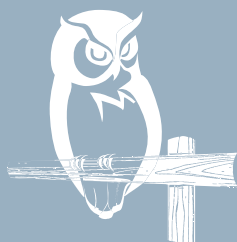
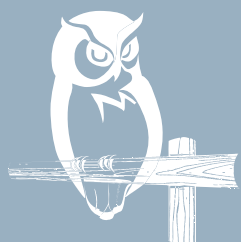




**Western Illinois Bancshares, Inc.**

# **2010 Annual Report**



## Message from Gus...

Our bank holding company now has a full five years of operating history. It's been a learning process. The hardest lesson came from the realization that government sponsored entities, especially their preferred shares, offer anything but risk free investments.

As the global financial markets were almost paralyzed it became obvious that some in our business were too big to fail. The rest of us were considered nothing more than greedy ghouls whose sole purpose was to illicitly profit from our country's hard working citizenry.

Oddly enough, the great minds in our nation and state capitols realized that they had best belittle our methods for handling our customers and investors capital before the voters robbed them of their own political capital as they woke up to the fact that the governments they ran had no capital left.

I must note here that we were lucky. Our staff honestly strives to serve our customers. Agriculture is our dominant industry and it has been and is doing well. **Country folk are loyal and tend to possess common sense that allows them to question some of the nonsense that emanates from Washington and Springfield.**

Monmouth College is a great part of our community. Despite my best efforts to limit my study time while there, I managed to read both Ayn Rand's "**Atlas Shrugged**" and George Orwell's "**1984**."

Both novels, written more than 50 years ago, depict a future time when governments and those who run them totally control the lives of their citizens. Last fall's elections made me realize that many voters have finally recognized how close we are to losing control of our lives.

It is my hope that Western Illinois Bancshares, Inc. will be operating profitably when those who regulate us realize that consumer protection comes from an efficient marketplace not an inefficient bureaucracy.

*Gus*

Augustin S. Hart III  
President, Western Illinois Bancshares, Inc.

## Message from Ray...

Many years ago we created a room in our house called the dinette. This dinette is filled with windows that allow us to overlook the majority of our farm livestock lot and into the timber. Spring is mesmerizing, as we can watch the calves get officially diagnosed with spring fever. The calves get an extra bounce in their step when the sun shines and a little ornery towards their friends. When one calf's bounce and kick gets a little too close to his friend, instantly his friend reacts with a fierce kick back, creating a domino effect with the other calves, until they are all in full scale kicking and jumping. A little while passes and they all adjust and calm down. None of the calves realize what caused the event or how to prevent it in the future. We sit and smile in amusement and enjoy the sites better than any cinema show.

The last few months have been filled with very similar events in the market. An event will occur and the market will react with a fierce kick; either bullish or bearish. Everyone in the market is very cautious. This type of market place, along with the current state of the economy, is tough in general for banks. However, Midwest Bank of Western Illinois proceeds forward with optimism.

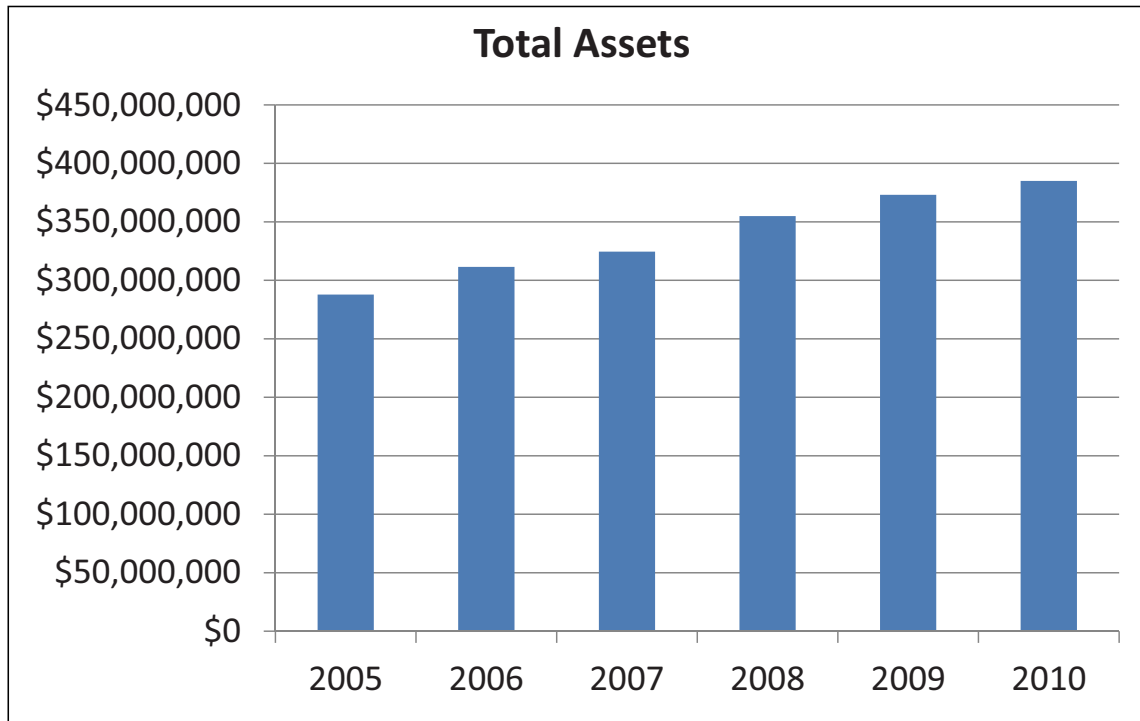
The market continues to allow returns to be paid to investors. Grain prices are at record highs. Corn grower associations are pushing for acreages to be converted from soybeans to corn to maximize corn production and revenues. Ethanol facilities still have a revenue margin that varies drastically per hour. **Risk management has proven to be more important than ever.**

Midwest Bank of Western Illinois is cognizant of prices and current market conditions. Risk management strategies have been formulated to assist us with the fierce kicks and jumps to market fluctuations. The future is yet to be seen, but someday the markets will adjust and calm down from the initial reaction to all the recent events.

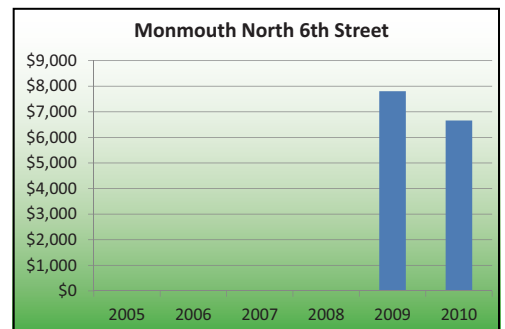
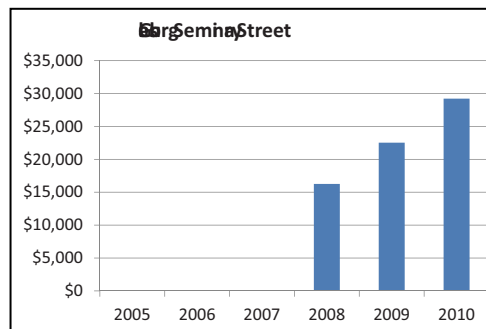
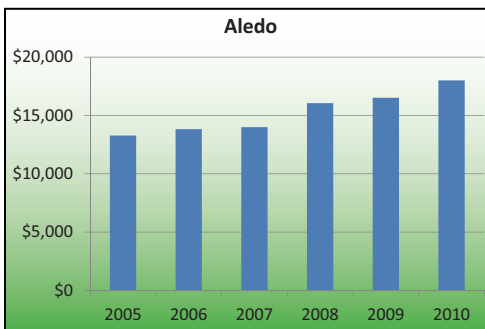
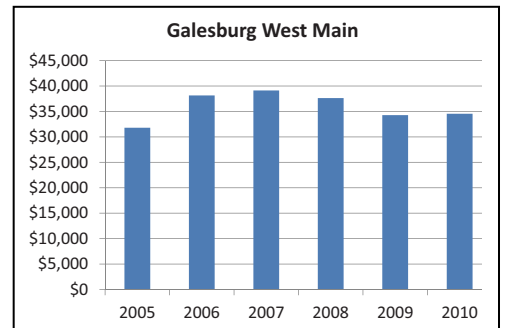
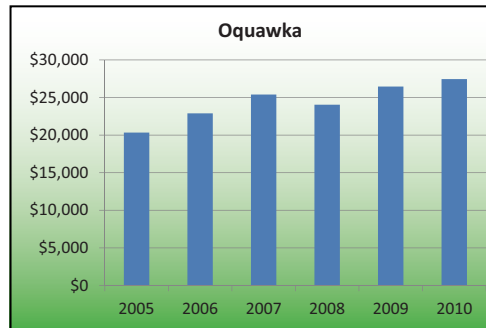
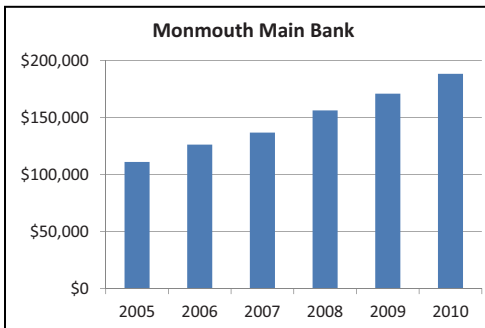
*Ray*

Raymond. E. Defenbaugh  
Chairman, Midwest Bank of Western Illinois

# Asset Growth



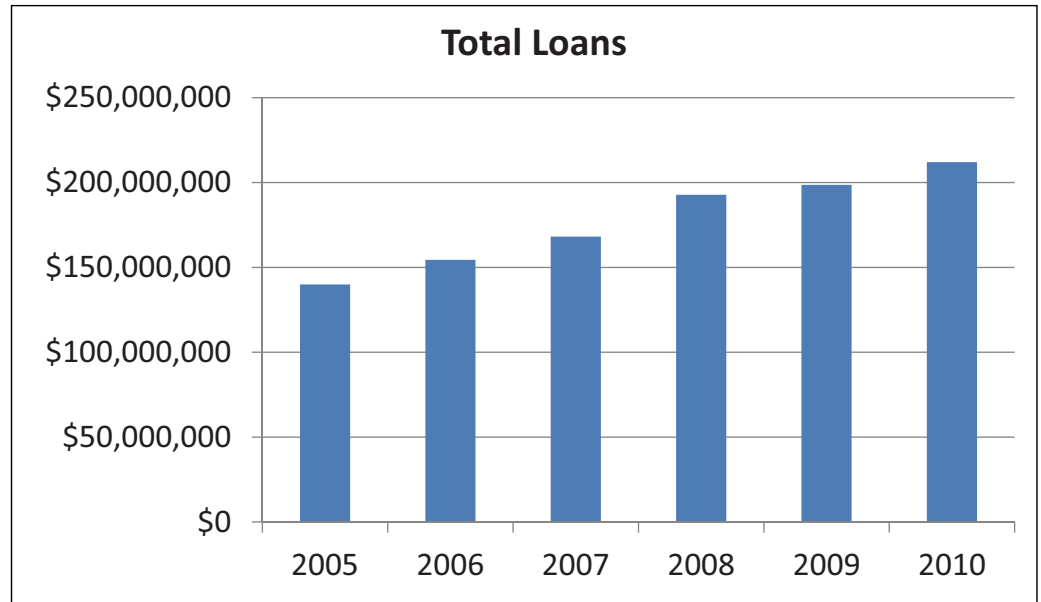
# Deposit Growth by Branch



# Loan Growth



**Les Allen**  
Executive  
Vice President



## Protect Today's Value + Grow Long Term Relationships

Loans grew from \$139,939,197 in 2005 to \$212,006,018 in 2010, representing 66% loan growth. We are the largest community bank in the market areas of Warren, Henderson, Knox and Mercer Counties. The staff takes great pride in this accomplishment. We offer a full range of loans for personal, business and agricultural customers' needs.

Future  
Loan  
Growth



**Matt Gillen**  
Senior VP Lending  
Chief Credit Officer

The opportunities associated with future loan growth will be focused in our Galesburg and Aledo market areas. We are confident through the next several years our loan products and services are structured to grow our market share.

The environmental and economic factors will play a big role in our success in the years to come. Banking will become more regulated than ever because of past events, but our team is optimistic about meeting these challenges.

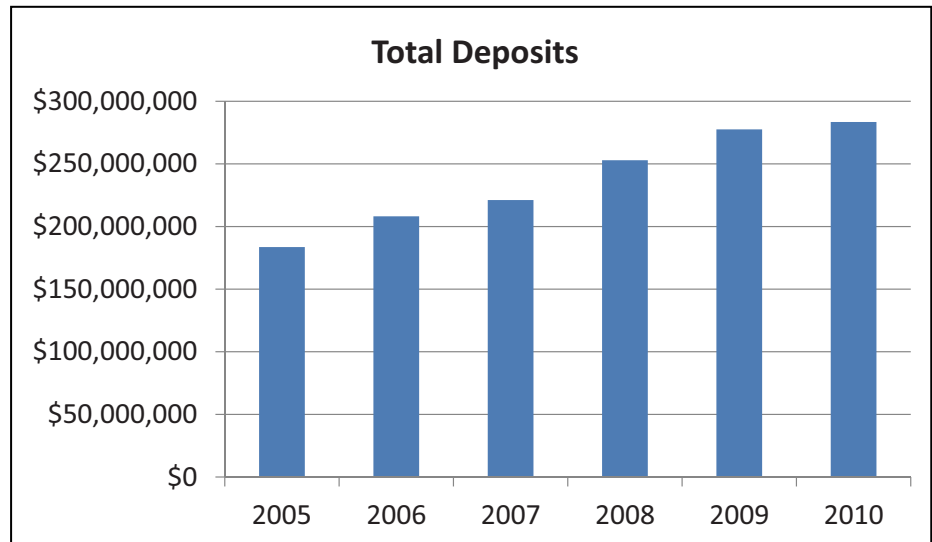
We recognize that we cannot have long term relationships with our customers unless we work closely with them; understanding their needs is vital to success of both parties. Careful consideration is given each time we review the annual financial reports in our efforts to deliver sustainable value to our customers and shareholders.

# Deposit Growth



**Terri Hippen**

VP of Retail Banking and  
Human Resources



**Service + Knowledge + Innovation =  
Great Relationships**

In five years we have expanded our products and services to meet the changing needs of our customers. Deposits have increased from \$183,635,333 in 2005 to \$283,458,074 in 2010. This represents a five year increase of 65%.

**Teller  
Service  
Level  
98%**

We have introduced new products and services such as: Check Imaging; e-Statements; Mobile Banking; Mint Checking; the CDARS Network; Remote Deposit Capture; and the Chalk up Money for Schools program. Our debit card usage has increased from 23% in 2005 to 72% in 2010 since we introduced our Chalk Up Money for Schools program. We have donated \$27,385 to local schools over this five year period. In 2007 we created "Service is Our Passion" to enhance the service level of our retail staff. The Teller service level has increased from 86% to 98% and our Personal Banker service level has increased from 92% to 99%.

**Personal  
Banker  
Service  
Level  
99%**

Accomplishments during the past five years include a new branch on Seminary Street in Galesburg, a new office for the Aledo community and a third location in Monmouth. The County Market office was remodeled and renamed Midwest Express, providing customers with an express lane in banking. We have received a tremendous response from our customers regarding all three new locations.

In the future we will continue to build relationships with our customers. This includes informing them of our traditional banking services as well as Trust, Insurance and Investment services. We have an outstanding staff and it will be imperative that we continue to hire the right people to lead us into the next of generation of banking.

# Bank Operations



**Aaron Jensen**  
VP and Chief Operations Officer

Our team is always examining ways we can streamline and improve our operating efficiency while continuing to deliver superior products and services.

**Technology  
Planning  
Team  
established  
to increase  
efficiency**

In 2008 we implemented a long-range Technology Planning Team. This has resulted in an ATM and Funds Xpress live interface, Web Equity Manager, internal check/coupon printing, wireless network upgrades at our branches and network configuration for more network capacity. In 2009 we introduced Premier Insight Teller and remote capture of customer transactions, enhanced the Disaster Recovery Program and each department started document scanning.

Some of our future projects will include an internal web page, installation of an internet based telephone system, upgrading our PC software, installation of new platform software, installation of Citrix terminal services environment and network level storage for data and document imaging upgrades which will increase our ability to store and access data.

It will be important that we have a robust delivery system to maximize customer service and manage new growth. Staying abreast of the fast market trends remains to be a challenge. However, our skilled team is working to maximize both the return and effectiveness of new technology. We are committed to protecting and growing the value of our franchise, whether it is through gaining market share, internal growth, leveraging technology or hedging the risks and challenges that we face in the future.

**Protect  
and grow  
shareholder  
value**



Dear Shareholders:

2010 marked our fifth anniversary as the owners of Midwest Bank of Western Illinois and we were fortunate to have a successful year. Despite the lingering effects of the great recession on our loan portfolio, we managed to produce our highest earnings since forming in 2005.

Maybe even more important is that we continued our mission of becoming the premier independent community bank in the markets we serve. During the difficult times of 2008 and 2009, we were able to keep our focus in the face of losses and a tough regulatory environment. This paid dividends in 2010 and will continue to do so as the economy and our asset quality improves.

The company recorded earnings of \$2,700,563, compared to \$909,750 in 2009. This year's earnings compute to \$2.69 per share, versus \$0.90 the prior year. The bank experienced an improved net interest margin and also had gains on life insurance and securities.

Total assets grew from \$373.8 million to \$385.0 million, a growth rate of 3.00%. Securities owned increased 3.50%, from \$119.9 million to \$124.1 and net loans grew from \$198.6 million to \$212.0 million, or 6.75%. Loan growth improved even though general demand remains lower than in recent times.

The bank experienced modest deposit growth of 2.13%, going from \$277.5 million to \$283.5 million. However, core deposits, consisting of checking, savings, money markets and CDs less than \$100,000, increased from \$183.9 million to \$203.8 million, or 10.82%. This is the second consecutive year that we have experienced double-digit core deposit growth.

Total stockholders' equity increased from \$34.7 million to \$35.0 million. Common shareholders' equity, which excludes the Treasury's preferred shares, increased from \$22.9 million to \$23.6 million, or \$23.51 per share.

Net interest income increased year over year from \$9.403 million to \$11.116 million. Our net interest margin improved for the second year in a row, going from 3.35% to 3.48%. Reductions in interest expense have outpaced the fall of assets yields, which were aided by fees from our mortgage operation.

Non-interest income, excluding one-time gains on securities and life insurance, decreased slightly from \$2.722 million to \$2.642 million, primarily to a decrease in service charge income, which went from \$1,006,487 to \$947,703. Net income from Porter Insurance improved from \$230,184 to \$266,870.

Non-interest expense decreased from \$9.205 million to \$8.772 million. This was due to a reduction in losses on other real estate owned. Excluding this item, ordinary operating expenses increased from \$8.449 million to \$8.548 million, or 1.17%.

The bank had net charge-offs on loans during the year of \$2.088 million compared to \$580,149 in 2009. Provisions for loan losses were \$2.845 million, resulting in a year-end reserve for loan loss of \$3.905 million, or 1.68% of average loans. We were able to address a significant amount of problem loans from current earnings.

There is still much work to do and in some ways the challenges have never been greater. However, we truly believe that these challenges also create more opportunities. Asset quality and ever-greater government regulation will remain a burden in the foreseeable future, but there is a point at which the pendulum will start to swing the other way. We hope to be well positioned when **h** happens.

*Chris*

Christopher J. Gavin

President & CEO, Midwest Bank of Western Illinois

**Western Illinois Bancshares, Inc.**  
**Consolidated Balance Sheet**  
**December 31, 2010 and 2009**

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and due from banks	\$ 4,771,134	\$ 6,578,976
Interest-bearing demand deposits in banks	279,677	—
Federal funds sold	<u>2,988,000</u>	<u>8,316,762</u>
Cash and cash equivalents	<u>8,038,811</u>	<u>14,895,738</u>
Available-for-sale securities	124,190,196	119,926,469
Loans held for sale	564,464	64,454
Loans, net of allowance for loan losses of \$3,904,828 and \$3,148,300 at December 31, 2010 and 2009	212,006,018	198,611,447
Premises and equipment, net of accumulated depreciation of \$1,346,411 and \$1,131,595 at December 31, 2010 and 2009	7,790,416	7,434,654
Federal Reserve and Federal Home Loan Bank stock	2,910,220	2,510,430
Foreclosed assets held for sale, net	499,535	662,813
Cash surrender value of life insurance	7,975,973	8,088,035
Interest receivable	3,458,087	3,269,545
Deferred income taxes	2,155,085	1,909,241
Mortgage servicing rights	293,020	269,538
Goodwill	13,088,442	13,088,442
Core deposits and other intangibles	—	112,657
Other	<u>2,056,892</u>	<u>2,221,733</u>
<b>Total Assets</b>	<b>\$ 385,027,159</b>	<b>\$ 373,065,196</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand	\$ 19,892,947	\$ 20,569,821
Savings, NOW and money market	111,375,411	96,983,200
Time	116,527,800	117,421,766
Brokered deposits	<u>35,661,916</u>	<u>42,563,654</u>
Total Deposits	<u>283,458,074</u>	<u>277,538,441</u>
Securities borrowed under agreement to resell	21,901,124	22,588,476
Subordinated debentures	9,279,000	9,279,000
Other borrowings	33,000,000	27,000,000
Interest payable	291,943	460,694
Other liabilities	<u>1,714,044</u>	<u>1,514,520</u>
Total Liabilities	<u>349,644,185</u>	<u>338,381,131</u>
<b>Stockholders' Equity</b>		
Preferred stock 10,000,000 shares without par authorized; \$1,000 liquidation preference:		
Series A, 6,855 shares issued and outstanding	6,855,000	6,855,000
Series B, 343 shares issued and outstanding	343,000	343,000
Series C, 4,567 shares issued and outstanding	4,567,000	4,567,000
Common stock, \$1 par value; authorized 10,000,000 and 1,004,720 shares issued and outstanding	1,004,720	1,004,720
Additional paid-in capital	22,608,480	22,608,480
Accumulated deficit	(884,044)	(2,602,479)
Accumulated other comprehensive income	<u>888,818</u>	<u>1,908,344</u>
Total Stockholders' Equity	<u>35,382,974</u>	<u>34,684,065</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 385,027,159</b>	<b>\$ 373,065,196</b>



**Western Illinois Bancshares, Inc.**  
**Consolidated Statement of Income**  
**December 31, 2010 and 2009**

<b>Interest and Dividend Income</b>	<b>2010</b>	<b>2009</b>
Loans, including fees	\$ 12,651,942	\$ 12,605,879
Debt securities		
Taxable	3,535,674	3,823,529
Tax-exempt	888,272	949,034
Federal funds sold and other	13,865	10,438
Dividends on Federal Reserve Bank stock	<u>79,036</u>	<u>68,689</u>
Total interest and dividend income	<u>17,168,789</u>	<u>17,457,569</u>
<b>Interest Expense</b>		
Deposits	4,191,693	5,487,972
Short-term borrowings	570,511	1,162,612
Subordinated debentures	548,897	548,897
Other borrowings	<u>742,070</u>	<u>855,516</u>
Total interest expense	<u>6,053,171</u>	<u>8,054,997</u>
<b>Net Interest Income</b>	11,115,618	9,402,572
<b>Provision for Loan Losses</b>	<u>2,845,000</u>	<u>1,950,000</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>8,270,618</u>	<u>7,452,572</u>
<b>Noninterest Income</b>		
Fiduciary activities	277,289	255,215
Customer service fees	947,703	1,006,487
Insurance commissions and other	985,958	1,001,538
Increase in cash surrender value of life insurance	316,277	193,579
Gain on life insurance	748,233	—
Net realized gains on sales of available-for-sale securities	552,298	10,002
Other-than-temporary losses on investments		
Total other-than-temporary losses	(123,027)	—
Portion of loss recognized in other comprehensive income (before taxes)	<u>(75,644)</u>	<u>—</u>
Net impairment losses recognized in earnings	<u>(47,383)</u>	<u>—</u>
Other	<u>161,871</u>	<u>265,360</u>
Total noninterest income	<u>3,942,246</u>	<u>2,732,181</u>
<b>Noninterest Expenses</b>		
Salaries and employee benefits	5,019,223	4,759,612
Occupancy	668,109	658,866
Equipment	716,328	608,863
Data processing	31,904	45,334
Professional fees	196,496	336,747
Marketing	151,117	162,179
Printing and office supplies	121,615	105,772
Foreclosed assets, net	224,730	755,981
Deposit insurance premiums	557,196	693,457
Amortization of intangibles	112,657	150,204
Other	<u>973,020</u>	<u>928,033</u>
Total noninterest expenses	<u>8,772,395</u>	<u>9,205,048</u>
<b>Income Before Income Taxes</b>	3,440,469	979,705
<b>Provision for Income Taxes</b>	<u>739,906</u>	<u>69,955</u>
<b>Net Income</b>	<u>2,700,563</u>	<u>909,750</u>

# Directors of Western Illinois Bancshares, Inc.

Augustin S. Hart III, President  
Raymond E. Defenbaugh, Vice President  
Christopher J. Gavin, Secretary and Treasurer  
Scott T. Champion  
Dr. John Dooley  
Robert C. Fick  
C. Dean Hennenfent  
Robert A. Riley  
Mark J. Sexton



## Directors of Midwest Bank of Western Illinois

Leslie G. Allen, Executive Vice President of Midwest Bank of Western Illinois  
Marvin Dahlberg, CPA & Treasurer for the City of Galesburg  
Raymond E. Defenbaugh, Agribusiness  
Dr. Mauri A. Ditzler, President of Monmouth College  
David C. Erickson, Agribusiness  
Christopher J. Gavin, President and CEO of Midwest Bank of Western Illinois  
Augustin S. Hart III, Agribusiness  
C. Dean Hennenfent, Agribusiness  
Dr. Stephen A. Johnson, Dentist  
Michael G. Luna, Owner/Operator of McDonalds  
Robert A. Riley, Vice President of Kleine Equipment

# Our Team

## **Executive Committee**

Chris Gavin, President & CEO  
Les Allen, Exec VP Lending  
Matt Gillen, Senior VP Lending  
Terri Hippen, VP Retail Banking & HR  
Aaron Jensen, VP & Chief Operations Officer

## **Bank Officers**

Debbie Anderson, AVP Retail Banking  
Marcy Anderson, VP Data Processing  
Dan Ashton, Trust Administration Officer  
Lori Austin, AVP & Branch Manager  
Kevin Ball, AVP Commercial Lending and  
Raymond James Financial Advisor  
Nancy Berry, Mortgage Loan Officer  
Laurie Bodeen, Human Resources Officer  
Jackie Burnett, Internal Auditor  
Amanda Campbell, AVP & Comptroller  
Adam Carlson, Trust Operations Officer  
Kathy Cavanaugh, AVP Lending  
Dina Chick, Bookkeeping Manager  
Jim Dieterich, VP Commercial Lending  
Faye Eckhardt, AVP & Branch Manager  
Jackie Flater, AVP Electronic Banking  
Karna Foster, AVP PR & Marketing  
Rachel Gibson, Branch Manager  
Cynthia Gillen, AVP Retail Banking  
Cindy Helvick, AVP & Branch Manager  
Rex Johnson, VP Lending  
Derrick Johnston, Special Credit Officer  
Ann McCreight, Executive Secretary  
Kevin Murk, AVP Consumer Lending  
Lance Oetting, VP Commercial Lending  
Laurie Perez, Assistant Branch Manager  
Brad Ray, VP Lending  
Linda Reaves, Personal Banking Officer

## **Team Members**

Cesar Aceves  
Carolyn Albert  
Stefanie Boock  
Beth Bowns  
Tracy Brown  
Kristen Brownlee  
Gene Bratcher  
Gladys Caldwell  
Jennifer Carlson  
Jodi Chandler  
Judi Cox  
Nita Cross  
Janet Current  
Marnie Damewood  
Jolene Davidson  
Tonya Defenbaugh  
Mary Dysert  
Tammy Edwards  
Polly Elliott  
Violet Fleming  
Christy Flynn  
Connie Frakes  
Jennifer Fugman  
Stephenie Gambetta  
Cassie Griffin  
Brooke Hanson  
Teresa Harris  
Teresa Inness  
Jennifer Johnson  
Molly Jones  
Alex Kane  
Rhonda Laake  
Steve Lanham  
Veronica Lobas

Diana Mackey  
Kim McKeown  
Ryan Meyer  
Becky Moore  
Ondria Moulden  
Bonny Munson  
Ted Munson  
Heather Nelson  
Donna Olson  
Robin Peel  
Theresia Pettett  
LaJune Rickets  
Lisa Ryner  
Teresa Schell  
Mary Schisler  
Christy Shelton  
Charmaine Shinn  
Paula Sims  
Judy Smith  
Jackie Telander  
Janet Thomas  
Lisa Thompson  
Elisha Vancil  
Debbie Von Kannon  
Mary Walker  
Tiffany Watkins  
Kayla Winbigler  
Marge Winebright  
David Wines  
Susan Wright  
Judy Zielkie

## **Porter Insurance**

Kent Porter, President  
Cris Hunt, VP Operations  
Debbie King  
Charles Lindsey  
Alana Links  
Sharon Lopeman



# Western Illinois Bancshares, Inc.

[www.westernilbancshares.com](http://www.westernilbancshares.com)

## **Bank Locations**

### **Midwest Bank of Western Illinois**

200 East Broadway  
Monmouth, IL 61462  
309-734-2265

106 South Kirk  
Kirkwood, IL 61447  
309-768-2600

Sixth and Schuyler Street  
Oquawka, IL 61469  
309-867-2441

612 West Main Street  
and  
2558 North Seminary Street  
Galesburg, IL 61401  
309-341-2274

200 SE 13th Ave Court  
Aledo, IL 61231  
309-582-5365

1120 North 6th Street  
309-734-7979  
and  
1150 North 6th Street, Suite A  
Monmouth, IL 61462  
309-734-6679

[www.mbwi.com](http://www.mbwi.com)  
[www.mbwiag.com](http://www.mbwiag.com)  
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