



ARES, INC.

January 31st, 2019

Dear Shareholders,

In 2014 we announced our strategy to significantly increase the profitability of our bank and then grow the assets of the bank in a disciplined and dramatic way. We insisted that this strategy be more than simply words but rather a mandate to maintain our independence and enhance total shareholder value. From 2014 to 2018 the profits of the bank grew from \$1.28 per share to \$5.68 per share as a result of the talent and effort of our amazing staff. Our performance was so good, in fact, that American Banker® magazine recognized us in 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.

Disciplined and dramatic growth requires talented personnel and CAPITAL investment. During the fourth quarter of 2018, we completed a significant step in fulfilling the second part of our strategy with the investment of \$10 million by two of the most talented and respected bankers in Chicagoland - Dan Miller and Joe Chiariello. Their investment and addition to our Board of Directors was noteworthy enough that Crain's Chicago Business published an article about us in their December 3, 2018 edition.

Our planned growth will include investing in the best commercial bankers and support personnel, opening new locations, and investing in new products. These investments will increase expenses as we grow. The corresponding income will follow over time as new client relationships become earning assets. The current Chicagoland banking landscape is rife with merger activity which has created opportunities for us to attract new bankers and their customers who are loath to give up their community bank relationship for an impersonal megabank from out of state.

We feel uniquely positioned to take advantage of these circumstances and believe that now is the time to make significant investments in the future of our company.

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The following table summarizes unaudited net income and key ratios for 2018 compared to 2017*:

	2018	2017
Net Income	\$3,509	\$3,427
Diluted EPS	\$5.68**	\$5.54**
ROAA	1.20	1.21
ROAE	10.05%	11.03%
Net Interest Margin	4.41%	4.24%
Tier 1 leverage	12.40%	10.49%

*dollars in thousands, except per share data

**First Ottawa Bancshares

Average Balances, Provision for Loan Losses, and Credit Quality

Compared to the prior year period average total loans, net of the allowance, increased by \$19.3 million, or 9.7%, to \$217 million, and average total deposits increased by \$7.6 million, or 3.1%, to \$256 million.

The provision for loan losses totaled \$3.21 million compared to \$2.28 million for the prior year period. Classified assets for the period were 19.96% of Capital as compared to 14.09% for the prior year period.

Classified assets were almost exclusively impacted by a single credit relationship. The credit is performing under a forbearance agreement however, we believe there is a probability of loss. 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 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