



FIRST OTTAWA BANCSHARES, INC.

Direct Parent Company of The First National Bank of Ottawa

March 1, 2018

Dear Shareholders,

The Board of Directors was pleased to determine and announce that a Special Dividend of \$1.00 per share would be paid on March 7, 2018 to First Ottawa Bancshares, Inc. shareholders of record as of February 21, 2018. This decision and announcement is reflective of very positive performance and earnings for 2017.

As we have noted previously, the publicly available Uniform Bank Performance Report (UBPR), compiled from financial information submitted by banks nationwide summarizes and compares our financial performance to a national peer group. The peer group for The First National Bank of Ottawa currently consists of 670 insured commercial banks having assets between \$100 million and \$300 million, with 3 or more full service banking offices and not located in a metropolitan statistical area. The bank's average total assets for 2017 were \$283 million.

In most categories we have seen either similar performance or further improvement over the performance we noted in our communication to shareholders a year ago. The pretax net operating income of 1.79% of average assets for 2017, placing the bank in the 81st percentile of its peers with an average of 1.34%, compares similarly to 2016, where the bank's pretax operating income was 1.82%, the percentile rank 85, and the peer average 1.29%. After tax net income was 1.21% of average assets in 2017, compared to the peer average of 1.03%, placing the bank in the 67th percentile; in 2016 the bank's after tax net income was 1.15%, peer average was 1.03%, and percentile rank was 62; however the UBPR adjustment to net income accounting for the disparate tax treatment of Sub S institutions, places The First National Bank of Ottawa's net income in 2017 in the 85th percentile, further improving on the 80th percentile performance of 2016.

Average total yield on loans and leases in 2017 was 4.92%, compared to the peer average of 5.33%, placing us in the 25th percentile. In 2016, respectively, 4.80% (bank), 5.30% (peers), and the 21st percentile. Yields on investment securities on a tax equivalent basis were 3.36% in 2017 versus 2.50% for the peer average, placing us in the 89th percentile contrasted to 2016 with tax equivalent yields of 2.93%, peer average of 2.46%, and a percentile rank of 75. Book yields on investment securities: (2017) 2.78%, peer average 2.12%, percentile rank 90; and (2016) 2.39%, peer average of 2.08%, and percentile rank of 75.

Our tax equivalent net interest income as a percentage of average assets for 2017 was 3.91% compared to peers at 3.71%, placing the bank in the 66th percentile in this category, improving on 2016's 3.77%, peers at 3.67%, and the 2016 ranking of the 58th percentile. This performance is reflective both of the yields attained on loans, leases, and investment securities as well as pricing

performance for deposits at 0.12% of average assets in 2017, 0.41% for the peer average, and 2016 interest expense ratios of 0.09% for the bank and 0.38% for peers.

Loan volume continues to remain strong with net loans and leases to average assets of 72.98% versus peers at 65.70%, placing the bank in the 67th percentile among peers and contrasted to 2016 volumes of 75.64%, peers at 64.72%, and a percentile rank of 76. In prior years, the bank's net loans and leases to assets ratio was 66.21%, 55.12%, 47.41%, and 41.50%, for 2015, 2014, 2013, and 2012 respectively. Noninterest income, including mortgage originations and servicing as well as wealth management services, among others, also continues to contribute to overall bank profitability where 2017 noninterest income as a percentage of average assets was 1.00%, versus peers of 0.61%, and a percentile ranking of 87, compared to 2016 of 1.21%, 0.63% for peers, and a percentile rank of 92.

The bank's capital position has also continued to improve. The tier one leverage capital is 10.49% placing the bank in the 49th percentile of its national peers which had an average of 10.71%. In 2016, tier one leverage capital was 10.31% for the bank, 10.61% for the peer average, and the bank was in the 46th percentile.

We are opening a new loan production office in Maple Park on March 1, 2018, initially with a current loan officer experienced in that market. The facility will operate under the name Northern Bank & Trust.

While our asset size and deposits have remained stable we have seen a continual decline of in-bank transactions over the past several years. The array of alternative methods of engaging in transactions electronically and remotely have largely contributed to this shift, and has resulted in changes in staffing needs, and also facility space. We have been in discussion with a potential developer hoping to develop a project near our drive-through banking building. If the project does in fact move forward, our drive-through would continue operations in our current facility without interruption.

We thank you for your continued support and interest. Please feel free to contact me 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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