



FIRST OTTAWA BANCSHARES, INC.

Direct Parent Company of The First National Bank of Ottawa

August 22, 2016

Dear Shareholders,

Bank Consolidated Reports of Condition and Income are filed quarterly and publicly available. From those reports Uniform Bank Performance Reports (UBPR) are created and also published which provide data and ratios that can be used to perform level and trend analysis of key earnings components, comparing individual bank performance to a group of similarly situated peer banks. These reports contain an abundance of information about which to evaluate bank performance, but are not conducive to casual and concise reading. Following though, are some highlights of that report from the recently released peer comparisons for performance through the second quarter, June 30, 2016.

The First National Bank of Ottawa is included in national peer group 5 which aggregates the performance data of all insured commercial banks having assets between \$100 and \$300 million, with three or more full service banking offices and not located in a metropolitan statistical area. References to peers, therefore, are to that national grouping of banks. Following are the bank's rankings within various key categories, with favorable outcomes generally reflected by performance above the 50th percentile except where otherwise noted.

The bank's net income as a percentage of average assets was 1.05 as of June 30, 2016, which places it in the 54th percentile of the national peer group, but even more favorably in the 69th percentile when net income is adjusted for Subchapter S status. In general Subchapter S corporations are treated as pass-through entities and are not subject to federal income tax at the corporate level, although in some States they remain subject to State corporate income tax. Pre-tax net operating income eliminates the individual and structural tax effects for all banks, and in this comparison as of June 30 the bank's performance ranked in the 75th percentile, at 1.70 percent of average assets versus peers of 1.34 percent. The four major components of the earnings performance are interest income, interest expense, noninterest income, and noninterest expense. The bank's interest income on a tax equivalent basis is ranked in the 33rd percentile, less interest expense in which the bank ranks in the 1st percentile (a low percentile here signifies source funding at levels less than peers, which positively impacts net earnings), and the combined result, net interest income of 3.74 percent of average assets compared to national peers of 3.65, placing the bank in the 57th percentile. The bank's core deposits have increased to \$281 million as of June 30, 2016, contrasted to \$243 million as of June 30, 2015, and total deposits have increased to \$283 million from \$247 million for the same contrasting periods.

One of the other two components of net income, noninterest income, is at 1.06 of average assets, placing the bank in the 88th percentile. This includes secondary market loan activity and trust department income as well as gains or losses on the sale of other real estate owned. The fourth category, noninterest expense of 3.17 is in the 69th percentile. We also realized securities gains in June of \$101 thousand, placing us in the 84th percentile in that category. All combined, our pre-tax operating income of 1.70 compared to peers at 1.34 places the bank in the 75th percentile.

In other key measures of performance our total nonaccrual and 90 day plus past due loans are at .97 as a percentage of average assets, which is the 60th percentile, however our peers are also reported at .97, reflective of a very narrow range. Yields on total loans and leases of 4.94, compared to peers of 5.30 places us in the 28th percentile. However, this is impacted by short term warehoused loans that are deployed at yields in excess of investment yields, though less than in commercial, industrial, and real estate loans. Commercial and Industrial loan yields as reported are at 5.09%, versus peers of 5.49%, placing the bank in the 36th percentile, and commercial real estate loans at 5.81% compared to peers of 5.08%, place us in the 86th percentile in that category. Investment portfolio yields as of June 30 were in the 65th percentile, with a tax equivalent yield of 2.77% versus national peers at 2.50%.

The bank's return on equity is 10.06%, compared to national peers of 9.57%, placing us in the 56th percentile. This ratio is not adjusted for Subchapter S tax treatment. Our Tier One leverage capital ratio for the bank is 9.61%, versus peers of 10.56%, placing us in the 31st percentile.

Overall, we are very pleased to report this information reflecting performance through the first half of the year.

As an update on the stock repurchase initiative, please note that First Ottawa Bancshares repurchased 23,286 shares at a total cost of \$874,625.23, which had antidilutive effect on ownership, thereby increasing shareholder value. The average cost of all shares repurchased in this initiative was \$37.56.

Also as an update for those not present at our shareholder meeting in May, the proposal to increase the number of authorized shares, while receiving an affirmative majority of the votes cast at 68.6%, failed to pass by not receiving the required majority vote of the shares outstanding.

Overall the bank's performance for the first six months has been promising in a difficult competitive and interest rate environment. The earnings per share of the holding company, First Ottawa Bancshares, Inc. was \$1.66 through the first 6 months of 2015, improving to \$1.96 for the last 6 months of 2015, and to \$2.33 as of June 30, 2016 for the first 6 months of 2016. As a result, we were able to increase the dividend to shareholders as reflected in your July 1 payment by 56%, increasing to \$.50 per share from the prior payment of \$.32 per share.

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,

A handwritten signature in blue ink, appearing to be 'D. Harris', with a circular flourish at the end.

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

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