



FIRST
OTTAWA
BANCSHARES, INC.

July 14th, 2021

Dear Shareholders,

The second quarter witnessed dramatic improvement in the fight against the global pandemic primarily driven by an increase in the percentage of people fully vaccinated. As expected, the number of hospitalizations and deaths due to Covid 19 dropped dramatically. Parts of the economy responded positively and unemployment dropped. Still, significant parts of the economy lagged as supply chain disruptions left manufacturers unable to fulfill orders and the travel and service industry without enough staff to fully reopen. US Treasury yield curves unexpectedly flattened during the second quarter resulting in an industry wide decline in Net Interest Margin. Our Net Interest Margin outperformed primarily due to PPP origination premiums contributing to interest income upon forgiveness. Non-interest income remained strong as residential mortgage originations out-performed peers and Treasury Management Services saw record income.

On May 19, 2021, at our Annual Meeting of Shareholders, four incumbent directors were re-elected to three-year terms: Bradley Armstrong, Donald Harris, Daniel Miller, and Brian Zabel. Lynn Dubajic was elected Chairman of First Ottawa Bancshares and Daniel Miller, Vice-Chairman. Daniel Miller was elected Chairman of the First National Bank of Ottawa and Lynn Dubajic, Vice-Chairman. The Board of Directors announced a dividend of \$0.75 per share payable on July 1, 2021.

In the face of adversity and a constantly changing playing field our employees continued to perform at the highest levels. Every day they demonstrate a strength of character and commitment to the success of the clients and communities we serve.

These efforts were recognized for the second year in a row by the Independent Community Bankers of America ranking of the “Top Lenders of 2020”. The First National Bank of Ottawa ranked 1st in Illinois and 2nd in the United States amongst all commercial banks with assets between \$500mm and \$1B. The full article can be found at: <https://www.acbandt.com/wp-content/uploads/sites/3/2021/07/Who-made-ICBA-2021.pdf>

FIRST OTTAWA BANCSHARES, INC. (FOTB)
701 LASALLE STREET
OTTAWA, ILLINOIS 61350
WWW.FIRSTOTTAWA.COM
(815) 434-0044

The following table summarizes unaudited net income and key ratios for the second quarter of 2021 compared to the same quarter of 2020*:

	2021	2020
Net Income	\$6,063K	\$2,074K
Diluted EPS	\$6.55**	\$2.41**
ROAA	1.28%	0.67%
ROAE	14.94%	7.92%
Net Interest Margin	3.21%	2.83%
Tier 1 leverage	8.56%	7.32%

*dollars in thousands, except per share data

**First Ottawa Bancshares

Average Balances, Allowance for Loan Losses, and Credit Quality

Second quarter 2021 compared to second quarter 2020, average total loans (net of the allowance), increased by \$323 million (66%), to \$813 million. Average total deposits increased by \$276 million (52%), to \$809 million. The allowance for loan losses totaled \$9.95 million compared to \$5.14 million for the prior year quarter. Classified assets for the quarter improved to 6.21% of Capital as compared to 11.13% for the prior year quarter.

Outlook

In the second quarter, earnings and growth exceeded expectations fueled by continued strength in commercial credit and residential mortgage originations. Stress in the credit portfolio remains muted with past due ratios and forbearance agreements improving from already positive levels. We maintained a disciplined contribution to our loan loss reserves in response to healthy levels of new client opportunities and concerns of Covid 19 variants creating elevated risk of a recession and/or significant inflation.

On behalf of your Board of Directors, we thank you for your loyalty to First Ottawa Bancshares, Inc. and The First National Bank of Ottawa.

Sincerely



Steven M. Gonzalo, President & CEO

First Ottawa Bancshares