FIRST OTTAWA BANCSHARES, INC.

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Dear Shareholders,

Dividend payments were issued on July 1, 2015 to owners of record as of June 1, 2015. We are pleased that the bank's performance to date supported that payment as well as further debt reduction at the holding company, reducing that debt to a total outstanding amount of $976,000. Although we were able to completely retire the line of credit portion of that debt, we have renewed the line to maintain financial flexibility, but to date have not drawn on the renewed line.

Net income through the first 6 months of 2015 is $1,070,000. For the first 6 months of 2014, our net income was $555,000. Loan volume has continued to increase, and total income from loans has increased by $492,000 over the first 6 months of 2014, with the loan demand allowing us to shift assets from the investment portfolio to the higher earning loan portfolio. Further enhancing the benefit of this shift is the fact that our interest expense has declined by $199,000 when comparing the first 6 months of 2015 with the first 6 months of 2014.

Noninterest income has increased in 2015 as well, by $359,000 contrasted to January through June of 2014. This increase is reflective of $107,000 of increased revenue from the sale and servicing of loans sold to the secondary market produced by employee efforts and record volume for this function. We were additionally able to recognize $57,000 of gains in the sale of assets in our investment portfolio, produce $60,000 of increased income from Wealth Management Fees, and $182,000 additional "other income." These increases were partially offset by a $43,000 reduction in revenue from service charges and deposit fees, continuing an industry-wide trend. During the same contrasting periods, our noninterest expense increased by only $39,000. Noninterest income continues to be a very important component of our income offsetting pressure to maintain our net interest margin.

As a result of the increased earnings, our income taxes have increased for the first 6 months of 2015, over the first 6 months of 2014, by $306,000.

Problem assets continue to improve with classified assets, which include other real estate owned (retrieved in satisfaction of non-performing loans) as well as substandard and impaired loan balances totaled $5.3 million as of June 30, 2015. Classified assets as of June 30, 2014 totaled $8.1 million. Loan delinquencies did increase to 2.83% of the loan portfolio as of June 30, 2015, compared to 2.05% as of June 30, 2014. However, this increase is isolated to specific credits and not indicative of a general trend. Delinquency ratios have been improving since June 30, 2012, through March 31, 2015, with the specific credit spike occurring thereafter. We have recognized expenses where necessary to fairly reflect current values of real estate owned by the bank.

The Office of the Comptroller of the Currency released on June 30, 2015 its semi-annual risk perspective highlighting the risks they believe are facing national bank and federal savings associations. Among the areas highlighted in their report were evolving cyber threats and information technology vulnerabilities, compliance risks relative to new mortgage lending requirements, Bank Secrecy Act, and Anti-Money Laundering risks. Additionally the OCC noted that the competition for limited lending opportunities may lead banks to compromise underwriting standards and noted the challenges banks face in re-evaluating business models and risk appetites to generate returns against the backdrop of low interest rates. The prolonged low interest rate environment is laying the foundation for future vulnerability through extension of asset maturities as banks attempt to increase yields, which could cause earnings pressure and capital erosion depending upon the severity and timing of any future interest rate increases. We are cognizant of these cautionary concerns, and continue to attempt to diligently address these issues and challenges.

You are most likely aware that we have limited our banking services to the drive-through facilities at Ottawa South and Ottawa Northfield. The vast majority of banking services needed by our branch customers can be accommodated by our personnel at the drive-throughs. The changes were made to increase efficiencies, and are a result of a continuing trend of fewer and fewer direct transactions in our lobbies and drive-through facilities as customers take advantage of the convenience and ever expanding opportunities to secure their banking services electronically, telephonically, through mobile applications, debit cards, and by setting automatic features in their accounts to pay bills and transfer funds.

As always, 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,

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

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