



FIRST OTTAWA BANCSHARES, INC.

Direct Parent Company of The First National Bank of Ottawa

February 15, 2016

Dear Shareholders,

As you will note in the attached, the holding company has added to its stock repurchase program an offer of a direct repurchase at a fixed price for a period of time. See the attached for details.

The bank's 4th quarter financials have been filed and are publicly available at: <https://cdr.ffiec.gov/public/>. Following are some of the highlights of the financial performance of both the bank and of the company on a consolidated basis. The holding company's consolidated net income for 2015 increased to \$2.333 million, as compared to our 2014 net income of \$1.530 million. Earnings per share in 2015 were \$3.62, an increase from \$2.38 per share in 2014. Overall assets, which tend to fluctuate, increased modestly ending the calendar year 2015 at \$285.5 million. At year end 2014, total assets were \$273.4 million. Total deposits ended 2015 at \$238.3 million, as contrasted to \$228.8 million at the end of the previous year.

Our deposit balances have remained relatively stable, while our net interest margin has improved. The month to date net interest margins for December, 2012, 2013, 2014 and 2015 were respectively, 3.10%, 3.28%, 3.62%, and 3.89%. So we have benefited from a relatively low cost of funds leading to improved margins and earnings.

Total shareholders' equity increased during the year to \$28.957 million. At year end 2014, total shareholder's equity was \$27.263 million. The holding company debt has been reduced to approximately \$571 thousand, and it is our plan to eliminate the remaining balance during 2016. Tier One Leverage Capital for the holding company rose to 9.24% at year end 2015 from 8.65% at year end 2014.

Net Interest Income after provision for loan losses improved to \$9.6 million in 2015, as contrasted to \$8.6 million in 2014. Noninterest Income improved as well, to \$3.0 million versus \$2.5 million. Total noninterest expense was contained during this past year, increasing approximately 2.4% to \$9.2 million in 2015 from \$9.0 million in 2014.

The bank's return on assets was .84% in 2015, increasing from .59% in 2014. Our yield on loans declined to 5.12% in the fourth quarter of 2015, from 5.50% during the 4th quarter of 2014 on strong volumes. The yield decline was due primarily to short term lending at lower rates which are currently preferable to investment alternatives. Net loan volumes increased to \$188.8 million as of December 31, 2015 from \$150.5 million as of December 31, 2014. The loan to deposit ratio increased to 79.2% for the fourth quarter of 2015, from 65.8% during the 4th quarter of 2014.

Yields on the securities portfolio increased during 2015 while yields on loans declined, albeit with higher volumes as noted above. The tax equivalent investment yield was 2.25% during the 4th quarter of 2015, and 2.00% during the 4th quarter of 2014.

Other real estate owned generally composed of real estate collateral acquired through foreclosure or deed in lieu of foreclosure represented .95% of average assets in the 4th quarter of 2015, improving slightly from 1.00% in the 4th quarter of 2014. Past due loans that were greater than 90 days past due or on nonaccrual status, also improved, to .80% of average assets in the 4th quarter of 2015, from .89% during the 4th quarter of 2014.

So, overall I believe you will agree that our company's and the bank's performance this past year was promising. Again, the complete detail of the bank's financial performance is available publicly through the FFIEC (Federal Financial Institutions Examination Council) website.

Please review the attached information regarding the offer to repurchase of shares and respond if and as interested.

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

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Encl.