



FIRST OTTAWA BANCSHARES, INC.

July 13, 2018

Dear Shareholders,

I am honored to deliver this first Letter to the Shareholders as President & CEO of First Ottawa Bancshares. I started my career at the First National Bank of Ottawa in 2001 and have served as the President & CEO of the Bank since 2014. Informed shareholders and financial transparency are integral to our long-term success and I consider shareholder communication one of my highest priorities. To efficiently and fairly disseminate information I will be posting future shareholder letters and press releases to the Shareholder Relations section of our website – (<http://www.firstottawa.com/shareholder-relations>). Should shareholders have questions about our corporate strategy, the future of our company, or any general question, I encourage them to contact me or stop by my office in Ottawa.

On May 16, 2018, at our Annual Meeting of Shareholders, three incumbent directors were re-elected to three-year terms: Bradley J. Armstrong, Donald J. Harris, and Brian P. Zabel. Michael T. Reagan was elected Chairman of First Ottawa Bancshares and William K. Walsh, Vice-Chairman. Steven M. Gonzalo was elected Chairman of the First National Bank of Ottawa. The Board of Directors announced a dividend of \$0.75 per share payable on July 1, 2018. Don Harris announced his retirement from The First National Bank of Ottawa and First Ottawa Bancshares and Cheryl Gage announced her retirement as Corporate Secretary of First Ottawa Bancshares.

On behalf of the employees of our company, I congratulate and thank Don and Cheryl for their more than 80 years of loyal and dedicated service to our company.

The following table summarizes the net income and key ratios for the first two quarters of 2018 compared to the same two quarters of 2017*:

	2018	2017
Net Income	\$1,651	\$1,430
Diluted EPS	\$2.71**	\$2.31**
ROAA	1.16	1.05
ROAE	10.31%	9.34%
Net Interest Margin	4.36%	4.21%
Tier 1 leverage	10.68%	10.48%

*dollars in thousands, except per share data

**First Ottawa Bancshares

FIRST OTTAWA BANCSHARES, INC. (FOTB)
701 LASALLE STREET
OTTAWA, ILLINOIS 61350
WWW.FIRSTOTTAWA.COM
(815) 434-0044

Average Balances, Provision for Loan Losses, and Credit Quality

Compared to the prior year period average total loans, net of the allowance, increased by \$13.5 million, or 7%, to \$206 million, and average total deposits increased by \$8.5 million, or 3.6%, to \$247.8 million.

The provision for loan losses totaled \$2.44 million compared to \$2.45 million for the prior year period. Classified assets for the period were 11.48% of Capital as compared to 15.58% for the prior year period.

Outlook

Annually, American Banker® magazine recognizes the Top 200 Community Banks in the United States under \$2 Billion in assets, ranked by their 3-year average ROAE. We are very proud that First Ottawa Bancshares not only made the list for the first time in our history but ranked 98th out of the 633 eligible banks and second amongst Illinois banks. The accomplishment is more remarkable when we consider the average asset size of the Top 200 Banks is almost 3 times that of our bank.

We continue to look for opportunities to grow the assets of our bank and expand into profitable geographies. Our strategy includes organic growth through the recruitment of talented and experienced bankers and through the acquisition of whole banks or branches. During the first half of 2018, we opened a loan production office in Maple Park, IL, which is 10 miles east of Dekalb. We successfully recruited a commercial lender with 35 years of experience in the greater Dekalb market and have added over \$10 million in new relationships.

Our strategy has translated into consistent growth in higher yielding loan assets and profitability over the past few years however, competitive pressures, uncertain economic conditions, regulatory burden and the interest rate environment pose significant risks to our growth and earnings.

On behalf of your Board of Directors, we thank you for your loyalty to First Ottawa Bancshares, Inc. and The First National Bank of Ottawa.

Sincerely



Steven M. Gonzalo

First Ottawa Bancshares

President & CEO