

**FIRST OTTAWA BANCSHARES, INC.  
AND SUBSIDIARY  
Ottawa, Illinois**

**CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019**



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FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
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CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019

INDEX

INDEPENDENT AUDITORS' REPORT .....	1
CONSOLIDATED BALANCE SHEETS .....	3
CONSOLIDATED STATEMENTS OF INCOME .....	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME .....	5
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY .....	6
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	9



## INDEPENDENT AUDITORS' REPORT

Audit Committee  
First Ottawa Bancshares, Inc. and Subsidiary  
Ottawa, Illinois

We have audited the accompanying consolidated financial statements of First Ottawa Bancshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Committee  
First Ottawa Bancshares, Inc. and Subsidiary

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Ottawa Bancshares, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Peoria, Illinois  
March 25, 2021

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
December 31, 2020 and 2019  
(In thousands, except share and per share data)

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and Due from Banks	\$ 5,177	\$ 2,855
Interest Bearing Deposits in Financial Institutions	27,909	12,934
Cash and Cash Equivalents	33,086	15,789
Interest Bearing Time Deposits with Financial Institutions	-	750
Securities Available for Sale at Fair Value (Amortized Cost is \$54,095 in 2020 and \$34,482 in 2019)	55,645	35,015
Loans Held for Sale	63,580	42,995
Loans, Net of Allowance for Loan Losses of \$9,762 in 2020 and \$4,499 in 2019	722,403	334,191
Premises and Equipment, Net	10,059	9,311
Goodwill	2,446	2,446
Other Real Estate Owned	1,123	2,507
Cash Surrender Value of Life Insurance	4,363	4,317
Accrued Interest Receivable and Other Assets	12,859	5,834
	<u>12,859</u>	<u>5,834</u>
Total Assets	<u>\$ 905,564</u>	<u>\$ 453,155</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits	\$ 690,229	\$ 361,211
Borrowings	159,000	39,200
Other Liabilities	4,261	3,653
Total Liabilities	<u>853,490</u>	<u>404,064</u>
<b>Shareholders' Equity</b>		
Common Stock, \$1 Par Value, 2,000,000 Shares Authorized; 913,549 and 906,510 Issued in 2020 and 2019, Respectively	\$ 914	\$ 907
Additional Paid-In Capital	15,897	15,435
Retained Earnings	39,050	37,368
Treasury Stock, at cost, 87,743 and 87,403 shares in 2020 and 2019, Respectively	(4,830)	(4,806)
Accumulated Other Comprehensive Income (Loss)	1,043	187
Total Shareholders' Equity	<u>52,074</u>	<u>49,091</u>
Total Liabilities and Shareholders' Equity	<u>\$ 905,564</u>	<u>\$ 453,155</u>

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
Years Ended December 31, 2020 and 2019  
(In thousands, except share and per share data)

	2020	2019
<b>Interest and Dividend Income</b>		
Loans, Including Fees	\$ 28,332	\$ 14,031
Securities Available for Sale:		
Taxable	601	774
Exempt from Federal Tax	227	395
Interest Bearing Deposits with Financial Institutions	20	16
Other	305	515
Total Interest and Dividend Income	<u>29,485</u>	<u>15,731</u>
<b>Interest Expense</b>		
Deposits	3,072	1,611
Borrowings	929	73
Total Interest Expense	<u>4,001</u>	<u>1,684</u>
<b>Net Interest Income</b>	25,484	14,047
Provision for Loan Losses	5,350	1,120
<b>Net Interest Income After Provision for Loan Losses</b>	<u>20,134</u>	<u>12,927</u>
<b>Noninterest Income</b>		
Service Fees	1,015	706
Trust and Farm Management Fees	900	879
Net Realized Gains on Securities Available for Sale	-	91
Mortgage Servicing Income, Net	5,763	1,284
Increase in Cash Value of Life Insurance, Net	149	147
Other	465	280
Total Noninterest Income	<u>8,292</u>	<u>3,387</u>
<b>Noninterest Expense</b>		
Salaries and Employee Benefits	17,550	8,872
Occupancy and Equipment	1,906	1,033
Data Processing Fees	1,073	650
Insurance	695	205
Professional Fees	562	591
Other Real Estate Owned, Net	243	331
Advertising	195	210
Supplies	203	104
Other	1,624	1,174
Total Noninterest Expenses	<u>24,051</u>	<u>13,170</u>
<b>Income Before Income Tax</b>	4,375	3,144
Income Tax Expense	1,454	769
<b>Net Income</b>	<u>\$ 2,921</u>	<u>\$ 2,375</u>
<b>Earnings Per Share - Basic</b>	\$ 3.54	\$ 3.10
<b>Earnings Per Share - Diluted</b>	\$ 3.54	\$ 3.10
<b>Average Shares Outstanding</b>	824,726	767,132

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years Ended December 31, 2020 and 2019  
(In thousands)

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	2020	2019
<b>Net Income</b>	\$ 2,921	\$ 2,375
Other Comprehensive Income:		
Unrealized Gains on Securities Available for Sale	1,017	560
Reclassification Adjustment for Net Gains on Sale of Securities		
Available for Sale Realized in Net Income	-	(91)
Income Tax (Expense) Benefit Relating to Securities Available for Sale	(214)	(99)
Net Gains Relating to Pension Benefit Liability	66	292
Income Tax Expense Relating to Pension Benefit Liability	(13)	(132)
Total Other Comprehensive Income	856	530
<b>Total Comprehensive Income</b>	\$ 3,777	\$ 2,905

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The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Years Ended December 31, 2020 and 2019  
(In thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2018</b>	\$ 756	\$ 5,768	\$ 36,195	\$ (4,262)	\$ (343)	\$ 38,114
Net Income	-	-	2,375	-	-	2,375
Other Comprehensive Income	-	-	-	-	530	530
Cash Dividends Declared (\$2.50 per share)	-	-	(1,202)	-	-	(1,202)
Stock Options Exercised	11	676	-	(630)	-	57
Stock Grants from Treasury Shares (600 shares)	-	5	-	24	-	29
Treasury Shares Sold to ESOP (1,159 shares)	-	13	-	63	-	76
Treasury Shares Sold (69,677 shares)	140	8,973	-	-	-	9,113
Treasury Shares Purchased (6,756 shares)	-	-	-	(1)	-	(1)
<b>Balance, December 31, 2019</b>	907	15,435	37,368	(4,806)	187	49,091
Net Income	-	-	2,921	-	-	2,921
Other Comprehensive Income	-	-	-	-	856	856
Cash Dividends Declared (\$1.50 per share)	-	-	(1,239)	-	-	(1,239)
Stock Options Exercised	1	70	-	-	-	71
Stock Grants (600 shares)	1	41	-	-	-	42
Common Shares Sold to ESOP (1,522 shares)	1	105	-	-	-	106
Common Shares Sold (3,717 shares)	4	246	-	-	-	250
Treasury Shares Purchased (340 shares)	-	-	-	(24)	-	(24)
<b>Balance, December 31, 2020</b>	\$ 914	\$ 15,897	\$ 39,050	\$ (4,830)	\$ 1,043	\$ 52,074

The accompanying notes are an integral part of the consolidated financial statements.



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2020 and 2019  
(In thousands)

	2020	2019
<b>Operating Activities</b>		
Net Income	\$ 2,921	\$ 2,375
Items Not Requiring (Providing) Cash:		
Provision for Loan Losses	5,350	1,120
Premium Amortization on Securities Available for Sale, Net	159	228
Depreciation	674	402
Deferred Income Taxes	(2,102)	(138)
Loans Originated for Sale	(272,116)	(60,926)
Proceeds from Sale of Loans Originated for Sale	264,372	61,686
Losses (Gains) on Sales of Securities, Net	-	(91)
Mortgage Servicing Income, Net	(5,763)	(1,284)
Writedowns and Net Loss on Sales of Other Real Estate Owned	219	195
Net Change in:		
Interest Receivable and Other Assets	(1,121)	2,482
Interest Payable and Other Liabilities	608	(82)
Net Cash Provided (Used) by Operating Activities	(6,799)	5,967
<b>Investing Activities</b>		
Purchase of Securities Available for Sale	(24,558)	(13,703)
Proceeds from Maturities, Calls and Paydowns of Securities Available for Sale	4,786	8,198
Proceeds from Maturities of Interest Bearing Time Deposits	750	-
Proceeds from Sales of Securities Available for Sale	-	8,010
Purchase of FHLB Stock	(4,009)	(1,488)
Purchase of Loans for Resale	(865,064)	(647,909)
Proceeds from Sales of Loans Purchased for Resale	857,986	630,312
Net Change in Loans	(393,562)	(138,104)
Proceeds from Sales of Other Real Estate Owned	1,165	312
Net Purchases of Premises and Equipment	(1,422)	(4,088)
Net Cash Provided (Used) by Investing Activities	(423,928)	(158,460)

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
Years Ended December 31, 2020 and 2019  
(In thousands)

	2020	2019
<b>Financing Activities</b>		
Net Change in Deposits	\$ 329,018	\$ 115,992
Net Change in Federal Funds Purchased	(14,200)	-
Net Change in FHLB Advances	105,500	35,900
Proceeds from Issuance of subordinated debt	28,500	-
Dividends Paid	(1,239)	(1,202)
Treasury Shares Purchased	(24)	(1)
Treasury Shares Sold to ESOP	106	76
Options Exercised	71	57
Stock Grants	42	29
Common Shares Sold	250	9,113
	<u>448,024</u>	<u>159,964</u>
<b>Net Cash Provided by Financing Activities</b>	<u>448,024</u>	<u>159,964</u>
<b>Net Change in Cash and Cash Equivalents</b>	17,297	7,471
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>15,789</u>	<u>8,318</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 33,086</u>	<u>\$ 15,789</u>
<b>Additional Cash Flows Information</b>		
Interest Paid	\$ 3,425	\$ 1,633
Income Taxes Paid	2,700	1,119
Transfers from Loans to Other Real Estate Owned	-	915
Change in Dividends Payable	12	102

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations and Principles of Consolidation: First Ottawa Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, The First National Bank of Ottawa (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in LaSalle, Grundy, Cook, and surrounding counties in Illinois. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The consolidated financial statements include First Ottawa Bancshares, Inc. and the Bank, and the Bank's wholly owned subsidiary, First Ottawa Financial Corporation, together referred to as the Company. First Ottawa Financial Corporation discontinued operations in the first quarter of 2020 and these discontinued operations are considered immaterial to the consolidated financial statements taken as a whole.

Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, the classification and valuation of securities, valuation of mortgage servicing rights, valuation of other real estate owned, valuation of goodwill, fair values of financial instruments, and certain key assumptions related to the defined benefit plan are particularly subject to change.

Significant Group Concentrations of Credit Risk: Most of the Company's activities are with customers located within LaSalle, Grundy, Cook, and surrounding counties in Illinois. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Commercial real estate, including commercial construction loans, represented 42.5%, and 42.7% of the total portfolio at December 31, 2020 and 2019, respectively.

Cash and Cash Equivalents: As of December 31, 2020, the Company has deposits of approximately \$2.3 million and \$24.5 million at Northern Trust Bank, and the Federal Reserve Bank, respectively, which are not fully insured by the FDIC. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold, all of which have original maturities of ninety days or less.

Securities Available for Sale: Debt securities are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to earlier of first call date or maturity.

Declines in the fair value of individual securities available for sale below their cost that are other than temporary result in writedowns of the individual securities to their fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the intent of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Restricted Stock: The Bank, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The Bank also maintains an investment in the capital stock of the Federal Reserve Bank of Chicago (FRB). For financial reporting purposes, such stock qualifies as Restricted stock and is carried at cost, subject to impairment, and reported as part of other assets on the consolidated balance sheets. Both cash and stock dividends are reported as income.

The Company owns \$142,500 of FRB stock as of December 31, 2020 and 2019. The Company owns \$5,772,500 and \$1,764,000 of FHLB stock as of December 31, 2020 and 2019. Management performed an analysis and deemed the investments in restricted stock were not impaired at December 31, 2020 and 2019.

Derivatives: All derivative instruments are recorded at their fair values and the change in the fair value of a derivative is included in interest income. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur.

Loans Held for Sale: Mortgage loans originated or purchased and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest income is accrued on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Company's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Company determines the loan balance to be uncollectable. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The allowance consists of three primary components, general reserves, specific reserves related to impaired loans, and unallocated components. The general component covers nonimpaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent four years. The Company places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the original contractual interest rate, except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt.

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Satisfactory: Loans classified as satisfactory are supported by financial statements that indicate average risk. The loans have exhibited two or more years of satisfactory repayment with a reasonable reduction of principal.

Satisfactory/Monitored: Loans classified as satisfactory/monitored are considered to be of acceptable credit quality so long as they are given the proper level of management supervision.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow, or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectible and charged-off immediately.

The Company categorizes homogenous loans (residential and consumer) possessing similar risk and loss characteristics into performing or nonperforming categories based on relevant information about the ability of the borrowers to service their debt. Such ability is determined based on the borrower's current payment status. Performing loans are less than 90 days past due on payments owed to the Company. Nonperforming loans are loans greater than or equal to 90 days past due and still accruing interest, loans on nonaccrual, and/or loans considered to be troubled debt restructurings that are not performing under the modified terms of the loan agreement.

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial real estate, commercial non-real estate, construction, and land development, agricultural, residential, and consumer with risk characteristics described as follows:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Non-Real Estate: Commercial non-real estate loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Construction and Land Development: Construction and land development loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than commercial non-real estate or real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating agricultural businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are not closely correlated to the credit quality of these loans.

Residential: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. If the board of directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulator reviews the adequacy of the allowance. The regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Off-Consolidated Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment: Asset cost is reported net of accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 7 to 39 years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from 5 to 15 years. These assets are reviewed for impairment when events indicate that the carrying amount may not be recoverable. Maintenance and repairs are charged to expense and improvements are capitalized.

Impairment of Long-Lived Assets: The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in the Company's consolidated financial statements. Revenue and expenses from operations are included in net expenses from other real estate owned.

Mortgage Servicing Rights: Servicing rights are recognized as assets for the allocated value of servicing rights retained on loans sold and are classified with accrued interest receivable and other assets in the consolidated balance sheets. Servicing rights are expensed in proportion to and over the period of estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance. There was no such valuation allowance recorded at December 31, 2020 and 2019.

Goodwill: Goodwill represents the excess of the original cost over fair value of assets acquired and liabilities assumed and related acquisition costs. Goodwill is reviewed for impairment annually with any loss recognized through the income statement.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives. These life insurance policies are recorded at their cash surrender value or the amount that can be realized, if lower.

Stock Options: The Company has a stock-based compensation plan, which is more fully described in Note 12. Grants under the Company's stock incentive plan are accounted for by applying the fair value method and the use of an option-pricing model to estimate the value of the options granted. The stock options are granted with an exercise price equal to the market price at the date of grant. Resulting compensation expense relating to the stock options is measured and recorded based on the estimated value of the options. The value of options granted under this plan is charged to expense over the vesting period of the grants.

Revenue Recognition: Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gain or loss associated with mortgage servicing rights, investment transactions, and income from bank owned life insurance are also not within the scope of the new guidance. Topic 606 is applicable to noninterest income such as trust department income, deposit related fees, and ATM processing fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest income considered to be within the scope of Topic 606 is discussed below.

Non-transactional Deposit Account Fees: The Company earns fees from its deposit customers for non-transaction-based overdraft and nonsufficient funds (NSF) fees services. Overdraft and NSF fees are recognized at the point in time that the overdraft or NSF occurs. Service charges on deposits are withdrawn from the customer's account balance. Non-transactional deposit fees of \$773,000 are included in Service Fees.

Trust Department Fees: Trust management fees are billed fees as the management services are performed. Services provided to clients include personal and fiduciary services, investment management accounts, bill paying agency accounts, investment custody services, corporate fiduciary accounts, and farm management services.

ATM Processing Services: Revenue from ATM transaction processing and settlement services is recognized at the time the services are performed. ATM fees of approximately \$244,000 are included in Services Fees.

The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020 and 2019, the Company did not have any significant contract balances. As of December 31, 2020, the Company did not capitalize any contract acquisition costs.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities.

Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies and assessments of the current and future economic and business conditions.



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

With regards to uncertain tax matters, the Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained during a tax audit based on the technical merit of the position. See Note 14 - Income Taxes for additional disclosures. When applicable, the Company recognizes both interest and penalties related to tax matters as a component of other operating expenses. The Company did not recognize any significant interest or penalties related to tax matters in 2020 or 2019.

The Company files consolidated federal and state income tax returns and it is not subject to federal or state income tax examinations for taxable years prior to 2017.

Earnings Per Share: Basic earnings per share are calculated based on the weighted-average common shares outstanding during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to net income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options.

Fair Values of Financial Instruments: The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Comprehensive Income: Comprehensive income includes both net income and other comprehensive income (loss). Other comprehensive income (loss) includes the changes in unrealized gains and losses on securities available for sale, and minimum pension liability, net of deferred income taxes.

Trust Department Assets: Property held for customers in fiduciary or agency capacities is not included in the accompanying consolidated balance sheets, as such items are not assets of the Bank.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Transfers of Financial Assets and Participating Interests: Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising Costs: Advertising costs are expensed as incurred.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer: GAAP requires acquired loans to be initially recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of these requirements. GAAP limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor's initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

New Accounting Pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect all entities that measure credit losses on financial instruments including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial asset that has a contractual right to receive cash that is not specifically excluded. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology required in current GAAP with a methodology that reflects expected credit losses that requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The amendments in this ASU will affect entities to varying degrees depending on the credit quality of the assets held by the entity, the duration of the assets held, and how the entity applies the current incurred loss methodology. In November 2019, the FASB approved ASU 2019-10 which delayed the effective date for ASU 2016-13 for public business entities that are not filers with the SEC. The ASU is effective for the Company for the fiscal year beginning after December 15, 2022, and including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Company is currently evaluating the impact of ASU 2016-13 on the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The Amendments in this ASU apply to all entities that are required, under existing GAAP, to make disclosures about recurring or nonrecurring fair value measurements and modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, including the consideration of costs and benefits. The ASU removed, modified, and added various disclosure requirements in *Topic 820*. The amendments also eliminate *at a minimum* from the phrase an entity *shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditor when evaluating disclosure requirements. The amendments in the ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt the implementation of any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The adoption in 2020 did not have an impact on the Company's consolidated financial statements.

Impact of the COVID-19 Pandemic: In March 2020, the outbreak of COVID-19 was recognized as a global pandemic by the World Health Organization resulting in unprecedented uncertainty and volatility in financial markets. Government actions calling for residents to shelter in place and socially distance have led to rapid changes in customer business revenues, increased unemployment, and have impacted consumer activity, all of which have impacted the Company's financial results in 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted, which included measures designed to address the impact of the COVID-19 pandemic. These provisions included the Paycheck Protection Program ("PPP"), which was designed to aid eligible businesses and non-profit entities through federally guaranteed loans distributed through local financial institutions under the oversight of the Small Business Administration ("SBA").

During 2020, the Bank originated approximately 689 PPP loans with a carry balance of approximately \$205,000,000. PPP loans are forgivable by the SBA under certain circumstances if the funds are used by the borrower for eligible expenses including payroll during a specified period. The Bank generated net fees of approximately \$5,900,000 on the origination of the loans, which is being recognized over the life of the PPP loan adjusted for prepayments resulting from loan forgiveness.

Subsequent Events: Management evaluated subsequent events through March 25, 2021, the date the consolidated financial statements were available to be issued.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 2 - SECURITIES AVAILABLE FOR SALE**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2020</b>				
Federal Agencies	\$ 4,029	\$ 230	\$ -	\$ 4,259
State and Municipal	13,543	741	(21)	14,263
Mortgage-Backed Securities and Collateral Mortgage Obligations	8,794	413	(3)	9,204
Asset Backed Securities	27,724	233	(55)	27,902
Other	5	12	-	17
	<u>54,095</u>	<u>1,629</u>	<u>(79)</u>	<u>55,645</u>
Total Securities Available for Sale	<u>\$ 54,095</u>	<u>\$ 1,629</u>	<u>\$ (79)</u>	<u>\$ 55,645</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2019</b>				
Federal Agencies	\$ 4,040	\$ 61	\$ -	\$ 4,101
State and Municipal	10,209	418	(3)	10,624
Mortgage-Backed Securities and Collateralized Mortgage Obligations	11,720	70	(41)	11,749
Asset Backed Securities	8,508	99	(89)	8,518
Other	5	18	-	23
	<u>34,482</u>	<u>666</u>	<u>(133)</u>	<u>35,015</u>
Total Securities Available for Sale	<u>\$ 34,482</u>	<u>\$ 666</u>	<u>\$ (133)</u>	<u>\$ 35,015</u>

As of December 31, 2020 and 2019, the Company had approximately \$4,645,000 and \$5,613,000, respectively, invested in bonds issued by municipalities located within LaSalle County, Illinois.

Securities with a carrying value of \$43,111,000 and \$34,853,000 were pledged at December 31, 2020 and 2019, respectively, to secure trust and public deposits, and for other purposes as required or permitted by law.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 2 - SECURITIES AVAILABLE FOR SALE (CONTINUED)**

The amortized cost and fair value of securities available for sale at December 31, 2020 by contractual maturity, was as follows. Securities not due at a single maturity date, primarily mortgage-backed and equity securities, are shown separately.

	Amortized Cost	Fair Value
Within One Year	\$ 1,172	\$ 1,192
One to Five Years	12,074	12,459
Five to Ten Years	22,747	23,123
After Ten Years	9,303	9,650
	<u>45,296</u>	<u>46,424</u>
Mortgage-Backed Securities and Collateralized Mortgage Obligations	8,794	9,204
Other	5	17
Total	<u>\$ 54,095</u>	<u>\$ 55,645</u>

Sales of securities available for sale were as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Proceeds from Sale	\$ -	\$ 8,010
Gross Realized Gains	-	91
Gross Realized Losses	-	-
Tax Expense	-	19

Certain investments in debt are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019 was \$12.1 million and \$11.6 million, respectively, which was approximately 21.8% and 33.0% of the Company's available for sale investment portfolio at those dates.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 2 - SECURITIES AVAILABLE FOR SALE (CONTINUED)**

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Description of Securities	Less than 12 Months		Over 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2020</b>						
Federal Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and Municipal	1,546	(21)	-	-	1,546	(21)
Asset Backed Securities	4,439	(1)	4,810	(54)	9,249	(55)
Mortgage-Backed Securities and Collateralized Mortgage Obligations	447	(2)	882	(1)	1,329	(3)
Total Temporarily Impaired Securities	<u>\$ 6,432</u>	<u>\$ (24)</u>	<u>\$ 5,692</u>	<u>\$ (55)</u>	<u>\$ 12,124</u>	<u>\$ (79)</u>
<b>December 31, 2019</b>						
Federal Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and Municipal	630	(3)	-	-	630	(3)
Asset Backed Securities	5,196	(89)	-	-	5,196	(89)
Mortgage-Backed Securities and Collateralized Mortgage Obligations	3,066	(11)	2,658	(30)	5,724	(41)
Total Temporarily Impaired Securities	<u>\$ 8,892</u>	<u>\$ (103)</u>	<u>\$ 2,658</u>	<u>\$ (30)</u>	<u>\$ 11,550</u>	<u>\$ (133)</u>

At December 31, 2020, there were 18 securities that have an unrealized loss with aggregate depreciation of less than 1% of the Company's amortized cost basis for such securities. These unrealized losses are a result of expected fluctuations in the bond market. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The decline in value of these securities is deemed to be temporary.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES**

Major classifications of loans as of December 31 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Commercial:		
Real Estate	\$ 281,106	\$ 128,496
Non-Real Estate	305,515	95,430
Construction and Land Development	29,988	16,127
Agricultural	31,417	33,631
Residential	83,272	60,264
Consumer	<u>867</u>	<u>4,742</u>
Total Loans	732,165	338,690
Allowance for Loan Losses	<u>(9,762)</u>	<u>(4,499)</u>
Loans, Net	<u><u>\$ 722,403</u></u>	<u><u>\$ 334,191</u></u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables present the recorded investment in loans and the related allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

	2020							Total
	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Unallocated	
<b>Total Loans</b>								
Individually Evaluated for Impairment	\$ 2,738	\$ 501	\$ -	\$ -	\$ 822	\$ -	\$ -	\$ 4,061
Collectively Evaluated for Impairment	<u>278,368</u>	<u>305,014</u>	<u>29,988</u>	<u>31,417</u>	<u>82,450</u>	<u>867</u>	<u>-</u>	<u>728,104</u>
Balances, December 31	<u><u>\$ 281,106</u></u>	<u><u>\$ 305,515</u></u>	<u><u>\$ 29,988</u></u>	<u><u>\$ 31,417</u></u>	<u><u>\$ 83,272</u></u>	<u><u>\$ 867</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 732,165</u></u>
<b>Allowance for Loan Losses:</b>								
Balances, January 1	\$ 1,969	\$ 1,558	\$ 129	\$ 316	\$ 380	\$ 10	\$ 137	\$ 4,499
Provision for Loan Losses	3,454	1,056	176	100	589	(1)	(24)	5,350
Recoveries on Loans	199	-	25	-	72	5	-	301
Loans Charged-Off	<u>(360)</u>	<u>-</u>	<u>-</u>	<u>(17)</u>	<u>(6)</u>	<u>(5)</u>	<u>-</u>	<u>(388)</u>
Balances, December 31	<u><u>\$ 5,262</u></u>	<u><u>\$ 2,614</u></u>	<u><u>\$ 330</u></u>	<u><u>\$ 399</u></u>	<u><u>\$ 1,035</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 113</u></u>	<u><u>\$ 9,762</u></u>
Individually Evaluated for Impairment	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Collectively Evaluated for Impairment	<u><u>\$ 5,262</u></u>	<u><u>\$ 2,614</u></u>	<u><u>\$ 330</u></u>	<u><u>\$ 399</u></u>	<u><u>\$ 1,035</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 113</u></u>	<u><u>\$ 9,762</u></u>



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

	2019							Total
	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Unallocated	
<b>Total Loans</b>								
Individually Evaluated for Impairment	\$ 2,838	\$ 1,183	\$ -	\$ -	\$ 201	\$ -	\$ -	\$ 4,222
Collectively Evaluated for Impairment	125,658	94,247	16,127	33,631	60,063	4,742	-	334,468
Balances, December 31	<u>\$ 128,496</u>	<u>\$ 95,430</u>	<u>\$ 16,127</u>	<u>\$ 33,631</u>	<u>\$ 60,264</u>	<u>\$ 4,742</u>	<u>\$ -</u>	<u>\$ 338,690</u>
<b>Allowance for Loan Losses:</b>								
Balances, January 1	\$ 708	\$ 1,039	\$ 822	\$ 324	\$ 298	\$ 8	\$ 13	\$ 3,212
Provision for Loan Losses	1,274	526	(897)	(8)	99	124	-	1,120
Recoveries on Loans	-	-	204	-	-	1	-	205
Loans Charged-Off	(13)	(7)	-	-	(17)	(1)	-	(38)
Balances, December 31	<u>\$ 1,969</u>	<u>\$ 1,558</u>	<u>\$ 129</u>	<u>\$ 316</u>	<u>\$ 380</u>	<u>\$ 132</u>	<u>\$ 13</u>	<u>\$ 4,499</u>
Individually Evaluated for Impairment	<u>\$ 278</u>	<u>\$ 348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 626</u>
Collectively Evaluated for Impairment	<u>\$ 1,691</u>	<u>\$ 1,210</u>	<u>\$ 129</u>	<u>\$ 316</u>	<u>\$ 380</u>	<u>\$ 10</u>	<u>\$ 137</u>	<u>\$ 3,873</u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following table presents impaired loans by class of loans as of December 31, 2020 and 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020					
With An Allowance Recorded:					
Commercial:					
Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Real Estate	-	-	-	-	-
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
With No Allowance Recorded:					
Commercial:					
Real Estate	\$ 2,738	\$ 2,762	\$ -	\$ 2,750	\$ 59
Non-Real Estate	501	570	-	635	22
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	822	862	-	843	7
Consumer	-	-	-	-	-
Total	<u>\$ 4,061</u>	<u>\$ 4,194</u>	<u>\$ -</u>	<u>\$ 4,228</u>	<u>\$ 88</u>
Total:					
Commercial:					
Real Estate	\$ 2,738	\$ 2,762	\$ -	\$ 2,750	\$ 59
Non-Real Estate	501	570	-	635	22
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	822	862	-	843	7
Consumer	-	-	-	-	-
Total	<u>\$ 4,061</u>	<u>\$ 4,194</u>	<u>\$ -</u>	<u>\$ 4,228</u>	<u>\$ 88</u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>December 31, 2019</u>					
With An Allowance Recorded:					
Commercial:					
Real Estate	\$ 2,360	\$ 2,410	\$ 278	\$ 2,325	\$ 7
Non-Real Estate	1,026	1,049	348	1,160	-
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	<u>\$ 3,386</u>	<u>\$ 3,459</u>	<u>\$ 626</u>	<u>\$ 3,485</u>	<u>\$ 7</u>
With No Allowance Recorded:					
Commercial:					
Real Estate	\$ 478	\$ 513	\$ -	\$ 473	\$ 7
Non-Real Estate	157	211	-	172	-
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	201	226	-	209	1
Consumer	-	-	-	-	-
Total	<u>\$ 836</u>	<u>\$ 950</u>	<u>\$ -</u>	<u>\$ 854</u>	<u>\$ 8</u>
Total:					
Commercial:					
Real Estate	\$ 2,838	\$ 2,923	\$ 278	\$ 2,798	\$ 14
Non-Real Estate	1,183	1,260	348	1,332	-
Construction and					
Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	201	226	-	209	1
Consumer	-	-	-	-	-
Total	<u>\$ 4,222</u>	<u>\$ 4,409</u>	<u>\$ 626</u>	<u>\$ 4,339</u>	<u>\$ 15</u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables present the recorded investment in loans by class based on current payment and accrual status as of December 31, 2020 and 2019:

	December 31, 2020				
	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial:					
Real Estate	\$ 280,986	\$ -	\$ 5	\$ 115	\$ 281,106
Non-Real Estate	305,137	-	-	378	305,515
Construction and					
Land Development	29,952	-	-	36	29,988
Agricultural	31,388	29	-	-	31,417
Residential	82,045	335	106	786	83,272
Consumer	862	-	5	-	867
Total	\$ 730,370	\$ 364	\$ 116	\$ 1,315	\$ 732,165

	December 31, 2019				
	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial:					
Real Estate	\$ 125,650	\$ -	\$ 8	\$ 2,838	\$ 128,496
Non-Real Estate	94,007	158	82	1,183	95,430
Construction and					
Land Development	16,013	-	114	-	16,127
Agricultural	33,389	242	-	-	33,631
Residential	59,331	692	40	201	60,264
Consumer	4,742	-	-	-	4,742
Total	\$ 333,132	\$ 1,092	\$ 244	\$ 4,222	\$ 338,690

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables present loans by class based on their assigned classifications determined by management as of December 31, 2020 and 2021:

	Commercial		Construction		Residential	Consumer	Total
	Commercial Real Estate	Non-Real Estate	and Land Development	Agricultural			
December 31, 2020							
Satisfactory	\$ 23,987	\$ 163,607	\$ 2,146	\$ 2,188	\$ -	\$ -	\$ 191,928
Satisfactory/Mentioned	242,507	141,092	27,842	26,045	-	-	437,486
Special Mention	11,874	315	-	2,927	-	-	15,116
Substandard	2,738	501	-	257	-	-	3,496
Doubtful	-	-	-	-	-	-	-
Performing	-	-	-	-	82,344	862	83,206
Nonperforming	-	-	-	-	928	5	933
<b>Total</b>	<b>\$ 281,106</b>	<b>\$ 305,515</b>	<b>\$ 29,988</b>	<b>\$ 31,417</b>	<b>\$ 83,272</b>	<b>\$ 867</b>	<b>\$ 732,165</b>

	Commercial		Construction		Residential	Consumer	Total
	Commercial Real Estate	Non-Real Estate	and Land Development	Agricultural			
December 31, 2019							
Satisfactory	\$ 20,641	\$ 4,777	\$ 2,007	\$ 2,632	\$ -	\$ -	\$ 30,057
Satisfactory/Mentioned	102,293	89,196	14,120	29,543	-	-	235,152
Special Mention	-	276	-	81	-	-	357
Substandard	5,562	1,181	-	1,375	-	-	8,118
Doubtful	-	-	-	-	-	-	-
Performing	-	-	-	-	60,063	4,742	64,805
Nonperforming	-	-	-	-	201	-	201
<b>Total</b>	<b>\$ 128,496</b>	<b>\$ 95,430</b>	<b>\$ 16,127</b>	<b>\$ 33,631</b>	<b>\$ 60,264</b>	<b>\$ 4,742</b>	<b>\$ 338,690</b>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The following tables present information related to troubled debt restructurings as of December 31:

	December 31, 2020					
	Accruing			Non-Accruing		
	Number of Loans	Outstanding Balance	Specific Reserve	Number of Loans	Outstanding Balance	Specific Reserve
Commercial:						
Real Estate	2	\$ 2,623	\$ -	-	\$ -	\$ -
Non-Real Estate	1	123	-	-	-	-
Construction and Land Development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	<u>3</u>	<u>\$ 2,746</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2019					
	Accruing			Non-Accruing		
	Number of Loans	Outstanding Balance	Specific Reserve	Number of Loans	Outstanding Balance	Specific Reserve
Commercial:						
Real Estate	1	\$ 8	\$ -	1	\$ 2,199	\$ 178
Non-Real Estate	-	-	-	3	1,037	348
Construction and Land Development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	<u>1</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>4</u>	<u>\$ 3,236</u>	<u>\$ 526</u>

The following tables present information related to troubled debt restructurings that have defaulted as of December 31:

	December 31, 2020		December 31, 2019	
	Number of Loans	Outstanding Balance	Number of Loans	Outstanding Balance
Commercial:				
Real Estate	-	\$ -	2	\$ 2,207
Non-Real Estate	-	-	3	1,037
Construction and Land Development	-	-	-	-
Agricultural	-	-	-	-
Residential	-	-	-	-
Consumer	-	-	-	-
Total Troubled Debt Restructurings That Subsequently Defaulted	<u>-</u>	<u>\$ -</u>	<u>5</u>	<u>\$ 3,244</u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)**

The post-modification outstanding balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

Certain executive officers, directors, and their related interests are loan customers of the Company. A summary of such loans made by the Company in the ordinary course of business and made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons is as follows:

	2020	2019
Balance at January 1	\$ 955	\$ 1,127
New Loans	195	-
Repayments	(110)	(156)
Change in Related Party Status	(380)	(16)
Balance at December 31	\$ 660	\$ 955

**NOTE 4 - LOAN SALES AND SERVICING**

The Company sells mortgage loans with servicing retained to the Federal Home Loan Mortgage Corporation (FHLMC). The Company realized gross proceeds from the sales of mortgage loans totaling \$264,372,000 and \$61,686,000 in 2020 and 2019, respectively. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are summarized as follows:

	2020	2019
Total Loans Serviced	\$ 371,425	\$ 202,584

Following is an analysis of the changes in originated mortgage servicing rights:

	2020	2019
Balances, January 1	\$ 1,732	\$ 1,606
Servicing Rights Capitalized	2,306	528
Amortization of Servicing Rights	(1,143)	(402)
Balances, December 31	\$ 2,895	\$ 1,732

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 5 - PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following at December 31:

	2020	2019
Cost		
Land	\$ 1,415	\$ 1,415
Buildings and Land Improvements	12,652	12,086
Equipment	7,638	6,841
Total Cost	21,705	20,342
Accumulated Depreciation	(11,646)	(11,031)
Net	\$ 10,059	\$ 9,311

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$674,000 and \$402,000, respectively.

**NOTE 6 - OTHER REAL ESTATE OWNED**

Activity in the other real estate owned account is as follows:

	2020	2019
Beginning of Year	\$ 2,507	\$ 2,099
Transfers from Loans	-	1,013
Initial Adjustment to Carrying Value	-	(98)
Sales of Other Real Estate Owned	(1,165)	(312)
Loss on Sales of Other Real Estate Owned	(69)	(24)
Gain on Sales of Other Real Estate Owned	153	84
Writedowns on Other Real Estate Owned, Net	(303)	(255)
End of Year	\$ 1,123	\$ 2,507

Expenses related to other real estate owned included:

	2020	2019
Loss (Gain) on Sales, Net	\$ (84)	\$ (60)
Writedowns	303	255
Operating Expenses, Net of Income	24	136
	\$ 243	\$ 331



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 7 - DEPOSITS**

Deposits consisted of the following at December 31:

	2020	2019
Noninterest Bearing Demand	\$ 240,009	\$ 68,473
Interest Bearing Demand	206,092	135,441
Savings	51,608	43,766
Money Market Savings	91,122	38,451
Certificates and Other Time Deposits of \$250,000 or More	22,789	22,144
Other Certificates and Time Deposits	78,609	52,936
Total	\$ 690,229	\$ 361,211

At December 31, 2020, the scheduled maturities of certificates and other time deposits were as follows:

Year Ending December 31,	Amount
2021	\$ 73,539
2022	17,279
2023	7,910
2024	1,743
2025	927
Thereafter	-
Total	\$ 101,398

Deposits held by the Company from related parties at December 31, 2020 and 2019 totaled \$1,960,000 and \$1,419,000, respectively.

**NOTE 8 - BORROWINGS**

At December 31, 2020 and 2019, the Company had a revolving line of credit note payable to Banker's Bank of Wisconsin with a total available amount \$5.0 million and \$2.0 million, respectively. The note will bear interest on unpaid principal at a variable rate of Prime and Prime plus 25 basis points (3.25% and 5.00%) at December 31, 2020 and 2019, respectively. The note requires quarterly payments of interest and matures on April 17, 2021. There was no outstanding balance as of December 31, 2020 or December 31, 2019. The note with Banker's Bank of Wisconsin is secured by all outstanding shares of Bank stock.

As of December 31, 2020 and 2019, a blanket lien on the Company's portfolio of one-to-four family and multifamily mortgages, small farm and business loans, and other real estate related collateral which was approximately \$396.1 and \$211.9 million, respectively, was used to secure current and potential future FHLB borrowings. As of December 31, 2020, the Company had short term fixed rate advances (7 days) outstanding of \$101.5 million bearing an interest rate of 0.23%. The company also had a long term advance outstanding in the amount of \$4.0 million bearing an interest rate of 0.00% which matures May 3, 2021. At December 31, 2019, the Company had a revolving line of credit with the FHLB with an outstanding balance of \$14.2 million bearing an interest rate of 1.77%, with no stated maturity. As of December 31, 2020 and 2019, the Company also had a letter of credit from the FHLB in connection with public funds held on deposit at the Company of \$50,545,000 and \$10,000,000, respectively. As of December 31, 2020 and 2019, there was no outstanding principal balance for the letter of credit. At December 31, 2020 and 2019, long term advances were \$25 million and all advances were fixed-rate, with interest rates ranging from 0.96 to 1.35%. The weighted average rate at December 31, 2019 was 1.13%.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 8 - BORROWINGS (CONTINUED)**

The Company issued \$28.5 million of ten-year subordinated debt at the Holding Company. The subordinated debt bears a fixed rate of 5.5% for five years from the date of issuance at which time it converts to a variable rate. The Company can call on or after September 15, 2025 in whole or part or at any time based on specified events.

**NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table presents the activity and accumulated balances for components of other comprehensive income (loss):

	(1) Unrealized Gains (Losses) On Securities	(2) Pension Loss	Total Accumulated Other Comprehensive Income (Loss)
<b>Balances, December 31, 2018</b>	\$ 51	\$ (394)	\$ (343)
Other Comprehensive Loss Before Reclassification	559	227	786
Amounts Reclassed from Accumulated Other			
Comprehensive Income (Loss)	<u>(91)</u>	<u>65</u>	<u>(26)</u>
Other Comprehensive Income (Loss), Before Tax	<u>468</u>	<u>292</u>	<u>760</u>
Income Tax Benefit (Expense)	<u>(98)</u>	<u>(132)</u>	<u>(230)</u>
<b>Balances, December 31, 2019</b>	<u>\$ 421</u>	<u>\$ (234)</u>	<u>\$ 187</u>
Other Comprehensive Income Before Reclassification	\$ 1,017	\$ 48	\$ 1,065
Amounts Reclassed from Accumulated Other			
Comprehensive Income (Loss)	<u>-</u>	<u>18</u>	<u>18</u>
Other Comprehensive Income, Before Tax	<u>1,017</u>	<u>66</u>	<u>1,083</u>
Income Tax Expense	<u>(214)</u>	<u>(13)</u>	<u>(227)</u>
<b>Balances, December 31, 2020</b>	<u>\$ 1,224</u>	<u>\$ (181)</u>	<u>\$ 1,043</u>

- (1) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in “net realized gains on sales of securities available for sale” in the consolidated statements of income.
- (2) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in the computation of net periodic pension costs as “amortization of unrecognized net loss”. For additional information refer to Note 11.

**NOTE 10 - BENEFIT PLANS**

The Company has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. In 1999, all plan benefits were frozen. The Company’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Bank may determine to be appropriate from time to time. The Bank expects to contribute approximately \$100,000 to the plan in 2021. The Company uses a December 31 measurement date for the plan.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 10 - BENEFIT PLANS (CONTINUED)**

The following tables set forth the Company's pension plan's funded status and amounts actuarially determined for the years indicated:

	2020	2019
Change in Benefit Obligation:		
Beginning Benefit Obligation	\$ 972	\$ 1,145
Interest Cost	36	48
Actuarial (Gain) Loss	71	(175)
Settlements	(278)	-
Benefits Paid	(46)	(46)
Ending Benefit Obligations	\$ 755	\$ 972
Beginning Fair Value	\$ 1,401	\$ 1,245
Actual Return	93	102
Employer Contribution	100	100
Settlements	(278)	-
Benefits Paid	(46)	(46)
Ending Fair Value	\$ 1,270	\$ 1,401
Funded Status	\$ 515	\$ 429

Assets and liabilities recognized in the consolidated balance sheets:

	<b>Pension Benefits</b>	
	2020	2019
Other Assets	\$ 515	\$ 429

Gross amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	<b>Pension Benefits</b>	
	2020	2019
Net Loss	\$ 230	\$ 296

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 10 - BENEFIT PLANS (CONTINUED)**

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	<u>2020</u>	<u>2019</u>
Accumulated Benefit Obligation	\$ 755	\$ 972
Fair Value of Plan Assets	1,270	1,401

Other significant balances and costs are:

	<u>2020</u>	<u>2019</u>
Components of Net Periodic Benefit Cost		
Interest Cost	\$ 36	\$ 48
Return on Plan Assets	(50)	(50)
Amortization	<u>18</u>	<u>65</u>
Ending Benefit Obligations	<u>\$ 4</u>	<u>\$ 63</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	<u>Pension Benefits</u>	
	<u>2020</u>	<u>2019</u>
Amounts Arising During the Period		
Net Gains	<u>\$ 66</u>	<u>\$ 292</u>

The estimated net loss for the defined-benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$230,000.

	<u>2020</u>	<u>2019</u>
Assumptions Used to Determine Benefit Obligations		
Discount Rate	4.00%	5.00%
Return on Plan Assets	4.00%	4.00%
Assumptions Used to Determine Benefit Costs		
Discount Rate	5.00%	5.00%
Return on Plan Assets	4.00%	4.00%

The discount rate and expected return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 10 - BENEFIT PLANS (CONTINUED)**

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2020:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 145
2022	65
2023	127
2024	105
2025	75
2026 through 2030	217

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The permitted investments as established by the plan agreement include, but are not limited to, common and preferred stocks, open-end or closed-end mutual funds, bonds and other evidences of indebtedness or ownership, and real estate or any interest therein.

Asset allocation is primarily based on a strategy to provide stable earnings while attempting to recognize potentially higher returns through limited investments in equity securities. Plan assets are rebalanced periodically. At December 31, 2020 and 2019, allocations by percentages were as follows:

	<u>2020</u>	<u>2019</u>
Equity Mutual Funds	26.0%	20.0%
Fixed Income Mutual Funds	48.9	10.6
Money Market Funds and Other	25.1	69.4

The following table summarizes plan assets measured at fair value as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<u>Asset Category</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value</u>
<b>December 31, 2020</b>				
Mutual Funds:				
Large U.S. Equities	\$ 282	\$ -	\$ -	\$ 282
Small/Mid U.S. Equities	48	-	-	48
Fixed Income	621	-	-	621
Corporate Bonds	45	-	-	45
Preferred Stocks	86	-	-	86
Money Market and Time Deposit Funds	188	-	-	188
<b>Total</b>	<u>\$ 1,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,270</u>

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 10 - BENEFIT PLANS (CONTINUED)**

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>December 31, 2019</b>				
Mutual Funds:				
Large U.S. Equities	\$ 240	\$ -	\$ -	\$ 240
Small/Mid U.S. Equities	41	-	-	41
Fixed Income	148	-	-	148
Corporate Bonds	43	-	-	43
Preferred Stocks	44	-	-	44
Money Market and Time Deposit Funds	885	-	-	885
<b>Total</b>	<u>\$ 1,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,401</u>

The Bank has a directors' retirement plan which provides retirement benefits primarily to former members of the board of directors. The Bank also maintains a supplemental executive retirement plan that provides benefits to certain key executive officers and directors in accordance with the plan document. The Bank accrued expenses related to these plans totaling \$239,000 in 2020 and \$129,000 in 2019.

The Company also has a combined employee stock ownership plan (ESOP) and 401(k) profit-sharing plan, also known as a KSOP. The Company's KSOP covers eligible employees with more than 90 days of service, as defined, and who are at least 21 years of age. The plan allows employee contributions. The Company may make a matching contribution equal to a percentage of salary deferral, and discretionary profit sharing and ESOP contributions. The Company's contributions are voluntary and at the discretion of the Board of Directors. All contributions are subject to statutory restrictions. The Company's contributions, which are made following the end of the calendar year, totaled \$410,000 for 2020, and \$275,000 for 2019. There were 9,225 Company shares held by the plan as of December 31, 2020, and 7,703 as of December 31, 2019.

**NOTE 11 - STOCK OPTION PLAN**

The Company grants selected executives, and other key employees and directors, incentive and nonqualified stock option awards which vest and become fully exercisable at the discretion of the board of directors as the options are granted. All options currently outstanding vest four years from their respective grant dates. The Company is authorized to grant options for up to 150,000 shares of the Company's common stock. The exercise price of the options, which have a ten-year life, may not be less than the market price of the Company's stock on the date of grant. For the years ended December 31, 2020 and 2019, the Company recognized no compensation expense for stock options.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 11 - STOCK OPTION PLAN (CONTINUED)**

The following is a summary of the status of the Company's stock option plan and changes in that plan for the years ending December 31, 2020 and 2019. The Company had no grants outstanding prior to 2003.

Options	Shares	2020		
		Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding, Beginning of Year	1,200	\$ 59.84		
Granted	-			
Exercised	1,200	59.84		
Expired	-			
Outstanding, End of Year	-	\$ -	-	\$ -
Options Exercisable at Year-End	-	\$ -	-	\$ -
Weighted Average Fair Value of Options Granted During the Year		\$ -		
Options	Shares	2019		
		Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding, Beginning of Year	12,400	\$ 61.19		
Granted	-			
Exercised	11,200	61.34		
Expired	-			
Outstanding, End of Year	1,200	\$ 59.84	0.19	\$ 13,452
Options Exercisable at Year-End	1,200	\$ 59.84	0.19	\$ 13,452
Weighted Average Fair Value of Options Granted During the Year		\$ -		

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2020 and 2019. This amount changes based on changes in the market value of the Company's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 12 - EARNINGS PER SHARE**

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2020		
	Income	Weighted- Average Shares	Per Share Amount
Net Income	\$ 2,921	824,726	
Basic Earnings per Share			
Earnings Applicable to Common Shareholders			<u>\$ 3.54</u>
Effect of Dilutive Securities			
Stock Options	-	-	
Dilutive Earnings Per Share			
Earnings Applicable to Common Shareholders and Assumed Conversions	<u>\$ 2,921</u>	<u>824,726</u>	<u>\$ 3.54</u>
	Year Ended December 31, 2019		
	Income	Weighted- Average Shares	Per Share Amount
Net Income	\$ 2,375	767,132	
Basic Earnings per Share			
Earnings Applicable to Common Shareholders			<u>\$ 3.10</u>
Effect of Dilutive Securities			
Stock Options	-	188	
Dilutive Earnings Per Share			
Earnings Applicable to Common Shareholders and Assumed Conversions	<u>\$ 2,375</u>	<u>767,320</u>	<u>\$ 3.10</u>



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 13 - INCOME TAXES**

Income tax expense for the years ended December 31, 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
Income Tax Expense		
Currently Payable		
Federal	\$ 2,347	\$ 571
State	1,209	336
Deferred	<u>(2,102)</u>	<u>(138)</u>
Total Income Tax Expense	<u>\$ 1,454</u>	<u>\$ 769</u>

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% to income before income tax expense as a result of the following:

	<u>2020</u>	<u>2019</u>
Reconciliation of Federal Statutory to Actual Tax Expense		
Federal Statutory Income Tax at 21%	\$ 919	\$ 660
Tax-exempt Income	(110)	(153)
Effect of State Income Taxes	307	223
Other Items, Net	<u>338</u>	<u>39</u>
Actual Tax Expense	<u>\$ 1,454</u>	<u>\$ 769</u>
Effective Tax Rate	33.20%	24.50%

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 13 - INCOME TAXES (CONTINUED)**

The components of the deferred tax assets (liabilities) included on the consolidated balance sheets are as follows:

	2020	2019
Assets:		
Allowance for Loan Losses	\$ 2,321	\$ 667
Deferred Compensation	765	499
Other Real Estate Owned	172	301
Deferred PPP Loan Fees	756	-
Other	195	133
Total Assets	4,209	1,600
Liabilities:		
Unrealized Gain on Securities Available for Sale	(326)	(112)
Net Change in Defined Benefit Pension Plan Losses	(164)	(145)
FHLB Stock	(3)	(3)
Depreciation	(691)	(533)
Mortgage Servicing Rights	(825)	(494)
Goodwill	(697)	(697)
Other	(78)	(60)
Total Liabilities	(2,784)	(2,044)
Total Deferred Tax Assets (Liabilities)	\$ 1,425	\$ (444)

**NOTE 14 - COMMITMENTS, OFF-BALANCE-SHEET RISK, AND CONTINGENCIES**

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these claims and legal actions is not expected to have a material effect on financial condition or results of operations.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2020 or December 31, 2019.

Some financial instruments are used in the normal course of business to meet the financing needs of customers. These financial instruments include unfunded commitments and standby letters of credit. These involve, to varying degrees, credit and interest rate risk in excess of the amounts reported in the consolidated financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for these commitments. The same credit policies are used for commitments and conditional obligations as are used for loans. Collateral or other security is normally required to support financial instruments with credit risk.

Unfunded commitments under commercial lines of credit, revolving credit lines, and credit cards are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 14 - COMMITMENTS, OFF-BALANCE-SHEET RISK, AND CONTINGENCIES (CONTINUED)**

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at year-end follows:

	2020	2019
Unfunded Commitments	\$ 148,635	\$ 62,792
Standby Letters of Credit	6,087	2,584

**NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS**

**Recurring Basis**

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 1 - Summary of Significant Accounting Policies. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019:

	Fair Value	2020 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale:				
Federal Agencies	\$ 4,259	\$ -	\$ 4,259	\$ -
State and Municipals	14,263	-	14,263	-
Mortgage-Backed Securities and Collateralized Mortgage Obligations	9,204	-	9,204	-
Asset Backed Securities	27,902	-	27,902	-
Other	17	17	-	-
Total	\$ 55,645	\$ 17	\$ 55,628	\$ -

	Fair Value	2019 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale:				
Federal Agencies	\$ 4,101	\$ -	\$ 4,101	\$ -
State and Municipals	10,624	-	10,624	-
Mortgage-Backed Securities and Collateralized Mortgage Obligations	11,749	-	11,749	-
Asset Backed Securities	8,518	-	8,518	-
Other	23	23	-	-
Total	\$ 35,015	\$ 23	\$ 34,992	\$ -

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities where quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

The following table presents the balances of the assets measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019, as well as any related net impairment losses for the years ended December 31, 2020 and 2019:

	December 31, 2020			
	Level 1	Level 2	Level 3	Impairment Losses
Loans Held For Sale	\$ -	\$ -	\$ 63,580	\$ -
Impaired Loans	-	-	-	-
Other Real Estate Owned	-	-	1,123	303
	December 31, 2019			
	Level 1	Level 2	Level 3	Impairment Losses
Loans Held For Sale	\$ -	\$ -	\$ 42,995	\$ -
Impaired Loans	-	-	2,760	626
Other Real Estate Owned	-	-	2,507	255

Loans Held for Sale

Mortgage loans originated and purchased for sale are carried at the lower of cost or estimated fair value. The Company obtains quotes or bids on these loans directly from purchasing financial institutions. Typically these quotes include a premium on the sale and thus these quotes indicate fair value of the held for sale loans is greater than cost.

Impairment losses for loans held for sale that are carried at the lower of cost or fair value represent additional net write-downs during the period to record these loans at the lower of cost or estimated fair value subsequent to their initial classification as loans held for sale.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

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**NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Impaired loans require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment losses on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Foreclosed Assets

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Impairment losses on foreclosed assets represent specific valuation allowance and write-downs during the periods presented where the carrying value of the foreclosed assets exceeded the current fair value less estimated selling costs of the foreclosed asset subsequent to their initial classification as foreclosed assets.

Collateral-Dependent Impaired Loans and Foreclosed Assets

The estimated fair value of collateral-dependent impaired loans and foreclosed assets is based on the appraised fair value of the collateral, less estimated costs to sell. Collateral-dependent impaired loans and foreclosed assets are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or a similar evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals or a similar evaluation of the collateral underlying collateral-dependent loans and foreclosed assets are obtained when the loan is determined to be collateral-dependent for impaired loans and at the time a loan is transferred to foreclosed assets. Appraisals or similar evaluations are obtained subsequently as deemed necessary by management but at least annually on foreclosed assets. Appraisals are reviewed for accuracy and consistency by management. Appraisals are performed by individuals selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2020	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Loans Held for Sale	\$ 63,580	Negotiated Price	Negotiated Price	Not meaningful
Collateral-Dependent Impaired Loans	\$ -	Market Comparable Properties	Marketability Discount	10.0% - 84.0% 14.8%
Other Real Estate Owned	\$ 1,123	Market Comparable	Marketability Discount	11.0% -25.0% 19.9%

  

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Loans Held for Sale	\$ 42,995	Negotiated Price	Negotiated Price	Not Meaningful
Collateral-Dependent Impaired Loans	\$ 2,760	Market Comparable Properties	Marketability Discount	5.0% - 86.0% 22.9%
Other Real Estate Owned	\$ 2,507	Market Comparable	Marketability Discount	11.0% -25.0% 16.0%

The following methods and assumptions were used to estimate fair values for financial instruments carried on the consolidated balance sheets at other than fair value. The carrying amount is considered to estimate fair value for cash and cash equivalents, deposits with no stated maturity such as demand, NOW, money market and savings deposits, accrued interest receivable and payable, and variable rate loans or deposits. For interest-bearing time deposits, fixed rate loans and deposits, or borrowings, the fair value is estimated by discounted cash flow analysis using current market rates for the estimated life and credit risk. The carrying amount of life insurance approximates fair value as it reflects the policies' cash surrender values. The fair value of off-balance-sheet items is based on the fees or cost that would currently be charged to enter into or terminate such agreements and is not material.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2020 and 2019  
(Table dollar amounts in thousands, except per share data)

**NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2020 and 2019 were as follows:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and Cash Equivalents	\$ 33,086	\$ 33,086	\$ 15,789	\$ 15,789
Interest-Bearing Time Deposits	-	-	750	751
Loans, Net	722,403	740,195	334,191	341,981
Cash Surrender Value of Life Insurance	4,363	4,363	4,317	4,317
Accrued Interest Receivable	3,118	3,118	1,685	1,685
Liabilities:				
Deposits With no Stated Maturities	588,831	588,831	286,131	286,131
Time Deposits	101,398	101,780	75,080	74,839
Borrowings	159,000	159,000	39,200	39,200
Accrued Interest Payable	79	79	100	100

**NOTE 16 - REGULATORY AND CAPITAL MATTERS**

In September 2019, the FDIC adopted the optional community bank leverage ratio (CBLR) framework provided for in the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. A qualifying community banking organization must have a leverage ratio of 9 percent or greater, total consolidated assets of less than \$10 billion, off-balance sheet exposures of 25 percent or less of its total consolidated assets, and trading assets and trading liabilities of 5 percent or less of its total consolidated assets, all as of the end of the most recent quarter.

Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9 percent will generally be considered well-capitalized and to have met the risk-based and leverage capital requirements in the generally applicable capital rule. A qualifying community banking organization may opt into and out of the CBLR framework by completing the associated reporting requirements on its call report. The CBLR framework was first available for qualifying community banking organizations in their March 31, 2020 call report.

In March 2020, as required by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the FDIC temporarily lowered the CBLR to 8% beginning in the second quarter of 2020 through the end of calendar year 2020. Beginning in 2021, the CBLR will increase to 8.5% for that calendar year. The CBLR will return to 9% on January 1, 2022. The Bank has opted into this framework as of December 31, 2020.

The Company may pay dividends without prior approval from the Federal Reserve Bank so long as it remains "adequately capitalized" after such payment. The Bank is subject to statutory dividend restrictions which provide, in general, that the Bank may pay the current year's earnings and the prior two years' retained earnings without the prior approval of the Office of the Comptroller of Currency. At December 31, 2020, the Bank's shareholder's equity totaled \$77.9 million, of which \$4.0 million was available for payment of dividends without prior regulatory approval.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 16 - REGULATORY AND CAPITAL MATTERS (CONTINUED)**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Bank became subject to the new rules on January 1, 2015, with a phase-in period for many of the new provisions.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier I, Tier I, and total capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2020, the Bank met the requirements to be categorized as "well capitalized" under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier 1 risk-based, and Tier I leverage ratios as set forth in the following table (as defined). Management is not aware of any conditions or events since December 31, 2020 that would change the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following tables:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2020</b>	(Amounts in Thousands)					
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)* :	\$ 75,054	11.18%	\$ 30,219	4.50%	\$ 43,649	6.50%
Tier I Capital to Risk Weighted Assets:	75,054	11.18%	40,291	6.00%	53,722	8.00%
Total Capital to Risk Weighted Assets:	83,448	12.43%	53,722	8.00%	67,152	10.00%
Tier I Capital to Average Assets:	75,054	8.64%	34,750	4.00%	43,438	5.00%
<b>December 31, 2019</b>	(Amounts in Thousands)					
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)* :	\$ 46,972	12.74%	\$ 16,587	4.50%	\$ 23,959	6.50%
Tier I Capital to Risk Weighted Assets:	46,972	12.74%	22,116	6.00%	29,488	8.00%
Total Capital to Risk Weighted Assets:	51,471	13.96%	29,488	8.00%	36,860	10.00%
Tier I Capital to Average Assets:	46,972	11.27%	16,676	4.00%	20,845	5.00%



FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Table dollar amounts in thousands, except per share data)

**NOTE 17 - PARENT COMPANY FINANCIAL STATEMENTS**

The following are the condensed balance sheets and statements of income for First Ottawa Bancshares, Inc. for the years ending December 31, 2020 and 2019.

**Condensed Balance Sheets**

	2020	2019
<b>Assets</b>		
Cash and Due From Banks	\$ 3,715	\$ 688
Investment in Common Stock of Bank	77,846	48,908
Other Assets	102	102
	<u>81,663</u>	<u>49,698</u>
<b>Total Assets</b>	<u>\$ 81,663</u>	<u>\$ 49,698</u>
<b>Liabilities</b>		
Dividends Payable	\$ 619	\$ 607
Other Liabilities	470	-
Borrowings	28,500	-
	<u>52,074</u>	<u>49,091</u>
<b>Stockholders' Equity</b>	<u>\$ 81,663</u>	<u>\$ 49,698</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 81,663</u>	<u>\$ 49,698</u>

**Condensed Statements of Income**

	2020	2019
<b>Income - Dividends from Bank</b>	\$ 1,239	\$ 1,202
<b>Expenses</b>	<u>1,178</u>	<u>-</u>
<b>Income Before Income Tax and Equity in Undistributed Income of Subsidiary</b>	61	1,202
<b>Income Tax Expense (Benefit)</b>	<u>-</u>	<u>-</u>
<b>Income Before Equity in Undistributed Income of Subsidiary</b>	61	1,202
<b>Equity in Undistributed Income of Subsidiary</b>	<u>2,860</u>	<u>1,173</u>
<b>Net Income</b>	<u>\$ 2,921</u>	<u>\$ 2,375</u>

This information is an integral part of the accompanying consolidated financial statements.