plans increased stockholders' equity by \$131,000. The Company paid regular cash dividends of \$836,000 (net of restricted stock dividends of \$16,000), during the year ending June 30, 2011.

### **Comparison of Operating Results for the Years Ended June 30, 2011 and 2010**

**General.** Net income for the year ended June 30, 2011 was \$1.1 million (\$0.48 per diluted share), a \$23,000 decrease compared to net income of \$1.1 million (\$0.46 per diluted share) for the year ended June 30, 2010. Excluding the current and prior year impairment losses of \$437,000 and \$181,000 (\$271,000 and \$112,000 after tax, respectively) and the current year net positive impact of selling the AMF Fund (\$99,000 after tax), net income would have been \$1.3 million (\$0.55 per diluted share) and \$1.2 million (\$0.51 per diluted share) for the years ended June 30, 2011 and 2010, respectively.

**Interest Income.** Total interest income decreased \$744,000, or 9.3%, to \$7.3 million for the year ended June 30, 2011 from \$8.0 million for 2010, primarily due to a change in the mix of interest earning assets, as well as the effect of decreasing market interest rates. Average loans decreased \$7.0 million from the previous year, while the average balance of securities, federal funds sold, and deposits with banks increased \$2.8 million. The yield on earning assets for the period decreased 35 basis points, and was 4.89% compared to 5.24% in 2010. The major components of the overall yield are loans and securities, federal funds sold, and deposits with banks. The yields on total loans decreased 14 basis points from year to year, while the yields on securities, federal funds sold, and deposits with banks, decreased 39 basis points.

**Interest Expense.** Total interest expense decreased \$708,000 or 23.0%, to \$2.4 million for the year ended June 30, 2011 from \$3.1 million for the year ended June 30, 2010. The decrease in interest expense resulted from a decrease in both the cost and volume of interest-bearing liabilities between the two periods. The average cost of interest-bearing liabilities decreased 51 basis points, to 1.94% in the current year from 2.45% in 2010. Average balances of interest-bearing liabilities decreased \$3.3 million, or 2.6%, during the same period. We had a change in the mix of our deposits, with average interest-bearing deposits down \$2.1 million between the periods. Average CD balances decreased \$6.3 million between the periods, while interest-bearing transaction and savings accounts accounted for a \$4.2 million increase. We have reduced posted rates on all of our deposit categories throughout the year, reflecting general market conditions. Average rates on CD's for the year ended June 30, 2011 were 1.95%, compared to 2.55% in the prior year.

Interest expense on FHLB advances decreased \$73,000 for the year ended June 30, 2011, or 8.0%, compared to the year ended June 30, 2010, reflecting a decrease in the average balance of advances to \$20.8 million for the 2011 period from \$22.0 million for the 2010 period. During the current fiscal year, we elected not to roll over all of our maturing advances, because of our high liquidity levels. The average cost of advances decreased 12 basis points, which is a function of maturities and the paydown of an amortizing advance we match funded against a loan in the previous fiscal year. We have some advances maturing in the next few months at higher rates, which will help reduce our average rate going forward.

**Net Interest Income.** Net interest income decreased by \$36,000 or 0.7%, to \$4.9 million for the year ended June 30, 2011, compared to \$4.9 million for the year ended June 30, 2010. Our net interest margin improved from 3.23% for fiscal year 2010 to 3.29% for fiscal year 2011. During the same time, our interest rate spread improved from 2.79% for fiscal year 2010 to 2.95% for the fiscal year ended June 30, 2011. The increase in spread and margin primarily reflects downward repricing of our maturing certificates of deposit and our other interest-bearing deposits.

**Provision for Loan Losses.** The provision for loan losses was \$60,000 for the year ended June 30, 2011 compared to \$100,000 during the year ended June 30, 2010. There were \$77,000 of net charge-offs in the 2011 period, compared to \$29,000 of net recoveries in the 2010 period. The entire amount of the net charge-off during 2011 was on a commercial real estate participation loan, which we subsequently reclassified to foreclosed assets held for sale. We have seen an increase in loan delinquencies and impaired loans (those classified as substandard or below) from the prior year, while at the same time, our loans have decreased 9.1%. Management evaluates the allowance for loan losses based on general economic conditions in our area, our level of classified and nonperforming assets, the value of the underlying collateral of our loans, and other factors. Based on our stratification of the loan portfolios using historical loss factors and other data, management believes that the recorded allowance would cover both known and inherent losses in the portfolio that were both probable and estimable.

The allowance for loan losses was \$575,000 at June 30, 2011 and \$592,000 at June 30, 2010, and as a percentage of total loans outstanding was 0.65% and 0.61% at June 30, 2011 and 2010, respectively. The increase in this ratio is mainly reflective of management's evaluation of the economic climate, and the higher levels of classified and nonperforming loans. Our nonaccrual loans, including those 90 days or more past due and those loans considered troubled debt restructures, were \$958,000 and \$657,000 at June 30, 2011 and 2010,

respectively. The ratios of total nonaccrual loans to total loans as of June 30, 2011 and 2010 were 1.08% and 0.67%, respectively.

**Noninterest Income.** Noninterest income increased to \$1.8 million for the year ended June 30, 2011 from \$1.2 million for the year ended June 30, 2010. During 2011, the Company sold its entire holdings of the AMF Fund and recognized a gain of \$615,000. Excluding this gain, noninterest income was slightly ahead of the prior fiscal year. Service charges on deposit accounts decreased slightly, by \$6,000 between the periods, while income from debit card and ATM transactions increased \$24,000, which is a result of higher usage of these transactions by our customers. With the passage of the Durbin amendment regulating interchange income that can be recognized by large financial institutions, we expect there to be a “trickle-down” effect, and that we will have a reduction in these fees beginning early in 2012. Gains on sales of mortgage loans were down \$45,000 due to lower volumes of loans sold to Freddie Mac, while net loan servicing fees increased \$16,000.

**Noninterest Expense.** Noninterest expense was \$4.5 million for the year ended June 30, 2011 compared to \$4.3 million for the year ended June 30, 2010. Included in noninterest expense for fiscal 2011 and 2010 were \$437,000 and \$181,000, respectively, of net impairment losses on held-to-maturity private label securities. Excluding these impairment losses, noninterest expense for 2011 and 2010 would have been \$4.1 million, decreasing \$19,000 between the periods. Salaries and benefits decreased \$129,000 from the previous year. The costs of stock and stock option awards were \$105,000 lower than the previous year, due to the final vesting of awards under the 2004 Stock Option and Restricted Stock Plans in the previous year. Employee insurance costs actually decreased \$21,000, reflecting lower staffing levels and aggressive “shopping” for competitive rates. Occupancy expense increased \$21,000, primarily due to increased utilities and maintenance costs. Professional fees decreased \$121,000, primarily because of delisting from Nasdaq and deregistering from the Securities and Exchange Commission in early 2010. Deposit insurance premiums decreased \$16,000, while foreclosed asset expenses increased \$161,000. The bulk of the foreclosed asset expense resulted from the ownership of one commercial real estate property. Item processing costs and other charges from correspondent banks decreased \$15,000 due to continued technology improvements and elimination of paper items. The Company continues to take advantage of technology to reduce postage.

**Provision for Income Taxes.** The provision for income taxes increased \$409,000 from the prior fiscal year. During the current year, the Company increased the deferred tax asset valuation allowance related to the AMF Fund temporary difference by \$307,000 based on management’s analysis of the ability to realize the deferred tax asset. Excluding the change in the valuation allowance, the effective tax rates were 33% and 35% for the periods ended June 30, 2011 and 2010, respectively.

## Independent Accountants' Report

Audit Committee, Board of Directors and Stockholders  
Osage Bancshares, Inc.  
Pawhuska, Oklahoma

We have audited the accompanying consolidated balance sheets of Osage Bancshares, Inc. as of June 30, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Osage Bancshares, Inc. as of June 30, 2011 and 2010, 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.

*BKD, LLP*

September 23, 2011

**Osage Bancshares, Inc.**  
**Consolidated Balance Sheets**  
**June 30, 2011 and 2010**

**Assets**

	<u>2011</u>	<u>2010</u>
Cash and due from banks	\$ 1,479,203	\$ 1,917,102
Interest bearing deposits with banks	1,605,982	2,605,308
Federal funds sold	<u>11,462,000</u>	<u>8,474,000</u>
Cash and cash equivalents	14,547,185	12,996,410
Available-for-sale securities	2,948,834	14,992,630
Held-to-maturity securities	39,411,820	25,058,346
Loans, net	88,359,171	97,170,204
Loans held for sale	197,300	301,400
Premises and equipment	1,758,765	1,878,126
Foreclosed assets held for sale	784,102	166,122
Interest receivable	630,689	697,453
Federal Home Loan Bank stock, at cost	2,002,700	1,971,800
Deferred income taxes	179,104	366,301
Bank owned life insurance	2,508,618	2,422,973
Goodwill	913,704	913,704
Core deposit intangibles	155,492	196,964
Prepaid FDIC insurance	337,352	447,153
Other	<u>363,273</u>	<u>241,315</u>
Total assets	<u>\$ 155,098,109</u>	<u>\$ 159,820,901</u>

**Liabilities and Stockholders' Equity**

**Liabilities**

Deposits	\$ 109,762,898	\$ 110,977,022
Federal Home Loan Bank advances	19,194,479	22,904,024
Advances from borrowers held in escrow	816,765	793,036
Accrued interest and other liabilities	<u>1,036,244</u>	<u>1,296,486</u>
Total liabilities	<u>130,810,386</u>	<u>135,970,568</u>

**Equity Received from Contributions to the ESOP (142,261 shares at June 30, 2011 and 116,112 shares at June 30, 2010)**

<u>1,196,109</u>	<u>1,011,608</u>
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**Stockholders' Equity**

Preferred stock, \$.01 par value (5,000,000 shares authorized; none outstanding)	—	—
Common stock, \$.01 par value (20,000,000 shares authorized; 2,501,833 and 2,505,933 shares issued and outstanding at June 30, 2011 and June 30, 2010, respectively, net of 288,000 allocated and unallocated ESOP shares)	22,138	22,179
Additional paid-in capital	27,539,860	27,394,422
Retained earnings (deficit)	(4,400,935)	(4,632,635)
Accumulated other comprehensive income (loss)	<u>(69,449)</u>	<u>54,759</u>
Total stockholders' equity	<u>23,091,614</u>	<u>22,838,725</u>

Total liabilities and stockholders' equity	<u>\$ 155,098,109</u>	<u>\$ 159,820,901</u>
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**Osage Bancshares, Inc.**  
**Consolidated Statements of Income**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Interest Income</b>		
Loans	\$ 6,010,237	\$ 6,597,813
Available-for-sale securities	279,195	594,580
Held-to-maturity securities	934,165	758,508
Deposits with other financial institutions	20,163	17,153
Other	<u>31,323</u>	<u>51,139</u>
Total interest income	<u>7,275,083</u>	<u>8,019,193</u>
<b>Interest Expense</b>		
Deposits	1,536,091	2,170,973
Advances from Federal Home Loan Bank	<u>836,795</u>	<u>909,695</u>
Total interest expense	<u>2,372,886</u>	<u>3,080,668</u>
<b>Net Interest Income</b>	4,902,197	4,938,525
<b>Provision for Loan Losses</b>	<u>60,000</u>	<u>100,000</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>4,842,197</u>	<u>4,838,525</u>
<b>Noninterest Income</b>		
Service charges on deposit accounts	497,019	503,457
Other service charges and fees	101,031	99,019
Gain on sale of available-for-sale securities	615,137	—
Gain on sale of mortgage loans	203,628	248,817
Net loan servicing fees	106,553	90,291
Other income	<u>279,558</u>	<u>243,195</u>
Total noninterest income	<u>1,802,926</u>	<u>1,184,779</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,219,765	2,348,593
Net occupancy expense	471,941	450,752
Deposit insurance premium	121,261	137,742
Other operating expenses	1,285,469	1,180,846
Other-than-temporary losses on investments		
Total other-than-temporary losses	633,122	796,741
Portion of loss recognized in other comprehensive income (before taxes)	<u>(196,560)</u>	<u>(615,582)</u>
Net impairment losses recognized in earnings	<u>436,562</u>	<u>181,159</u>
Total noninterest expense	<u>4,534,998</u>	<u>4,299,092</u>
<b>Income Before Income Taxes</b>	2,110,125	1,724,212
<b>Provision for Income Taxes</b>	<u>1,009,530</u>	<u>600,319</u>
<b>Net Income</b>	<u>\$ 1,100,595</u>	<u>\$ 1,123,893</u>
<b>Basic Earnings Per Share</b>	<u>\$ 0.48</u>	<u>\$ 0.46</u>
<b>Diluted Earnings Per Share</b>	<u>\$ 0.48</u>	<u>\$ 0.46</u>
<b>Cash Dividends Paid Per Share</b>	<u>\$ 0.34</u>	<u>\$ 0.34</u>

See Notes to Consolidated Financial Statements

**Osage Bancshares, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended June 30, 2011 and 2010**

	<b>Common Stock</b>	
	<b>Shares</b>	<b>Amount</b>
<b>Balance, July 1, 2009</b>	2,585,700	\$ 24,956
Net income	—	—
Change in other comprehensive income	—	—
Total comprehensive income		
Dividends declared	—	—
Allocation of ESOP shares	26,057	—
Tax benefits from ESOP, employees' stock option, and restricted stock plans	—	—
Shares repurchased under stock buyback plans	(277,712)	(2,777)
Amortization of restricted stock and stock option plans net of shares withheld	—	—
	<u>—</u>	<u>—</u>
<b>Balance, June 30, 2010</b>	2,334,045	22,179
Net income	—	—
Change in other comprehensive income	—	—
Total comprehensive income		
Dividends declared	—	—
Allocation of ESOP shares	26,149	—
Tax benefits from ESOP, employees' stock option, and restricted stock plans	—	—
Shares repurchased under stock buyback plans	(4,100)	(41)
Amortization of restricted stock and stock option plans net of shares withheld	—	—
	<u>—</u>	<u>—</u>
<b>Balance, June 30, 2011</b>	<u>2,356,094</u>	<u>\$ 22,138</u>

<b>Additional Paid-in Capital</b>	<b>Retained Earnings (Deficit)</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
\$ 27,155,190	\$ (2,452,991)	\$ 95,679	\$ <u>24,822,834</u>
—	1,123,893	—	1,123,893
—	—	(40,920)	<u>(40,920)</u>
			<u>1,082,973</u>
—	(890,711)	—	<u>(890,711)</u>
24,766	—	—	<u>24,766</u>
—	(2,412,826)	—	<u>(2,415,603)</u>
<u>214,466</u>	<u>—</u>	<u>—</u>	<u>214,466</u>
27,394,422	(4,632,635)	54,759	<u>22,838,725</u>
—	1,100,595	—	1,100,595
—	—	(124,208)	<u>(124,208)</u>
			<u>976,387</u>
—	(835,972)	—	<u>(835,972)</u>
—	—	—	<u>—</u>
14,915	—	—	<u>14,915</u>
—	(32,923)	—	<u>(32,964)</u>
<u>130,523</u>	<u>—</u>	<u>—</u>	<u>130,523</u>
\$ <u>27,539,860</u>	\$ <u>(4,400,935)</u>	\$ <u>(69,449)</u>	\$ <u>23,091,614</u>

**Osage Bancshares, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Net income	\$ 1,100,595	\$ 1,123,893
Items not requiring (providing) cash		
Depreciation	223,529	216,023
Provision for loan losses	60,000	100,000
Provision for foreclosed asset losses	—	5,000
Amortization of securities, market value adjustment, and originated mortgage servicing rights	398,152	338,514
Restricted stock plan and option expense	138,053	229,402
Deferred income taxes	286,409	(166,515)
Other than temporary impairment on available-for-sale and held-to-maturity securities	436,562	181,159
Gain on sale of available-for-sale securities	(615,137)	—
Gain on sale of mortgage loans	(203,628)	(248,817)
(Gain) loss on sale of foreclosed assets held for sale	1,860	(64,105)
Dividends on available-for-sale mutual funds	—	(71,359)
Stock dividends on Federal Home Loan Bank stock	(30,900)	(50,500)
Gains on disposal of premises and equipment	—	(5,600)
Increase in cash surrender value of bank owned life insurance	(85,645)	(88,306)
Originations of loans held for delivery against commitments	(11,708,944)	(14,829,371)
Proceeds from nonrecourse sale of loans held for delivery against commitments	12,004,865	15,101,438
Allocation of Employee Stock Ownership Plan shares	184,501	227,606
Changes in		
Interest receivable	66,764	18,522
Other assets	(69,479)	(333,841)
Accrued interest and other liabilities	(260,242)	(283,569)
	<u>1,927,315</u>	<u>1,399,574</u>
<b>Investing Activities</b>		
Net change in loans	8,019,195	2,885,210
Purchase of held-to-maturity securities	(27,920,803)	(15,373,375)
Purchases of premises and equipment	(111,869)	(223,772)
Proceeds from sale of foreclosed assets	111,998	484,715
Proceeds from sale of premises and equipment	—	5,600
Proceeds from maturities and paydowns of held-to-maturity securities	13,256,512	7,595,155
Proceeds from maturities and paydowns of available-for-sale securities	12,029,918	1,501,701
	<u>5,384,951</u>	<u>(3,124,766)</u>

**Osage Bancshares, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Financing Activities</b>		
Net increase in demand, money market, NOW and savings deposits	\$ 3,277,280	\$ 797,166
Net increase (decrease) in certificates of deposit	(4,491,404)	590,081
Proceeds from Federal Home Loan Bank advances	1,000,000	5,080,000
Repayments of Federal Home Loan Bank advances	(4,709,545)	(2,875,976)
Net increase (decrease) in advances from borrowers held in escrow	23,729	(32,027)
Payment of dividends (net of restricted stock dividends)	(835,972)	(890,711)
Tax benefits of employee plans	14,915	24,766
Shares purchased and withheld for restricted stock plans	(7,530)	(14,936)
Repurchase of shares under stock buyback plans	<u>(32,964)</u>	<u>(2,415,603)</u>
Net cash provided by (used in) financing activities	<u>(5,761,491)</u>	<u>262,760</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,550,775	(1,462,432)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>12,996,410</u>	<u>14,458,842</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 14,547,185</u>	<u>\$ 12,996,410</u>
<b>Supplemental Cash Flows Information</b>		
Real estate and other assets acquired in settlement of loans	\$ 809,232	\$ 368,019
Interest paid	\$ 2,398,607	\$ 3,082,613
Income taxes paid	\$ 939,915	\$ 540,715
Mutual fund dividends reinvested	\$ —	\$ 71,359

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Osage Bancshares, Inc. (the Company) is a thrift holding company whose principal activity is the ownership and management of Osage Federal Bank (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in north central Oklahoma. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 determination of the allowance for loan losses, valuation of assets acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights, valuation of deferred tax assets, other-than-temporary impairments (OTTI) and fair values of financial instruments. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

***Goodwill***

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

***Intangible Assets***

Intangible assets are being amortized on a straight-line basis over a seven-year period. Such assets are periodically evaluated as to the recoverability of their carrying value.

***Cash and Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted of federal funds sold.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under the program, through December 31, 2010, all noninterest-bearing transaction accounts at these institutions were fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000.

***Securities***

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company's consolidated statement of income reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of the sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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***Mortgage Loans Held for Sale***

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on loan sales are recorded in noninterest income, and direct loan organization costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal balances adjusted for any charge-offs and any deferred fees or costs on originated loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well secured and in the process of collection. Loans that are considered troubled debt restructures are also placed on a non-accrual status, even if they are not ninety days or more past due.

***Allowance for Loan Losses***

The allowance for loan losses is established as losses are estimated to have occurred 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 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.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, 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 general component covers nonclassified loans and is based on historical charge-off experience and expected losses derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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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, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

***Premises and Equipment***

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	5-40 years
Furniture, fixtures, and equipment	3-10 years
Automobiles	5 years

***Federal Home Loan Bank Stock***

Federal Home Loan Bank stock is a required investment for members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. At June 30, 2011, the Bank held 20,027 shares with a cost of \$2,002,700 and at June 30, 2010, the Bank held 19,718 shares with a cost of \$1,971,800.

***Foreclosed Assets Held for Sale***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less the cost 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 cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

***Mortgage Servicing Rights***

Mortgage servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the

**Osage Bancshares, Inc.**  
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predominant risk characteristics of the underlying loans. The predominant characteristics currently used for stratification are type of loan, contractual maturity and interest rate. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceeds their fair value.

***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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 processes, 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 recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

***Earnings Per Share***

Basic earnings per share is computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average common shares and all potentially dilutive common shares outstanding during the period. Shares held by the ESOP are deducted from the shares outstanding until committed to be released.

***Restriction on Cash and Due From Banks***

The Bank is required to maintain reserve funds in cash by the Federal Reserve Bank. The reserves required at June 30, 2011 and 2010 were \$441,000 and \$416,000, respectively.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Stockholders' Equity**

The Company is chartered in the state of Maryland. Under Maryland law, there is no concept of "Treasury Shares". Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to common stock and retained earnings balances.

**Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, and unrealized appreciation (depreciation) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income.

**Note 2: Securities**

The amortized cost and approximate fair values of securities are as follows:

**Available-for-Sale Securities**

	June 30, 2011			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed:				
Government-sponsored enterprise				
– residential	\$ 2,484,303	\$ 139,376	\$ —	\$ 2,623,679
Private label – residential	<u>379,984</u>	<u>—</u>	<u>(54,829)</u>	<u>325,155</u>
	<u>\$ 2,864,287</u>	<u>\$ 139,376</u>	<u>\$ (54,829)</u>	<u>\$ 2,948,834</u>
	June 30, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Mutual fund consisting primarily of mortgage securities	\$10,231,167	\$ 565,770	\$ —	\$10,796,937
Mortgage-backed:				
Government-sponsored enterprise				
– residential	3,599,640	181,263	—	3,780,903
Private label – residential	<u>457,920</u>	<u>—</u>	<u>(43,130)</u>	<u>414,790</u>
	<u>\$14,288,727</u>	<u>\$ 747,033</u>	<u>\$ (43,130)</u>	<u>\$14,992,630</u>

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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All of the mortgage-backed securities are backed by either Freddie Mac, Fannie Mae or Ginnie Mae, or are private placement securities rated at least AA, with the exception of four available-for-sale private placement securities, which have a combined fair value of \$142,021. Two of the securities are rated BBB- or higher, and the third is rated CCC. Management has determined there is no other-than-temporary impairment on these securities.

***Held-to-Maturity Securities***

	June 30, 2011					
	Amortized Cost	Total Other- Than-Temporary Impairment Recognized in Accumulated Other Comprehensive Income	Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government agency securities	\$ 119,353	\$ —	\$ 119,353	\$ 7,289	\$ —	\$ 126,642
Municipal securities	3,507,546	—	3,507,546	68,748	(3,590)	3,572,704
Mortgage-backed:						
Government-sponsored enterprise – residential	24,065,409	—	24,065,409	349,114	(4,269)	24,410,254
Collateralized mortgage obligations – residential	10,687,474	—	10,687,474	121,078	(34,555)	10,773,997
Private label – residential	<u>1,228,598</u>	<u>(196,560)</u>	<u>1,032,038</u>	<u>—</u>	<u>(81,308)</u>	<u>950,730</u>
	<u>\$39,608,380</u>	<u>\$ (196,560)</u>	<u>\$39,411,820</u>	<u>\$ 546,229</u>	<u>\$ (123,722)</u>	<u>\$39,834,327</u>

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	June 30, 2010					
	Amortized Cost	Total Other- Than- Temporary Impairment Recognized in Accumulated Other Comprehensive Income	Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government agency securities	\$ 723,064	\$ —	\$ 723,064	\$ 10,918	\$ —	\$ 733,982
Municipal securities	7,055,179	—	7,055,179	82,068	(349)	7,136,898
Mortgage-backed:						
Government- sponsored enterprise – residential	10,743,576	—	10,743,576	252,765	(13,700)	10,982,641
Collateralized mortgage obligations – residential	5,145,338	—	5,145,338	87,839	(14,053)	5,219,124
Private label – residential	<u>2,006,771</u>	<u>(615,582)</u>	<u>1,391,189</u>	<u>72,793</u>	<u>—</u>	<u>1,463,982</u>
	<u>\$ 25,673,928</u>	<u>\$ (615,582)</u>	<u>\$ 25,058,346</u>	<u>\$ 506,383</u>	<u>\$ (28,102)</u>	<u>\$ 25,536,627</u>

The mortgage-backed securities and collateralized mortgage obligations are not due on a single maturity date. All of these securities are backed by either Freddie Mac, Fannie Mae or Ginnie Mae, or are private placement securities.

The amortized cost and fair value of held-to-maturity securities at June 30, 2011 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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***Held-to-Maturity Securities***

	<b>June 30, 2011</b>	
	<b>Adjusted</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>
Within one year	\$ 1,125,946	\$ 1,131,255
One to five years	1,671,575	1,707,492
Five to ten years	679,791	712,774
Over ten years	<u>149,587</u>	<u>147,825</u>
	3,626,899	3,699,346
Mortgage-backed securities and collateralized mortgage obligations	<u>35,784,921</u>	<u>36,134,981</u>
	<u>\$ 39,411,820</u>	<u>\$ 39,834,327</u>

The amortized cost of securities and overnight funds pledged as collateral to secure public deposits and for other purposes amounted to approximately \$12,877,000 and \$13,110,000 at June 30, 2011 and 2010, respectively. The approximate fair value of pledged securities and overnight funds amounted to approximately \$12,964,000 and \$13,494,000 at June 30, 2011 and 2010, respectively.

Included in held-to-maturity securities at June 30, 2011 and 2010, are certain collateralized mortgage obligations with an amortized cost of \$3,334,000 and \$547,000, respectively, and a fair value of \$3,344,000 and \$541,000, respectively, whose fair values may be more volatile as yields earned are affected by the speed at which mortgages in an underlying trust are paid prior to their scheduled maturities.

During the fiscal year ended June 30, 2011, the Bank sold its holdings in the mutual fund, on which other-than-temporary impairments had been recognized in previous fiscal years. The Bank recognized a gain of \$615,137 on the sale, which is included in noninterest income on the statement of income.

There were no sales of available-for-sale or held-to-maturity securities during the fiscal year ended June 30, 2010.

Fair values of certain investments in mortgage-backed and municipal securities are reported above at an amount less than their net carrying value. Total fair value of these investments at June 30, 2011 and 2010 was \$5,857,014 and \$2,845,692, which is approximately 13.8% and 7.1%, respectively of the Bank's available-for-sale and held-to-maturity investment portfolio. These declines primarily resulted from housing market conditions and changes in interest rates.

Except as discussed below, management believes the declines in fair value for these securities are temporary.

**Osage Bancshares, Inc.**  
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Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment (OTTI) has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are private-label mortgage-backed securities. For each private label mortgage-backed security which is below investment grade, an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are the following: the credit default rate (CDR), which is the ultimate default rate of all the loans in the pool; the constant prepayment rate (CPR), which measures speed of unscheduled principal repayments; and the loss severity rate, which measures the percentage loss estimated on properties that are sold at foreclosure. Other inputs are the actual collateral attributes, which include geographic concentrations, credit ratings, loan-to-value ratios, and dollar size of individual loans comprising the securities.

To determine if the unrealized loss for private-label mortgage-backed securities is other-than-temporary, the Company projects total estimated defaults of the underlying assets (mortgages) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (loss severity) in order to determine the projected collateral loss. The Company also evaluates the current credit enhancement underlying the bond to determine the impact on cash flows. If the Company determines that a given mortgage-backed security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

During the years ended June 30, 2011 and 2010, the Company determined that two of its held-to-maturity securities had incurred credit losses, which are OTTI. The Company has the intent and the ability to hold these two securities until maturity. As a result, credit losses of \$436,562 and \$181,159 for the fiscal years ended June 30, 2011 and 2010, respectively, were recognized in the income statement, based on the comparison of the discounted present value of expected cash receipts to the current par value. In addition, the Company is now carrying these two securities at amortized cost less the unamortized portion of the non-credit related impairment, which is approximately \$1,624,568 for the two securities. The difference between the adjusted book value (the book value less the credit loss) of \$1,206,755 and the fair value, less the tax effect, is carried as a component of stockholders' equity. For those two securities for which an OTTI was determined to have occurred (that is, a determination was made that the entire amortized cost bases will not likely be recovered), the following table presents the inputs used to measure the amount of the credit loss recognized in earnings. The table shows the projected weighted average default rates and loss severities for the two private-label mortgage-backed securities at June 30, 2011.

	<b>Default Rate Range</b>	<b>Loss Severity Range</b>
2007 issue – Alt A	10%-12%-.5%	52%-60%-20%
2006 issue – Alt A	7.4%-.5%	43%-20%

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The following table provides information about these two securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income.

	<b>2011</b>	<b>2010</b>
Credit losses on debt securities held		
Beginning of year	\$ (181,159)	\$ —
Additions related to other-than-temporary losses	—	(181,159)
Increases in previously recognized other-than-temporary losses	<u>(436,562)</u>	<u>—</u>
End of year	<u>\$ (617,721)</u>	<u>\$ (181,159)</u>

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2011 and 2010.

<b>June 30, 2011</b>						
<b>Description of Securities</b>	<b>Less than 12 Months Fair Value</b>	<b>12 Months Unrealized Losses</b>	<b>12 Months or More Fair Value</b>	<b>12 Months or More Unrealized Losses</b>	<b>Total Fair Value</b>	<b>Total Unrealized Losses</b>
Mortgage-backed securities	\$5,429,614	\$ (120,088)	\$ 330,990	\$ (54,873)	\$5,760,604	\$(174,961)
Municipal securities	<u>46,797</u>	<u>(3,203)</u>	<u>49,613</u>	<u>(387)</u>	<u>96,410</u>	<u>(3,590)</u>
Total temporarily impaired securities	<u>\$5,476,411</u>	<u>\$ (123,291)</u>	<u>\$ 380,603</u>	<u>\$ (55,260)</u>	<u>\$5,857,014</u>	<u>\$(178,551)</u>

<b>June 30, 2010</b>						
<b>Description of Securities</b>	<b>Less than 12 Months Fair Value</b>	<b>12 Months Unrealized Losses</b>	<b>12 Months or More Fair Value</b>	<b>12 Months or More Unrealized Losses</b>	<b>Total Fair Value</b>	<b>Total Unrealized Losses</b>
Mortgage-backed securities	\$2,163,197	\$ (26,097)	\$ 632,844	\$ (44,786)	\$2,796,041	\$ (70,883)
Municipal securities	<u>—</u>	<u>—</u>	<u>49,651</u>	<u>(349)</u>	<u>49,651</u>	<u>(349)</u>
Total temporarily impaired securities	<u>\$2,163,197</u>	<u>\$ (26,097)</u>	<u>\$ 682,495</u>	<u>\$ (45,135)</u>	<u>\$2,845,692</u>	<u>\$(71,232)</u>

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**Note 3: Loans and Allowance for Loan Losses**

Categories of loans include:

	<u>2011</u>	<u>2010</u>
First mortgage loans (principally conventional)		
Principal balances		
Secured by one-to four-family residences	\$ 51,896,429	\$ 56,212,104
Secured by other properties	21,076,621	23,315,455
Construction loans	<u>4,627,200</u>	<u>5,409,116</u>
	<u>77,600,250</u>	<u>84,936,675</u>
Less		
Undisbursed portion of construction loans	2,669,958	1,680,555
Net deferred loan origination fees	<u>76,949</u>	<u>85,238</u>
	<u>2,746,907</u>	<u>1,765,793</u>
Total first mortgage loans	<u>74,853,343</u>	<u>83,170,882</u>
Consumer and other loans		
Principal balances		
Automobile	4,265,710	5,023,688
Savings	908,741	862,068
Second mortgage	3,324,812	3,814,736
Manufactured home	157,637	179,230
Commercial	3,507,987	3,001,402
Other	<u>1,915,854</u>	<u>1,710,214</u>
Total consumer and other loans	<u>14,080,741</u>	<u>14,591,338</u>
Total loans	88,934,084	97,762,220
Less allowance for loan losses	<u>574,913</u>	<u>592,016</u>
	<u>\$ 88,359,171</u>	<u>\$ 97,170,204</u>

Activity in the allowance for loan losses was as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 592,016	\$ 463,044
Provision charged to expense	60,000	100,000
Losses of \$81,392 and \$13,881 charged off, net of recoveries of \$4,289 and \$42,853 for 2011 and 2010, respectively	<u>(77,103)</u>	<u>28,972</u>
Balance, end of year	<u>\$ 574,913</u>	<u>\$ 592,016</u>

Impaired loans totaled approximately \$2,511,000 and \$642,000 at June 30, 2011 and 2010, respectively. An allowance for loan losses of \$61,000 and \$7,000 relates to impaired loans at June 30, 2011 and 2010, respectively.

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Interest of approximately \$174,000 and \$37,000 was recognized in the years ended June 30, 2011 and 2010, respectively, on average impaired loans of approximately \$1,576,000 and \$505,000 for 2011 and 2010, respectively. Interest of approximately \$147,000 and \$33,000 was recognized in the years ended June 30, 2011 and 2010, respectively, on impaired loans on a cash basis during 2011 and 2010.

Nonaccrual loans, including those 90 or more days past due, as well as those loans considered troubled debt restructures, were \$958,000 and \$657,000 at June 30, 2011 and 2010, respectively. There were no loans past due greater than 90 days and still accruing interest at June 30, 2011 or 2010.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At June 30, 2011, the Company had \$194,000 of residential mortgages that were modified in troubled debt restructurings and impaired. In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$247,249 of residential mortgage loans at June 30, 2011.

**Note 4: Loan Servicing**

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others totaled \$60,319,186 and \$60,254,240 at June 30, 2011 and 2010, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in advances from borrowers held in escrow, were approximately \$418,000 and \$399,000 at June 30, 2011 and 2010, respectively.

Mortgage servicing rights are included in assets on the consolidated balance sheets in the caption titled "Other." Activity in mortgage servicing rights was as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 143,618	\$ 158,683
Servicing rights capitalized	11,807	32,250
Amortization of servicing rights	(46,042)	(47,315)
Valuation allowance	<u>          —</u>	<u>          —</u>
Balance, end of year	<u>\$ 109,383</u>	<u>\$ 143,618</u>

There has been no impairment recognized on mortgage servicing rights. This asset is valued at least annually based on current terms of the underlying sold loans. Amortization of the asset, which is stratified into various original lives of the loans, has been accelerated based on estimated current lives of the underlying loans. This is due to the high level of refinancing that occurred in both the current and in prior years.

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**Note 5: Premises and Equipment**

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 133,778	\$ 133,778
Buildings and improvements	2,642,600	2,606,762
Furniture, fixtures and equipment	967,328	1,047,843
Automobiles	<u>57,916</u>	<u>57,916</u>
	3,801,622	3,846,299
Less accumulated depreciation	<u>2,042,857</u>	<u>1,968,173</u>
Net premises and equipment	<u>\$ 1,758,765</u>	<u>\$ 1,878,126</u>

**Note 6: Income Taxes**

The provision for income taxes consists of:

	<u>2011</u>	<u>2010</u>
Taxes currently payable	\$ 723,121	\$ 766,834
Deferred income taxes	<u>286,409</u>	<u>(166,515)</u>
Income tax expense	<u>\$ 1,009,530</u>	<u>\$ 600,319</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2011</u>	<u>2010</u>
Computed at the statutory rate (34%)	\$ 717,443	\$ 580,719
Increase (decrease) resulting from		
Nontaxable interest income, net of nondeductible interest expense	(53,625)	(45,919)
Nontaxable increase in cash value of bank-owned life insurance	(29,119)	(30,024)
Nondeductible meals and entertainment costs	3,740	3,264
State income taxes – net of federal tax benefit	36,560	72,870
Nondeductible stock option expense	13,242	21,821
Change in deferred tax valuation allowance	306,604	—
Other	<u>14,685</u>	<u>(2,412)</u>
Actual tax expense	<u>\$ 1,009,530</u>	<u>\$ 600,319</u>
Effective tax rate	<u>47.8%</u>	<u>34.8%</u>

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The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets are:

	<u>2011</u>	<u>2010</u>
Deferred tax assets		
Allowance for loan losses	\$ 215,807	\$ 203,306
Benefit plan accruals	421,807	553,435
Nonaccrual loan interest	14,674	5,379
Other-than-temporary impairment on investment securities	234,734	1,484,169
Unrealized depreciation on held-to-maturity securities	74,693	233,921
Capital loss carry forward	1,206,183	—
Other	<u>11,853</u>	<u>12,068</u>
	<u>2,179,751</u>	<u>2,492,278</u>
Deferred tax liabilities		
Originated mortgage servicing rights	(41,893)	(54,903)
Federal Home Loan Bank stock dividends	(297,844)	(286,102)
Accumulated depreciation	(170,243)	(185,985)
Benefit plan deductions	(163,034)	(322,507)
Unrealized appreciation on available-for-sale securities	(32,128)	(267,483)
Market valuation adjustments on bank acquisition	<u>(89,322)</u>	<u>(109,418)</u>
	<u>(794,464)</u>	<u>(1,226,398)</u>
Net deferred tax asset before valuation allowance	<u>1,385,287</u>	<u>1,265,880</u>
Valuation allowance		
Beginning balance	(899,579)	(899,579)
Increase during the year	<u>306,604</u>	<u>—</u>
Ending balance	<u>(1,206,183)</u>	<u>(899,579)</u>
Net deferred tax asset	<u>\$ 179,104</u>	<u>\$ 366,301</u>

Retained earnings at June 30, 2011 and 2010, include approximately \$615,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. If the Bank were to liquidate, the entire amount would have to be recaptured and 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 preceding amount was approximately \$246,000 at June 30, 2011 and 2010.

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**Note 7: Deposits**

Deposits are summarized as follows:

	<b>Weighted Average Interest Rate</b>	<b>2011</b>	<b>2010</b>
Demand and NOW accounts, including noninterest bearing deposits of \$7,202,503 at June 30, 2011 and \$6,936,879 at June 30, 2010	.33% - .81%	\$ 25,523,883	\$ 24,406,476
Money market	.37% - .93%	6,956,731	5,694,288
Passbook savings	.29% - .59%	<u>7,435,980</u>	<u>6,538,549</u>
		<u>39,916,594</u>	<u>36,639,313</u>
Certificates of deposit			
0% to 0.99%		21,423,804	493,679
1% to 1.99%		25,803,231	45,598,102
2% to 2.99%		8,510,674	10,937,173
3% to 3.99%		9,084,234	10,923,163
4% to 4.99%		3,818,889	5,043,903
5% to 5.99%		<u>1,205,472</u>	<u>1,341,689</u>
		<u>69,846,304</u>	<u>74,337,709</u>
		<u>\$ 109,762,898</u>	<u>\$ 110,977,022</u>

The aggregate amount of certificates of deposit with a denomination in excess of \$100,000 was \$39,273,465 and \$42,927,140 at June 30, 2011 and 2010, respectively. The aggregate amount of certificates of deposit with a denomination in excess of \$250,000 was \$23,451,976 and \$26,298,803 at June 30, 2011 and 2010, respectively.

At June 30, 2011, scheduled maturities of certificates of deposit are as follows:

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
0% to 0.99%	\$ 21,423,804	\$ —	\$ —	\$ —	\$ —
1% to 1.99%	22,138,878	2,687,978	848,220	107,703	20,452
2% to 2.99%	1,758,174	769,952	101,643	2,943,777	2,937,128
3% to 3.99%	589,202	1,758,263	3,246,505	3,472,179	18,085
4% to 4.99%	1,122,963	1,696,214	999,712	—	—
5% to 5.99%	<u>554,357</u>	<u>651,115</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 47,587,378</u>	<u>\$ 7,563,522</u>	<u>\$ 5,196,080</u>	<u>\$ 6,523,659</u>	<u>\$ 2,975,665</u>

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Interest expense on deposits is summarized as follows:

	<u>2011</u>	<u>2010</u>
Money market	\$ 39,716	\$ 58,152
Passbook savings	31,958	42,247
NOW	103,283	129,980
Certificates of deposit	<u>1,361,134</u>	<u>1,940,594</u>
	<u>\$ 1,536,091</u>	<u>\$ 2,170,973</u>

**Note 8: Federal Home Loan Bank Advances**

Advances from the Federal Home Loan Bank consist of the following:

<u>Due In</u>	<u>2011</u> <u>Amount</u>	<u>Weighted</u> <u>Average</u> <u>Interest</u> <u>Rate</u>	<u>2010</u> <u>Amount</u>	<u>Weighted</u> <u>Average</u> <u>Interest</u> <u>Rate</u>
2011	\$ —	—%	\$ 4,709,545	4.35%
2012	3,970,230	3.99%	3,970,230	3.99%
2013	5,731,630	4.30%	5,731,630	4.30%
2014	2,193,793	4.70%	2,193,793	4.70%
2015	2,206,773	3.95%	2,206,773	3.95%
2016	3,220,621	3.56%	2,220,621	3.47%
2017 and later	<u>1,871,432</u>	2.78%	<u>1,871,432</u>	3.60%
	<u>\$ 19,194,479</u>	3.97%	<u>\$ 22,904,024</u>	4.12%

The Federal Home Loan Bank requires the Bank to maintain Federal Home Loan Bank stock, investment securities and first mortgage loans free of pledges, liens and encumbrances in an amount equal to at least 117% of outstanding advances as collateral for such borrowings.

**Note 9: Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve 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 are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to adjusted tangible assets (as defined). Management believes, as of June 30, 2011 and 2010, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2011, the most recent notification from the Office of Thrift Supervision (OTS) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. The Bank became subject to regulations of the Office of the Comptroller of the Currency (OCC) effective July 21, 2011, under the Dodd-Frank Wall Street Reform and Consumer Protection Act. No changes in the regulatory framework for capital requirements were made. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In Thousands)						
As of June 30, 2011						
Total Risk-Based Capital (to Risk-Weighted Assets)	\$ 18,675	22.20%	\$ 6,728	≥ 8.0%	\$ 8,412	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 18,107	21.53%	\$ 3,364	≥ 4.0%	\$ 5,046	≥ 6.0%
Tier I Capital (to Adjusted Tangible Assets)	\$ 18,107	11.74%	\$ 6,169	≥ 4.0%	\$ 7,712	≥ 5.0%
Tangible Capital (to Adjusted Tangible Assets)	\$ 18,107	11.74%	\$ 2,314	≥ 1.5%	N/A	N/A
As of June 30, 2010						
Total Risk-Based Capital (to Risk-Weighted Assets)	\$ 21,373	20.46%	\$ 8,356	≥ 8.0%	\$10,446	≥ 10.0%
Tier I Capital (to Risk-Weighted Assets)	\$ 20,583	19.71%	\$ 4,177	≥ 4.0%	\$ 6,266	≥ 6.0%
Tier I Capital (to Adjusted Tangible Assets)	\$ 20,583	12.98%	\$ 6,343	≥ 4.0%	\$ 7,929	≥ 5.0%
Tangible Capital (to Adjusted Tangible Assets)	\$ 20,583	12.98%	\$ 2,379	≥ 1.5%	N/A	N/A

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Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and depends on a number of factors, including capital requirements, regulatory limitation on payment of dividends, the Bank's results of operations and financial condition, tax considerations, and general economic conditions.

A savings institution that is a subsidiary of a savings and loan holding company, such as the Bank, must file a notice with the Board of Governors of the Federal Reserve System (FRB) and an application or a notice with the OTS, (the OCC effective July 21, 2011) at least thirty days before making a capital distribution. A savings institution must file an application with the OCC for prior approval of a capital distribution if: (i) it is not eligible for expedited treatment under the applications processing rules of the OCC; (ii) the total amount of all capital distributions, including the proposed capital distribution, for the applicable calendar year would exceed an amount equal to the savings institution's net income for that year to date plus the institution's retained net income for the preceding two years; (iii) it would not be adequately capitalized after the capital distribution; or (iv) the distribution would violate an agreement with the OCC or applicable regulations. At June 30, 2011, the Bank was not able to pay dividends to the Company without prior regulatory approval.

A reconciliation of the Bank's equity under generally accepted accounting principles to regulatory capital shown above is as follows:

	<u>2011</u>	<u>2010</u>
	<b>(In Thousands)</b>	
GAAP equity	\$ 19,118	\$ 21,796
Plus (Less):		
Net unrealized (gains) losses on investment securities	69	(55)
Goodwill and other intangible assets	(1,069)	(1,144)
Disallowed servicing assets	<u>(11)</u>	<u>(14)</u>
Tangible capital	18,107	20,583
Plus:		
Unrealized gains on available-for-sale equity securities	—	255
General allowance for losses	<u>568</u>	<u>535</u>
Total Risk-Based Capital	<u>\$ 18,675</u>	<u>\$ 21,373</u>

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**Note 10: Pension Plan**

The Company has a defined contribution pension plan covering all employees who have at least one year of service, have reached the age of 21 and work greater than 1,000 hours during the plan year. Employees may contribute up to 15%, subject to Internal Revenue Service limitations, excluding catch-up adjustments allowed by the Internal Revenue Service, of their compensation with the Company matching 100% of the employee's contribution on the first 3%, and 50% on the next 2%, of the employee's compensation, for a total of 4%. Employer contributions charged to expense for the years ended June 30, 2011 and 2010 were approximately \$49,000 and \$48,000, respectively.

**Note 11: Employee Stock Plans**

***Employee Stock Ownership Plan***

The Company has established an ESOP covering substantially all employees. The ESOP acquired a total of 288,000 shares of common stock with funds provided by a loan from the Company at a current annual interest rate of 3.25%. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares are used to repay the loan and are treated as a reduction in debt. Compensation expense is recorded equal to the fair value of shares committed to be released. ESOP expense for the years ended June 30, 2011 and 2010 was \$133,809 and \$134,808, respectively.

A recap of ESOP shares at June 30, 2011 and 2010 is as follows:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Allocated shares	142,261	116,112
Shares committed to be released	—	—
Unallocated shares	<u>145,739</u>	<u>171,888</u>
Total ESOP shares	<u>288,000</u>	<u>288,000</u>
Fair value of unallocated shares	<u>\$ 1,359,745</u>	<u>\$ 1,246,188</u>

The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. At June 30, 2011 and 2010, there were 7,180 and 3,128 outstanding shares, respectively, held by former employees that are subject to an ESOP-related repurchase option.

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***Stock Option and Restricted Stock Plans***

The Company has established the Osage Bancshares, Inc. 2004 Stock Option Plan (the 2004 Plan). The purpose of the Plan is to attract and retain qualified personnel for positions of substantial responsibility, and to provide additional incentive to certain officers, directors and other employees. 179,524 options have been approved and 161,562 options have been granted. As of June 30, 2011, all options that were granted were vested. The Company has also established the Osage Federal Bank 2004 Restricted Stock Plan (the RSP). The purpose of the RSP is to reward and retain personnel of experience and ability in key positions of responsibility, including officers, directors and other employees. The purchase of up to 71,806 shares was approved and 64,614 shares were granted. As of June 30, 2011, all restricted stock that was awarded was vested.

The Company has established the Osage Bancshares, Inc. 2007 Stock Compensation and Incentive Plan (the 2007 Plan). The purpose of the 2007 Plan is the same as the original 2004 Plan and RSP. 180,474 options were approved, and 176,935 options were granted effective December 21, 2007. The purchase of RSP shares up to 72,190 shares was approved and 70,770 were granted effective December 21, 2007.

For the 2004 Plan, options are granted with an exercise price equal to the market price of the Company's stock at the date of grant. For the 2007 Plan, options are granted with an exercise price equal to the market price of the Company's stock at the date of vesting, but not less than \$10.00 per share. Under all the Plans, awards vest 20% annually based on 5 years of continuous service. The option awards have 10-year contractual terms. Option and share awards provide for accelerated vesting if there is a change in control as defined in the 2004 Plan, RSP, and 2007 Plan.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is an estimate by management and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the options is based on the U.S. Treasury rate for a similar term in effect at the time of grant. There were no stock options granted during the years ended June 30, 2011 and 2010 and no options were exercised.

**Osage Bancshares, Inc.**  
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A summary of option activity under the 2004 and 2007 Plans as of June 30, 2011 and 2010 and changes during the years is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 1, 2009	323,431	\$ 8.94	7 years, 1 month	\$ 195,186
Granted	—	—		
Exercised	—	—		
Outstanding at July 1, 2010	323,431	8.94	6 years, 1 month	\$ —
Granted	—	—		
Forfeited	5,415	10.00		
Exercised	—	—		
Outstanding at June 30, 2011	<u>318,016</u>	8.92	5 years, 1 month	\$ 55,129
Exercisable at June 30, 2011	148,997	7.69		\$ —

A summary of the status of the Company's nonvested shares as of June 30, 2011, and changes during the year ended June 30, 2011, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	104,671	\$ 10.00
Granted	—	
Vested	33,084	10.00
Forfeited	<u>13,135</u>	
Nonvested, end of year	<u>58,452</u>	10.00

As of June 30, 2011, there was \$57,000 of total unrecognized compensation cost related to the options portion of the 2007 Plan. The 2004 Plan is fully vested, and there is no unrecognized compensation cost. The cost of the 2007 Plan is expected to be recognized over a period of 1.4 years. The total fair value of shares vested during the year ended June 30, 2011, was \$218,354.

Expense recognized for the stock option plans and the restricted stock plans was \$38,747 and \$104,035, respectively for the year ended June 30, 2011. This includes \$4,729 of dividends for unearned shares in the restricted stock plans which are accounted for as compensation expense.

Expense recognized for the stock option plans and the restricted stock plans was \$64,153 and \$184,055, respectively for the year ended June 30, 2010. This includes \$18,805 of dividends for unearned shares in the restricted stock plans which are accounted for as compensation expense.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 12: Other Operating Expenses**

Other operating expenses consist of the following:

	<u>2011</u>	<u>2010</u>
Bank charges	\$ 72,283	\$ 87,604
Professional services	104,928	225,691
Postage	51,547	55,620
Telephone	27,123	27,310
Operating supplies	33,889	31,163
Insurance	10,261	9,776
Data processing	223,861	216,961
Advertising and public relations	129,734	123,133
Donations	2,290	1,832
Directors' fees	87,800	92,800
OTS assessments	61,159	60,879
Foreclosed asset expense	193,447	37,568
Other	<u>287,147</u>	<u>210,509</u>
	<u>\$ 1,285,469</u>	<u>\$ 1,180,846</u>

**Note 13: Disclosures about the Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

The following definitions describe the fair value hierarchy of levels of inputs used in the fair value measurements.

- Quoted prices in active markets for identical assets or liabilities (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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- Significant unobservable inputs (Level 3): Inputs that reflect assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

Financial instruments are broken down as follows by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

The following is a description of valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

***Available-for-Sale Securities***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Company has no Level 1 securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include collateralized mortgage obligations, mortgage-backed securities and equity securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company has no Level 3 securities.

***Mortgage Servicing Rights***

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

	<b>June 30, 2011</b>		
	<b>Fair Value Measurements Using</b>		
	<b>Quoted Prices</b>	<b>Significant</b>	<b>Significant</b>
	<b>in Active</b>	<b>Other</b>	<b>Unobservable</b>
	<b>Markets for</b>	<b>Observable</b>	<b>Inputs</b>
	<b>Identical</b>	<b>Inputs</b>	<b>Inputs</b>
	<b>Assets</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Available-for-sale securities			
Mortgage backed:			
Government-sponsored enterprise			
– residential	\$ 2,623,679	\$ —	\$ 2,623,679
Private label – residential	325,155	—	325,155
Mortgage servicing rights	109,383	—	109,383

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	June 30, 2010		
	Fair Value Measurements Using		
	Quoted Prices	in Active	Significant
	Markets for	Other	Significant
	Identical	Observable	Unobservable
	Assets	Inputs	Inputs
Fair Value	(Level 1)	(Level 2)	(Level 3)
Available-for-sale securities			
Collateralized mortgage obligations	\$ 414,790	\$ —	\$ 414,790
Mortgage-backed securities	3,780,903	—	3,780,903
Equity securities	10,796,937	—	10,796,937
Held-to-maturity securities:			
Private-label – residential	1,434,429	—	1,434,429
Mortgage servicing rights	143,618	—	143,618

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

***Loans Held for Sale***

Fair value of loans held for sale are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Company's current origination rates for similar loans and adjusted to reflect the inherent credit risk. Loans held for sale based on quoted market prices are classified within Level 1 of the hierarchy. Otherwise, loans held for sale are classified within Level 2 of the valuation hierarchy.

***Impaired Loans (Collateral Dependent)***

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

***Held-to-Maturity Securities for Which Other-than-Temporary Impairment has Been Recognized***

Held-to-maturity securities for which other-than-temporary impairment has been recognized are classified within Level 1, Level 2 or Level 3 of the valuation hierarchy and the fair value is determined using the same methodology and inputs as previously disclosed for available-for-sale securities.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	<b>June 30, 2011</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Quoted Prices</b>			
	<b>Fair Value</b>	<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Loans held for sale	\$ 197,300	\$ —	\$ 197,300	\$ —
Impaired loans (collateral dependent)	2,457,000	—	—	2,457,000
Held-to-maturity securities				
Mortgage-backed: Private-label residential	950,730	—	950,730	—

	<b>June 30, 2010</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Quoted Prices</b>			
	<b>Fair Value</b>	<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Loans held for sale	\$ 301,400	\$ —	\$ 301,400	\$ —
Impaired loans (collateral dependent)	641,673	—	—	641,673

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	<b>2011</b>		<b>2010</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Financial assets				
Cash and cash equivalents	\$ 14,547,185	\$ 14,547,185	\$ 12,996,410	\$ 12,996,410
Held-to-maturity securities	38,404,974	38,907,833	23,696,702	24,102,198
Loans, net	88,359,171	97,920,658	97,170,204	106,162,344
Interest receivable	630,689	630,689	697,453	697,453
Federal Home Loan Bank stock	2,002,700	2,002,700	1,971,800	1,971,800
Financial liabilities				
Deposits	\$ 109,762,898	\$ 110,982,845	\$ 110,977,022	\$ 111,856,981

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest payable	9,773	9,773	35,493	35,493
Federal Home Loan Bank advances	19,194,479	20,087,264	22,904,024	24,001,927

The fair value of off-balance sheet items such as loan commitments are not material. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

***Cash and Cash Equivalents, and Federal Home Loan Bank Stock***

The carrying amount approximates fair value.

***Held-to-Maturity Securities***

Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

***Loans and Interest Receivable***

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of interest receivable approximates its fair value.

***Deposits and Interest Payable***

The fair value of demand deposits, savings accounts, NOW accounts and certain money market deposits is the amount payable on demand at the reporting date, *i.e.*, their carrying amount. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

***Federal Home Loan Bank Advances***

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Note 14: Earnings Per Share**

Earnings per share (EPS) were computed as follows for the years ended June 30, 2011 and 2010.

	<b>Years Ending</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ <u>1,100,595</u>	\$ <u>1,123,893</u>
Average common shares outstanding	\$ <u>2,311,300</u>	\$ <u>2,434,563</u>
Average diluted common shares outstanding	\$ <u>2,311,300</u>	\$ <u>2,443,609</u>
Basic earnings per share	\$ <u>0.48</u>	\$ <u>0.46</u>
Fully diluted earnings per share	\$ <u>0.48</u>	\$ <u>0.46</u>

For the years ended June 30, 2011 and 2010, the effects of 318,016 shares and 323,431 shares, respectively, of stock options have been excluded from the calculation of diluted earnings per share because their effects would be antidilutive.

**Note 15: Related Party Transactions**

At June 30, 2011 and 2010, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates. These loans are summarized as follows:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Balance, beginning of year	\$ 245,000	\$ 263,000
New loans	62,000	8,000
Payments	<u>(139,000)</u>	<u>(26,000)</u>
Balance, end of year	\$ <u>168,000</u>	\$ <u>245,000</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Note 16: Deferred Compensation Agreements**

The Company has deferred compensation agreements with selected officers and directors that provide, upon disability or retirement, a predetermined benefit amount annually for life. Upon death, the agreement provides for reduced payments to continue to the surviving spouse. The present value of total estimated deferred compensation is being accrued using the straight-line method over the remaining years to the full eligibility date. Expense for the years ended June 30, 2011 and 2010 was \$96,985 and \$106,332, respectively. The Company paid out \$8,330 to eligible employees during the year ended June 30, 2011.

**Note 17: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in *Notes 1* and *3*. Current vulnerabilities due to certain concentrations of credit risk are discussed in *Note 18*.

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The accompanying financial statements have been prepared using values and information currently available to the Company. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly.

**Note 18: Commitments and Credit Risk**

The Company grants real estate, consumer and other loans, generally secured by real estate or other assets, throughout its defined lending area which is primarily located in north central Oklahoma.

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. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral consists primarily of residential real estate and other consumer collateral.

**Osage Bancshares, Inc.**  
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At June 30, 2011 and 2010, the Company had outstanding commitments to originate loans aggregating approximately \$1,877,000 and \$2,595,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Fixed rate commitments at June 30, 2011 were \$1,877,000, and there were no commitments at floating market rates. Fixed rate commitments at June 30, 2010 were \$2,410,000, with the remainder at floating market rates. At June 30, 2011, the interest rates on those commitments ranged from 3.88% to 9.75%.

The Company also had \$964,000 of unfunded lines of credit as of that date, of which \$942,000 were at fixed rates and \$22,000 were at floating market rates.

Mortgage loans in the process of origination represent amounts which the Company plans to fund within a normal period of 60 to 90 days. A portion of these loans is intended for sale to investors in the secondary market. Commitments to originate mortgage loans for sale are considered by the Company to be derivatives and are recorded on the balance sheet until the commitment is fulfilled if deemed material. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Company may acquire such commitments to reduce market risk on saleable mortgage loans in the process of origination and mortgage loans held for sale.

At June 30, 2011 and 2010, total mortgage loans in the process of origination amounted to approximately \$2,292,000 and \$2,677,000, respectively. At June 30, 2011 and 2010, there were forward commitments to sell mortgage loans of \$1,492,000 and \$1,182,000, respectively. Included in mortgage loans in the process of origination were commitments to originate loans at fixed rates of interest of approximately \$2,009,000 and \$1,942,000 at June 30, 2011 and 2010, respectively.

The Company is also party to letters of credit with the FHLB in the amount of \$15.0 million. These letters of credit are used to collateralize the deposits of certain governmental agencies to replace excess deposit insurance that is no longer available. In turn, they reduce the amount the Company may borrow from the FHLB by the same amount, giving us the ability at June 30, 2011 to borrow an additional \$18.2 million from the FHLB of Topeka as a funding source to meet commitments and for liquidity purposes.

At June 30, 2011, the Company had standby letters of credit of \$100,200 for one customer.

Loans aggregating approximately \$4,603,000 or 5.2% of the portfolio at June 30, 2011 were outstanding to borrowers employed by an area-based petroleum refining company.

Deposits of approximately \$17,459,000 or 15.9% of the Company's total deposits were from one customer.

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 19: Other Comprehensive Income (Loss)**

Other comprehensive income (loss) is comprised of the following:

	<u>2011</u>	<u>2010</u>
Net unrealized gain (loss) on available-for-sale securities	\$ (53,585)	\$ 201,463
Net unrealized gain (loss) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	49,366	348,119
Net unrealized gain (loss) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income	(17,540)	(796,741)
Less reclassification adjustments for gain (loss) included in net income	<u>178,575</u>	<u>(181,159)</u>
Other comprehensive income (loss) before tax effect	(200,334)	(66,000)
Tax expense (benefit)	<u>(76,126)</u>	<u>(25,080)</u>
Other comprehensive income (loss)	<u>\$ (124,208)</u>	<u>\$ (40,920)</u>

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	<u>2011</u>	<u>2010</u>
Net unrealized gain (loss) on available-for-sale securities	\$ 84,547	\$ 138,132
Net unrealized gain (loss) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	—	565,771
Net unrealized gain (loss) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income	<u>(196,560)</u>	<u>(615,582)</u>
	(112,013)	88,321
Tax effect	<u>42,564</u>	<u>(33,562)</u>
	<u>\$ (69,449)</u>	<u>\$ 54,759</u>

**Note 20: Condensed Parent Company Statements**

The condensed balance sheets at June 30, 2011 and 2010 and statements of income and cash flows for the years ended June 30, 2011 and 2010, for the parent company, Osage Bancshares, Inc., are as follows:

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Balance Sheets</b>		
<b>Assets</b>		
Cash	\$ 5,169,660	\$ 2,054,643
Investment in subsidiary bank	<u>17,921,954</u>	<u>20,784,082</u>
Total assets	<u>\$ 23,091,614</u>	<u>\$ 22,838,725</u>
<b>Stockholders' Equity</b>		
Total liabilities and stockholders' equity	<u>\$ 23,091,614</u>	<u>\$ 22,838,725</u>
<b>Statements of Income</b>		
<b>Income</b>		
Interest and dividend income	\$ _____	\$ _____
<b>Income Before Income Tax and Equity in Undistributed Earnings of Subsidiaries</b>		
	—	—
<b>Provision for Income Taxes</b>		
	_____	_____
<b>Income Before Equity in Earnings of Subsidiaries</b>		
	—	—
<b>Equity in Undistributed Earnings of Subsidiaries</b>		
	<u>1,100,595</u>	<u>1,123,893</u>
<b>Net Income</b>		
	<u>\$ 1,100,595</u>	<u>\$ 1,123,893</u>
<b>Statements of Cash Flows</b>		
<b>Operating Activities</b>		
Net income	\$ 1,100,595	\$ 1,123,893
Item not providing (using) cash		
Equity in undistributed earnings of subsidiary	<u>(1,100,595)</u>	<u>(1,123,893)</u>
Net cash provided by operating activities	_____	_____
<b>Investing Activities</b>		
Dividends received from subsidiary bank	<u>4,000,000</u>	<u>2,100,000</u>
Net cash provided by investing activities	<u>4,000,000</u>	<u>2,100,000</u>

**Osage Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**  
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	<b>2011</b>	<b>2010</b>
<b>Financing Activities</b>		
Payment of dividends, net of restricted stock dividends	\$ (835,972)	\$ (890,711)
Restricted stock dividend	(16,047)	(24,428)
Cash paid for repurchase of shares under stock buyback plans	<u>(32,964)</u>	<u>(2,415,603)</u>
Net cash used in financing activities	<u>(884,983)</u>	<u>(3,330,742)</u>
<b>Increase (Decrease) in Cash</b>	3,115,017	(1,230,742)
<b>Cash, Beginning of Year</b>	<u>2,054,643</u>	<u>3,285,385</u>
<b>Cash, End of Year</b>	<u>\$ 5,169,660</u>	<u>\$ 2,054,643</u>

**Note 21: Subsequent Event**

Subsequent events have been evaluated through September 23, 2011, which is the date the financial statements were available to be issued.

# **OSAGE BANCSHARES, INC.**

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Osage Federal Bank

Harvey Payne  
Attorney

Richard J. Trolinger  
Executive Vice President  
Osage Federal Bank

Gary D. Strahan  
Certified Public Accountant

Mark A. Formby  
Private Investor

## **Advisory Director**

Martha M. Hayes  
Senior Vice President  
Osage Federal Bank

## **Executive Officers**

Mark S. White, President and CEO  
Richard J. Trolinger, Executive Vice President  
Martha M. Hayes, Senior Vice President  
Sue Allen McClain, Vice President, CFO and Treasurer  
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