



FIRST
OTTAWA
BANCSHARES, INC.

October 16th, 2020

Dear Shareholders,

Our strategy for 2020 is to remain a premier bank in LaSalle, Grundy, and Kendall counties and to become a premier commercial bank in Chicagoland where we do business as American Commercial Bank & Trust (ACB&T).

During the third quarter and continuing today, every aspect of the US Economy and the global news cycle are dominated by the global COVID-19 pandemic and the national election. The US Government's response remains overwhelming but disjointed and without focus. Economic forecasts range from an historic V-shaped recovery, to a prolonged recovery taking more than 3 years, to a double-dip recession worse than the first two quarters of 2020.

Management is closely monitoring indicators of stress to the loan portfolio which continue to be muted and better than peer group averages. In fact, we ended the third quarter with zero commercial loans under COVID forbearance. The number of residential mortgage loans under COVID forbearance remains elevated however, less than 75 loans remain and over 95% are sold into the secondary market which virtually eliminates risk of credit loss. Despite the encouraging indicators we believe the lack of economic transparency mandates we continue to build credit reserves.

On September 30th, 2020 we issued a press release announcing that we completed the private placement of \$24.25 million in fixed-to-floating rate subordinated notes due September 2030 (the "Notes") to certain accredited investors. The Notes have been structured to qualify as Tier 2 capital for the Company under bank regulatory guidelines, and the proceeds from the sale of the Notes will be utilized to support regulatory capital ratios and for general corporate purposes, including growth initiatives at the Bank. The portion of this new capital that we downstream to our Bank is leverageable, Tier 1 capital for the Bank, which will be integral to fueling the growth that we strategically envision for our organization. Through the issuance of these Notes, we cost-effectively increased our capital levels without diluting our current shareholders.

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The following table summarizes unaudited net income and key ratios for the third quarter of 2020 compared to the same quarter of 2019*:

	2020	2019
Net Income	\$3,425k	\$1,847k
Diluted EPS	\$3.24**	\$2.45**
ROAA	0.66	0.76
ROAE	7.78%	5.54%
Net Interest Margin	2.93%	4.06%
Tier 1 leverage	9.31%	12.45%

*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 \$328.5 million, or 143%, to \$558 million, and average total deposits increased by \$319.7 million, or 116%, to \$596 million.

The allowance for loan losses totaled \$7.28 million compared to \$3.93 million for the prior year period. Classified assets for the period were 7.15% of Capital as compared to 14.94% for the prior year period.

Outlook

In the third quarter, the underlying results of the company were good with growth and Net Income well above our budgeted expectations, however given the continued likelihood of anemic growth or a renewed recession, it may be necessary to accelerate building credit reserves and provide payment relief to our clients affected by the global pandemic.

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