



FIRST
OTTAWA
BANCSHARES, INC.

January 29th, 2021

Dear Shareholders,

Our strategy for 2020 was 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). We also committed to growing our residential lending division by adding production and support personnel across our entire network.

During the fourth quarter of 2020, the US Economy and global news cycle were dominated by the COVID-19 pandemic and the US national election. Current expectations are for more and even greater economic stimulus in the US and globally. With the rollout of the vaccine accelerating economic expectations range from an historic V-shaped recovery, to a brief recovery fueled by stimulus and then 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. The number of residential mortgage loans under COVID forbearance remains elevated however, far below national averages and over 95% are sold into the secondary markets which virtually eliminates risk of credit loss. Despite the encouraging indicators, the lack of economic transparency mandated we continue to build credit reserves. In the fourth quarter we built our ALLL to total loans (excluding PPP and held for sale) to 1.75% by adding \$2.35mm and bringing the total to just under \$10mm.

Our residential mortgage division, which does business as *FNB Mortgage* and *ACB Mortgage*, had an historic fourth quarter and 2020. Led by a premier team of Mortgage Bankers and Support Personnel, and aided by low interest rates, the division originated 1,297 loans totaling more than \$298,000,000. Both the number of loans and the total dollar amount are more than double the previous record in any year of our history. The vast majority of loans were sold into the secondary markets but with servicing retained which fits with our strategy of maintaining long term relationships while taking minimal credit and interest rate risk. Total residential loans serviced increased to over \$400,000,000. Revenue from the sale of loans, origination fees, and servicing totaled more than \$10,000,000 in 2020.

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

	2020	2019
Net Income	\$2,921k	\$2,375k
Diluted EPS	\$3.54**	\$3.10**
ROAA	0.56	0.68
ROAE	6.56%	5.24%
Net Interest Margin	3.62%	4.21%
Tier 1 leverage	8.64%	11.27%

*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 \$350.4 million, or 137%, to \$607 million, and average total deposits increased by \$332.4 million, or 114%, to \$625 million.

The allowance for loan losses totaled \$9.76 million compared to \$4.50 million for the prior year period. Classified assets for the period were 6.56% of Capital as compared to 20.01% for the prior year period.

Outlook

In the fourth quarter, the underlying results of the company were good with growth and Net Income, excluding ALLL provision, well above our budgeted expectations. Given the continued likelihood of anemic growth or a renewed recession it was prudent to accelerate building credit reserves.

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