



FIRST  
OTTAWA  
BANCSHARES, INC.

July 23rd, 2019

Dear Shareholders,

Our strategy for 2019 is to grow the assets of the bank in a disciplined and dramatic way by investing in the best commercial bankers and support personnel, opening new locations, and investing in new products.

In the second quarter of 2019 we successfully recruited five senior bankers to join our commercial banking team bringing our total of new production personnel to 13. Each banker demonstrated their long-term commitment to our bank by making substantial, not less than \$100,000, investments in First Ottawa Bancshares.

Our application to the Office of the Comptroller of the Currency (OCC) to open a full-service branch at the building we purchased last year at 4733 Main Street in Lisle, IL was approved. Progress to modernize and improve the building continues with some unforeseen delays postponing our anticipated opening to August of this year.

During the second quarter we leased a suite on the main floor of the 1475 Building in the Schaumburg Corporate Center. This facility becomes our second permanent location as part of our American Commercial Bank and Trust (ACB&T) expansion. Not coincidentally, this branch will not be far from the first branch location of the former American Chartered Bank (ACB) which you may recall was founded by our Bank Chairman Dan Miller. We will soon be making application with the OCC to open a full-service branch at this location. During the second quarter, a number of our new bankers and support staff occupied temporary space in the Schaumburg Corporate Center in the adjacent 1515 building. We hope to occupy our permanent space in September of this year.

The Chicagoland banking landscape continues to consolidate and creates opportunities for our new bankers to attract customers who are loath to give up their community bank relationship for an impersonal megabank from out of state. And that is not just our opinion. Below is an excerpt from a June 21, 2019 article in Crain's Chicago Business:

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*At the time the American Chartered deal was announced in November 2015, MB Financial CEO Mitch Feiger, who now serves as Fifth Third's Chicago CEO, said to analysts, "We want every one of (the American Chartered bankers) to stay with the bank." So where have the bankers gone? About a dozen have joined former American Chartered President Dan Miller, who's now chairman of First National Bank of Ottawa.*

*That small central Illinois lender is serving as a platform for major commercial expansion plans in Chicago. It's set within 90 days to open branches in west suburban Lisle and northwest suburban Schaumburg (where American Chartered was headquartered). Miller hasn't ruled out an eventual location in the city. He expects a few more of his former colleagues to join him. "When there are significant changes like this, people look at their circumstances," Miller says. "It's a \$3 billion bank (the old American Chartered) becoming a \$170 billion bank. It's just a bigger organization to try to navigate."*

*The [Ottawa bank](#) has added \$30 million in assets since Miller's decision to join in November along with Joe Chiariello, former senior group banking head at American Chartered. Miller expects that growth to be far more substantial within a year.*

As I have stated before our growth strategy includes substantial investment in bankers, support personnel, and systems we need to compete to become a premier commercial bank in Chicagoland. For the first two quarters of 2019 our investment equaled almost \$1mm. Despite the investment we earned almost \$1.2mm in the first two quarters.

On May 15, 2019, at our Annual Meeting of Shareholders, three incumbent directors were re-elected to three-year terms: Jack Cantlin, Steven Gonzalo, and Michael T. Reagan. William Walsh, Jr. was elected Chairman of First Ottawa Bancshares and Lynn Dubajic, Vice-Chairman. Dan Miller 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, 2019.

The following table summarizes unaudited net income and key ratios through the second quarter of 2019 compared to the same quarter of 2018\*:

	<b>2019</b>	<b>2018</b>
Net Income	\$1,160k	\$1,651k
Diluted EPS	\$1.59**	\$2.71**
ROAA	0.77	1.16
ROAE	5.38%	10.31%
Net Interest Margin	4.35%	4.36%
Tier 1 leverage	14.17%	10.68%

\*dollars in thousands, except per share data

\*\*First Ottawa Bancshares

### **Average Balances, Allowance for Loan Losses, and Credit Quality**

Compared to the prior year period average total loans, net of the allowance, increased by \$7.2 million, or 3.5%, to \$213 million, and average total deposits increased by \$6.6 million, or 2.6%, to \$254 million.

The allowance for loan losses totaled \$3.55 million compared to \$2.44 million for the prior year period. Classified assets for the period were 15.63% of Capital as compared to 11.48% for the prior year period.

Classified assets were almost exclusively impacted by a single credit relationship. Management has significantly increased the provision for loan losses in order to mitigate the total exposure if liquidation is required.

### **Outlook**

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.

Our strategy has translated into consistent growth in higher yielding loan assets 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, President & CEO

First Ottawa Bancshares