



Investor News

200 East Broadway, Monmouth, IL 61462

February 2010

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 Dr. John B. Dooley
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Dear Shareholder:

We have welcomed in the New Year at Western Illinois Bancshares and are happy to put a second consecutive challenging year behind us. While 2010 comes with no guarantees, we have been working to create opportunities for a successful year.

The company recorded earnings of \$92,380, or \$0.09 a share in the 4th quarter of 2009. That compares to \$264,698, or \$0.26 a share in the third quarter. We finished the year with earnings of \$909,749, or \$0.91 a share. Income in the final quarter was down due to increased FDIC premiums, increased credit expense and income tax adjustments.

Net charge-offs were \$187,818 for the quarter and \$580,149 for the year. Non-performing loans were \$3,542,778, or 1.93 percent of total loans at year-end. Our provision for loan losses was \$450,000 for the quarter and \$1,950,000 for the year. Other real estate owned was \$662,813, down from \$1,187,446 in the third quarter. Our most significant risk remains credit quality and we will continue to make substantial provisions for potential loan losses.

Loans were at \$201.8 million at the end of the year, compared to \$194.5 million last year and budget of \$212.2 million. While loan demand continues to be weaker than normal, activity is picking up and we expect agricultural loan demand to increase in 2010.

Deposits jumped significantly by year-end to \$278.4 million. This compares to \$256.2 million last year and budget of \$272.4 million. Core deposits grew from \$164.2 million to \$188.9 million, a growth of \$24.7 million, or 15 percent year over year.

Growth in lower cost core deposits, along with lower wholesale funding costs, has improved our net interest margin. Our margin on a tax equivalent basis was 2.97 percent in December of 2008. It had increased to 3.49 percent in December 2009. This equates to increased net interest income of over \$125,000 per month, and potentially \$1.5 million annually.

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Western Illinois Bancshares, Inc. Financial Results

	4th Quarter	Year-to-Date
Earnings	\$ 92,380	\$ 909,749
Retained Earnings per Share	\$ 0.09	\$ 0.91
Return on Common Equity	1.60%	4.10%
Common Dividends Paid	\$ 100,472	\$ 300,416
Dividends per Share	\$ 0.10	\$ 0.30



We informed you in November that our auditor was requiring a formal valuation on the bank to determine if we had any goodwill impairment. We are pleased to report that the valuation was completed and resulted in no impairment to our \$12.6 million of goodwill.

In December, we issued an additional 4,567 in preferred shares to the Treasury under the TARP program, which raised an additional \$4,567,000 in capital. Some of you may wonder why we did this, as it has been a controversial program. Our reasoning was as follows:

- ◆ Compliance with TARP guidelines was no added burden because we were operating under them already.
- ◆ These new shares carry a total dividend rate of 5 percent, lower than the actual cost of the original funding.
- ◆ As Tier 1 capital, these funds can be used to boost loan or investment balances by as much as \$25 to \$30 million.
- ◆ There is a reasonable chance that all, or part, of our TARP funds can be converted to a proposed new Treasury program (Small Business Lending Fund) at a reduced interest rate.
- ◆ Our capital at the bank level is now substantially higher than the “well-capitalized” benchmarks set by regulators providing greater security for our customers and you, our stockholders.

Despite these benefits, we plan to develop an exit strategy from TARP funding within the next year or two, especially if the interest cost is not reduced by participation in the small business lending program. We hope to replace the government’s investment with retained earnings and a possible shareholder offering as soon as economic conditions make it feasible.

Our people, at all levels, have been busy planning. We continue to upgrade our strategic planning, developing short and long term goals and budgets. A recent offsite session allowed directors of both the bank and holding company to review and develop tactics with senior officers and department heads that should position us to improve profitability while carefully managing risk. Those efforts allow us to feel cautiously optimistic as we begin 2010.

Our staff has done an excellent job in minimizing the effects of a difficult economic period allowing us to feel that we have maintained momentum in building both our market share and franchise value. We are starting to concentrate on “making hay” rather than “putting out fires” by taking advantage of our market position and an apparent economic recovery.

Thank you for your support during these tough times. We hope, a year from now, to report a significant improvement in profitability and shareholder value.

Sincerely,

Gus and Chris

