



**FIRST
OTTAWA
BANCSHARES,
INC.**

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July 24, 2014

Dear Shareholders,

At our Annual Shareholders meeting on May 21, 2014, we discussed a number of changes to our management team that will be leading us in the future. Thomas P. Rooney was re-elected to the Board of Directors, and William K. Walsh was elected. William J. Walsh, Chairman of both the holding company and bank boards and Joachim “Jock” Brown, President, CEO, and director of both boards each retired from their long service to the holding company and the bank.

Subsequently, I assumed the new positions of Chairman of the Board of both the holding company and the bank as well as CEO and President of the holding company, and Steven M. Gonzalo commenced service as CEO and President of the bank. Joanne Brewe retired as Sr. Compliance and Security officer, with Sue Wilkie assuming Joanne’s former duties, and Kim Reeland was appointed as our Information Technology Officer. Shannon Stevens, the bank’s Chief Trust Officer, and Joel Hambleton, the bank’s Chief Mortgage Officer, were each subsequently designated as Executive Officers and added to the bank’s senior management team. We thank those retiring for their stellar service, and congratulate those assuming new or expanded roles. Additionally we note that the amendment to Article 5 of First Ottawa Bancshares, Inc. certificate of incorporation, as more fully described in the proxy statement prepared for the meeting, was approved.

Our financial results for the first six months of 2014 have now been filed for public review, and reflect a number of positive results. Overall, the bank experienced improvement in net income of approximately \$40 thousand, or 6.5%, as contrasted to the first six months of 2013. This was affected by \$145 thousand of additional commercial and agricultural loan income, a \$123 thousand reduction in time deposit expense, and a \$110 thousand reduction in the provision for loan loss due to both improving loan asset quality and declining delinquencies. Classified assets as a percentage of total capital ended the period at 29.93%, a significant improvement from the prior year of 40.63%, and continued improvement from 2012 of 58.56%, all reflecting better market conditions as well as the efforts, discipline, and expertise of our lending staff. The net interest income after provision for loan losses improved \$372 thousand when contrasted to the same period a year earlier.

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

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

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

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

In the noninterest portion of the income statement there were some mixed results, but many areas where the bank experienced improved results. Trust and farm management fees improved by \$43 thousand, salaries and employee benefit expense declined by \$46 thousand, FDIC insurance expense declined by \$46 thousand, other insurance expense declined by \$21 thousand, and losses on the sale of other real estate owned improved by \$21 thousand, all enhancing the bank's earnings compared to the first six months of 2013.

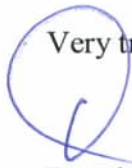
Areas of noninterest income or expense that experienced lower performance than in 2013 were decreases in service charge income on deposit accounts, a reduction in the gain on sale of secondary market loans, an increase in professional fees, and an increase in other expense.

First National Bank President and CEO Steven Gonzalo noted regarding the bank's lending performance, "Net loans at the end of the second quarter rose to \$135 million compared to \$118 million at the end of the second quarter of 2013. Mortgage origination volumes at the bank and across the Midwest were dramatically lower due primarily to the weather and reduced refinances. However, origination volumes in the second quarter of 2014 at the First National Bank returned to a more normal and anticipated rate. The improvement in interest income from loans resulted from the Bank being able to shift earning assets from lower yielding investments to higher yielding loans."

The first half of this year also contained a number of additional achievements. The entirety of the senior unsecured debt of the holding company was retired and replaced with conventional financing from a correspondent bank, at a lower rate, and with some additional flexibility. Furthermore, the holding company was able to reduce \$1 million of the debt from retained earnings of the bank. Additionally, as you are aware, the holding company paid a dividend to shareholders of \$.32 per share on July 1, 2014. Notwithstanding the dividend of \$1,280,000 paid by the bank to the holding company, the bank's Tier 1 leverage capital ratio was 9.20% at the end of the second quarter, keeping the bank in the "well capitalized" regulatory category.

We are pleased to be able to report this financial information to you, and thank you for your support and loyalty to the holding company and the bank. Please feel free to contact either myself or bank President and CEO, Steven Gonzalo should you have any questions that we may address.

Very truly yours,



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

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