



FIRST OTTAWA BANCSHARES, INC.

Direct Parent Company of The First National Bank of Ottawa

March 3, 2017

Dear Shareholders,

We are pleased to report extremely positive performance and earnings for 2016. Consolidated net income for First Ottawa Bancshares, Inc. and The First National Bank of Ottawa for the year was \$3.235 million, as contrasted to 2015 net income of \$2.333 million. This reflects 2016 earnings per share of \$5.15 with 627,812 average shares outstanding, compared to \$3.62 for calendar year 2015 with 644,480 average shares outstanding. There are 619,901 shares currently outstanding.

Consequently, your Board of Directors has declared a one-time special dividend of \$.63 per share, to owners of record as of March 8, 2017, to be payable on March 20, 2017.

The Uniform Bank Performance Report (UBPR) summarizes and compares our performance to a national peer group of 692 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 2016 was \$282 million.

The pretax net operating income of 1.86% of average assets places the bank in the 85th percentile of performance, compared to peer banks' 1.31%. Our Tier One Leverage Capital of 10.31% is in the 47th percentile, compared to peers' of 10.61%, and reflects an increase in our bank's Tier One Leverage Capital from 2012, 2013, 2014, and 2015, which was 8.88%, 9.28%, 9.59%, 9.35% respectively.

Loan volume continues to improve with net loans and leases to average assets of 75.64% versus peers at 64.72%, placing the bank in the 76th percentile among peers. Contrasting to prior years, the bank's net loans and leases to assets ratio was 41.50%, 47.41%, 55.12%, and 66.21% for 2012, 2013, 2014, and 2015 respectively. Noninterest income, including mortgage originations and servicing as well as wealth management services, among others, also continues to improve, placing the bank in the 92nd percentile in this category. Our tax equivalent net interest income as a percentage of average assets is 3.77% compared to peers at 3.67%, and places the bank in the 58th percentile of our peers reflecting discipline both in the pricing and acquisition of assets as well as deposits.

The bank's yield on total loans and leases of 4.80% as of 12/31/16 on a tax equivalent basis places the bank in the 21st percentile compared to the peer average of 5.30%. The investment portfolio tax equivalent yield as of 12/31/16 of 2.93%, compared to the peer average of 2.46%, is in the 75th percentile.

The stock repurchase process during 2016 was successful and reduced the number of shares outstanding as noted in the first paragraph above. During 2016, the holding company's line of credit had no outstanding balance, and the remainder of the outstanding amortizing term debt was completely retired. The holding company continues to have the \$2 million line of credit available for future use, with no current balance outstanding.

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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