



**FIRST  
OTTAWA  
BANCSHARES,  
INC.**

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February 9, 2015

Dear Shareholders,

We are pleased to advise that we have concluded a successful year. In addition to the dividend paid to owners of record on January 1, 2015, we were able to reduce the outstanding debt at the holding company by an additional \$1,350,000 in January, 2015. The remaining debt outstanding at the holding company has therefore been reduced to \$1,570,000, while maintaining a strong tier 1 leveraged capital position of 9.10%, maintaining the bank's "well capitalized" status.

The loan portfolio quality has continued to improve, through both diligent efforts at addressing problem assets and delinquencies, as well as the generally improving economic environment. Classified assets as a percentage of bank capital have declined to 21.8% at year end as compared to a January, 2011 peak of 76.4%, and other real estate owned has declined to 8.7% of bank capital as contrasted to a November, 2011 high of 24.5%. Delinquent loans as of December 31, 2014 have declined to 1.8% of the loan portfolio at year end, as contrasted to 2.7% at year end 2013, and were greater than 8% in mid-2012. We were able to reduce the total provision for loan loss by \$150,000 in 2014 from the amount provided in 2013, due to these improved conditions. We did, though, experience an increase of \$88,000 in net other real estate owned expense compared to 2013, due primarily to valuation write-downs and dispositions.

Consolidated net income for the year 2014 was \$1,530,000 as contrasted to \$1,111,000 for 2013. The consolidated net income includes interest expense for the holding company debt, totaling \$208,000 in 2014 and \$281,000 in 2013.

Earnings improvements in lending contributed to the overall improved earnings position of the company. Commercial and agricultural loans produced approximately \$356,000 of additional interest and fee revenue, compared to 2013. Life equity loans and warehoused mortgage loans, were new to the array of lending products, with mortgage warehousing contributing \$176,000 of additional revenue. These improvements helped to offset the reduction in net secondary market mortgage servicing income of approximately \$319,000, reduced primarily due to the rate driven decline in refinancing activity. Combining revenue across all loan functions, net of the provision expense and liquidated real estate expense as referred to above, reflected a \$228,000 aggregate improvement in net earnings over 2013. Additionally the net loan and lease portfolio including loans held for sale grew to \$150.7 million at year end 2014, as contrasted to \$128.7 million as of December 31, 2013.

#### Subsidiaries, Facilities and Affiliates

First National Bank of Ottawa  
701 LaSalle St.  
2771 N. Columbus St.  
601 State St.  
300 W. Madison St.  
Ottawa, Illinois 61350

First National Bank - Morris  
1771 N. Division St.  
Morris, Illinois 60450

Streator National Bank  
409 E. Bridge St.  
2324 N. Bloomington St.  
Streator, Illinois 61364

First National Bank - Yorkville  
1459 Cannonball Trail  
Yorkville, Illinois 60560

First National Bank - Minooka  
Loan Production Office  
426 W. Mondamin St., Unit 1  
Minooka, Illinois 60447

First Ottawa Financial  
Insurance & Investments  
701 LaSalle St.  
Ottawa, Illinois 61350

Other areas of operations provided important contributions to the improved net income position. Wealth Management fees in 2014 increased by \$122,000 over 2013. FDIC insurance expense paid by the bank declined by \$154,000. Insurance expense for general property casualty and operating liability coverage declined by an additional \$25,000. Interest expense on deposits decreased by \$285,000 due primarily to the general rate environment, careful management of deposit expenses, and the quality of customer service important to retaining our deposit relationships, continuing to help to improve the bank's net interest margin.

We did experience a decline in service charges on deposit accounts, \$86,000 less revenue in 2014 than in 2013, which has been a general trend over the past few years. Salary and benefit expenses continued to be controlled, though increased by approximately \$95,000 (1.96%), and as the result of the additional overall net income, income taxes increased by \$288,000. Overall, considering all revenue and expense, 2014 income net of taxes reflected a 37.7% increase over 2013, with earnings per share of \$2.38 in 2014, and \$1.72 in 2013.

Bank President and CEO Steven Gonzalo has led bank re-branding efforts in the various communities that we serve. Our facility in Yorkville will have a new name, Yorkville National Bank and Trust. More specific information on this initiative to be revealed as the bank moves into its 150<sup>th</sup> year of existence. All in all, through diligent efforts of employees, management, and the board of directors as well as the loyal support of our customers and shareholders, we have concluded a promising year of performance. Much has changed since the bank's founding in 1865, but we continue to profitably and professionally provide financial services and support to the communities that we serve, exactly as was envisioned 150 years ago.

Thank you for your continued support. Please feel free to contact either myself or bank President and CEO, Steven Gonzalo should you have any comments or questions that we may address.

Very truly yours,



Donald J. Harris  
First Ottawa Bancshares, Inc.  
Chairman, CEO and President

DJH/me