



PUBLIC DISCLOSURE

September 25, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Ottawa
Charter Number 1154

701-705 LaSalle Street
Ottawa, Illinois 61350

Office of the Comptroller of the Currency

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Suite 604
Peoria, Illinois 61602

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

- The borrower distribution of loans reflects reasonable penetration.
- The majority of loans originated by the bank are to customers within its assessment areas (AAs).
- The quarterly average loan-to-deposit (LTD) ratio of 75 percent is reasonable.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

The First National Bank of Ottawa (FNB or bank) is a \$316 million intrastate financial institution headquartered in Ottawa, Illinois, southwest of Chicago, Illinois, and along Interstate 80 and the Illinois River.

The bank is a wholly owned subsidiary of First Ottawa Bancshares, Inc., a \$316 million, one-bank holding company headquartered in Ottawa, Illinois. The holding company also owns First Ottawa Financial Corporation, a non-bank entity, which provides investment services. The holding company nor the affiliate negatively impacts the bank's ability to meet the credit needs of the community.

The bank has eight locations and twelve non-deposit taking automated teller machines (ATMs) to serve its customers in Grundy, Kendall, LaSalle, and Livingston counties, which comprise its two AAs. The two AAs include CTs in LaSalle and Livingston counties as the Non-MSA AA and CTs in Grundy and Kendall counties as the MSA AA. FNB serves the Non-MSA AA with three full service and three limited service branches and 10 ATMs. FNB serves the MSA AA with two full service branches and two ATMs, of which one branch and one ATM are located in a moderate-income CT.

The bank sourced 90 percent of its \$283 million in deposits from the Non-MSA AA, as of June 30, 2016.

FNB held 69 percent of net loans and leases to total assets and a Tier One Leverage Capital ratio of 10 percent, at June 30, 2017. Residential lending represented the largest portfolio at \$92 million, followed by commercial lending at \$80 million, agriculture lending at \$25 million, and consumer lending at \$22 million. In addition to residential loans originated for portfolio, FNB also sells fixed-rate residential mortgage loans into the secondary market.

FNB's business strategy is to provide a full range of traditional banking services to individuals and businesses, including personal, commercial, retail, and internet banking. Please refer to the CRA Public File for a detailed listing of products and services offered by the bank.

The bank's previous CRA rating, which the OCC determined using the Small Bank criterion, was Satisfactory, as detailed in the Performance Evaluation (PE) dated September 2, 2014.

There are no legal or financial circumstances that impede the bank's ability to meet the credit needs of its AAs.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period covers the period between the date of the prior CRA PE of September 2, 2014, and September 25, 2017. The Lending Test covered the lending performance of the primary products from January 1, 2015, through December 31, 2016.

We based the Lending Test on the bank's primary loan products, which were determined to be residential loans followed by business loans. The primary products accounted for 85 percent of loans, by dollar, originated or purchased between January 1, 2015, and December 31, 2016.

Data Integrity

We conducted a data integrity review on July 31, 2017, of the HMDA data for reportable loans originated or purchased between January 1, 2015, and December 31, 2016. We utilized random sampling and verified reported data against source documents and geocoding data for each loan in the sample. We found the HMDA data for the 2015 year to be reliable while the data for the 2016 year was found to be unreliable due to errors in geocoding. FNB corrected the errors and reviewed all loans for the 2016 year for geocoding accuracy. A subsequent data integrity review, which utilized random sampling, was performed on September 25, 2017, and found the HMDA data for the 2016 year to be reliable.

FNB is not required to maintain CRA data on small business lending outside of individual credit files. Therefore, we utilized random sampling to obtain data for business loans. We obtained the gross revenues of businesses, as well as geocoding data for each loan in our sample.

Selection of Areas for Full-Scope Review

The Non-MSA AA received a full scope review, as a majority of deposits were obtained from this AA. The MSA AA received a limited scope review. Refer to Appendix A for more information.

Ratings

The bank's overall rating is based primarily on the area that received the full-scope review. Additionally, we weighed performance of residential lending more than business lending. Within residential lending, we weighed the performance of home purchase more than home refinance.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB meets the standard for Satisfactory performance.

Loan-to-Deposit Ratio

FNB's average LTD ratio is reasonable given the size, financial condition, level of competition, and lending opportunities available in the AAs. The LTD ratio is calculated on a bank-wide quarterly average since the prior CRA PE. The quarterly LTD ratio averaged 75 percent over 12 quarters from September 30, 2014, through June 30, 2017, with a low of 58 percent and a high of 93 percent. The similarly situated institutions, which range in asset size from \$59 million to \$364 million, are FDIC insured community financial institutions that compete with FNB Ottawa for deposits in the AAs. The similarly situated institutions had an overall average LTD ratio of 63 percent, with an average low of 36 percent and an average high of 90 percent.

Lending in Assessment Area

FNB originated or purchased a majority of loans to customers inside its AAs during the evaluation period, both by number and dollar volume. The proportion of lending inside versus outside the AA is calculated on a bank-wide basis.

Table 1 - Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
					(000)		(000)		(000)	
Residential	531	75	177	25	708	70,536	68	33,410	32	103,946
Business	17	85	3	15	20	1,167	77	358	23	1525
Totals	548	75	180	25	728	71,703	68	33,768	32	105,471

Source: In/Out sample of business loans and data reported under HMDA between January 1, 2015 and December 31, 2016.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The borrower distribution reflects reasonable penetration in the AAs.

Residential Loans – Non-MSA AA

The distribution of borrowers reflects reasonable penetration among families of different income levels, given the performance context. Lending to low-income families reflects poor penetration for home refinance and reasonable penetration for home purchase, but given the performance context, performance for home purchase to low-income families

is excellent while home refinance remains poor. Lending to moderate-income families reflects excellent penetration for home purchase, as it significantly exceeds the standard and reasonable penetration for home refinance.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	15	12	15	29	23	24	47	35
Home Refinance	15	5	15	13	23	24	47	58

Source: Data reported under HMDA between January 1, 2015 and December 31, 2016; U.S. Census data.

Residential Loans – MSA AA

The performance in the MSA AA is consistent with the full-scope review as the lending performance reflects reasonable penetration, given the performance context.

Business Loans – Non-MSA AA

The borrower distribution reflects reasonable penetration among businesses of different sizes, given the performance context.

Table 4 - Borrower Distribution of Loans to Businesses in Non-MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76	7	17	100%
% of Bank Loans in AA by #	74	26	0	100%
% of Bank Loans in AA by \$	49	51	0	100%

Source: Loan sample of business loans originated or purchased from January 1, 2015 through December 31, 2016; Dun and Bradstreet data, as of June 30, 2016.

Business Loans – MSA AA

The performance in the MSA AA is consistent with the full-scope review as the lending performance reflects reasonable penetration, given the performance context.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion in the AAs.

Non-MSA AA

There are no low- or moderate-income CTs in the Non-MSA AA. We did not perform a geographic analysis of the distribution of loans for this evaluation. Since all of the geographies in the AA are middle- or upper-income, the analysis is not meaningful.

Residential Loans – MSA-AA

The performance in the MSA AA reflects reasonable dispersion, given the performance context.

Business Loans – MSA AA

The performance in the MSA AA reflects excellent dispersion, given the performance context

Responses to Complaints

There were no complaints received regarding the bank's performance in helping to meet the credit needs of its AAs during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/2015 to 12/31/2016)	
Financial Institution	Products Reviewed	
First National Bank of Ottawa Ottawa, Illinois	Residential and Business Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA	NA	NA
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
State of Illinois (Chicago-Naperville-Arlington Heights) #16974 (Nonmetropolitan Area)	Limited Scope Full Scope	All CTs in Grundy County and Kendall County All CTs in LaSalle County and CT #9603 in Livingston County

Appendix B: Community Profiles for Full-Scope Areas

Demographic Information for Full-Scope Area: Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	29	0.00	0.00	72.41	27.59	0.00
Population by Geography	117,087	0.00	0.00	71.49	28.51	0.00
Owner-Occupied Housing by Geography	35,764	0.00	0.00	71.00	29.00	0.00
Businesses by Geography	5,805	0.00	0.00	73.68	26.32	0.00
Farms by Geography	505	0.00	0.00	69.31	30.69	0.00
Family Distribution by Income Level	31,850	14.59	15.49	22.62	47.29	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,582	0.00	0.00	77.38	22.62	0.00
Median Family Income: FFIEC Adjusted Median Family Income for 2016: Households Below the Poverty Level:	= \$54,499 = \$58,000 = 11%	Median Housing Value: Unemployment Rate – 06/30/2017 (LaSalle County):				= \$131,901 = 5.6%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: XXXX U.S. Census, and XXXX HUD updated MFI.

Competition for deposits is high as the bank competes with national banks, federal thrifts, state banks, and credit unions. Competition for loans is very high with the addition of farm credit and nonbank financing companies. In the Non-MSA AA, FNB held a strong presence and greater market share of deposits than in the MSA AA. FNB ranked 4th with 6.97 percent of deposit market share in the Non-MSA AA compared to 18th with 1.20 percent of deposit market share in the MSA AA, at June 30, 2016. The top five banks in the MSA AA held 47 percent of the deposit market share, at June 30, 2016.

Unemployment rates have improved since the recession but the LaSalle and Grundy counties continued to have high levels of unemployment in years 2015 and 2016. The State of Illinois unemployment rates were 6.0 and 5.6 percent at December 31, 2015, and December 31, 2016, respectively. LaSalle County had unemployment rates of 7.6 and 6.9 percent, respectively. Grundy County also had high unemployment at 6.9 and 6.7 percent, respectively. Livingston County had unemployment rates of 5.9 and 5.3 percent, respectively. Kendall County had the most favorable unemployment rates of the counties in the AAs with rates of 5.0 and 4.9 percent, respectively. The high unemployment rates may limit opportunities for lending in the AAs.

Families living below poverty was 8.01 percent in the Non-MSA AA and 3.62 percent in the MSA AA. The level of families living below poverty may limit opportunities for lending in the Non-MSA AA.

The median housing value in the Non-MSA AA is \$131,901, while in the MSA AA the median housing value is \$234,326. The Non-MSA AA has 51,267 housing units, with 35,764 being owner occupied units. The MSA AA has 57,318 housing units, with 44,408 being owner occupied units. The number of housing units where the monthly owner costs exceed 30 percent of income was 8,835, or 17.23 percent of total housing units in the Non-MSA AA, and 15,557, or 27.14 percent of total housing units in the MSA AA. The monthly owner costs exceeding 30 percent of income may limit opportunities to lend in the AAs.

There are no low- or moderate-income census tracts in the Non-MSA AA. There is one moderate-income census tract and no low-income census tracts in the MSA AA. The moderate-income census tract is located in Grundy County and encompasses a small eastern portion of the town of Morris, Illinois. The moderate-income census tract is relatively small and includes a small residential neighborhood at the southern end with 951 total owner occupied units. The remainder of the census tract is composed of undeveloped land, farm land, industrial sites, large nationwide stores, and chain restaurants. The number of owner occupied housing units and type of businesses in the census tract may limit opportunities to lend in the moderate income census tract.

We contacted a Director of a local economic group in Ottawa, Illinois. The contact stated many businesses survived the recession and are hiring. Manufacturing, warehousing, health care, and education are significant contributors to the economy. Tourism has become an economic growth factor in recent years, which has helped bring visitors to the downtowns of Ottawa and surrounding towns. Downtown Ottawa and surrounding towns are experiencing a revitalization with the opening of boutique retail shops and restaurants.

The contact noted that Ottawa's proximity to Chicago as well as having Interstate and rail access have attracted logistics and warehousing companies. These companies have a national presence and size that would be a challenge for the relatively small community banks in the AAs to bank.

The contact noted that the Ottawa area has been experiencing an increase in new housing permits over the past few years due to families moving into the Ottawa community. The increase in housing demand has helped to inflate home prices.

The contact noted there are opportunities for local financial institutions to participate in community development activities. Community banks are able to participate with a variety of economic groups and organizations in Ottawa, Illinois, and LaSalle County to assist businesses through loan financing, bond, and sponsorship activities.

The contact had no negative comments concerning FNB.