



Western Illinois Bancshares, Inc. 2012 Annual Report

Contents



WIBI President's Report	2
President's Report	3
Progress	5
Involvement	6
2012 Financials	7
Leadership	9



WIBI President's Report

This has been a great year for our bank holding company. Much of our success is attributable to the fine people who work for and with us.

Some credit must also be directed at the fortunate regard our region received from Mother Nature. The four counties we serve directly, Warren, Knox, Henderson and Mercer, were four of the five best corn yielding counties in Illinois in 2012. According to the Illinois Farm Bureau, Mercer County was best with a yield of 180 bushels an acre.

There is no question that our region has some fine farm ground, but it was the quantity of rain that fell during the growing season that gave this portion of West Central Illinois its dramatic lead over the rest of the state in a year of high heat and significant drought.

I should also note that area soybean yields were very good and the prices for both corn and soybeans were terrific.

We like to think our agricultural lenders have helped their customers become the “rainmakers” bolstering our local economies during these good times for farmers. We hope, too, those same customers know we will be there to provide sound financial guidance when favor shines elsewhere.

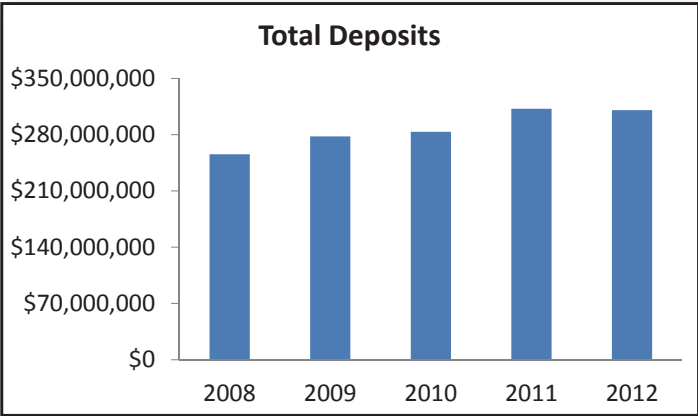
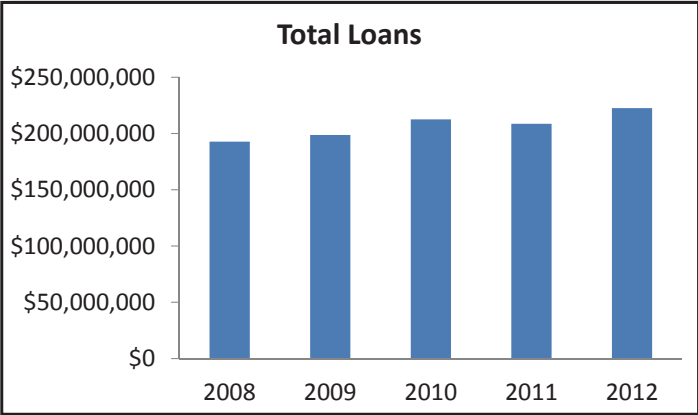
A lender’s job is to help his clients “tighten their belts” when times get tough. I’d wager a bunch that our staff could easily help both the government in Washington and that in Springfield do a great deal of “belt tightening” without negatively affecting a single essential service.

The citizens of our great nation need only remind themselves that it is their money that is being lent and spent so freely. Governments have no money of their own.

Thank you for your continued support and investment in our Company.

Gus

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



President's Report

Dear Shareholder:

Perseverance is defined in the Webster's dictionary as "continued effort to do or achieve something despite difficulties, failure, or opposition". This word best describes our Company's journey during the past four years.

Losses on Fannie Mae and Freddie Mac preferred securities, along with losses from participation loans, set us on a path in 2008 and 2009 that we did not want to be on. As many banks have learned during these difficult times, it is very hard to change the course once it has been charted and the regulators start to weigh in.

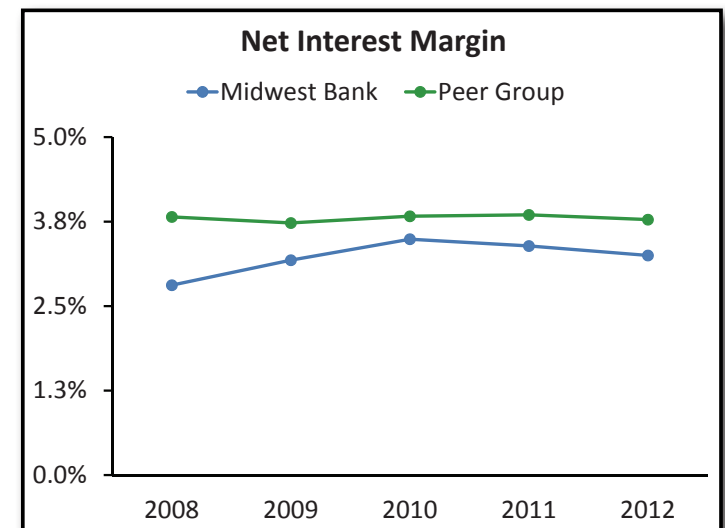
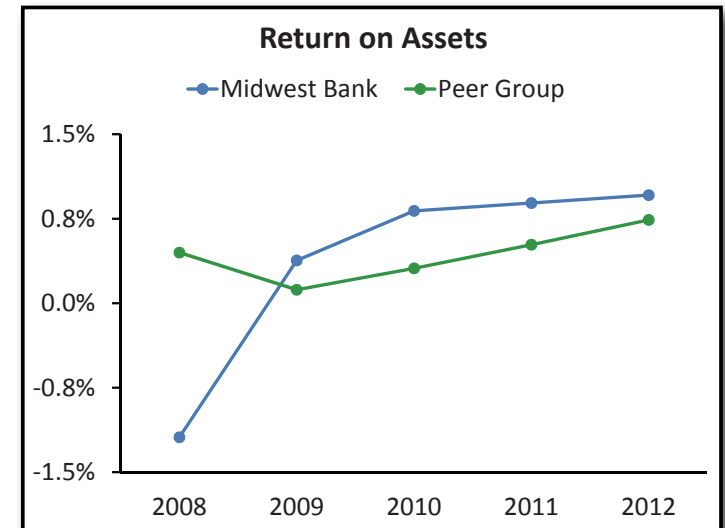
2012 was a great year for Western Illinois Bancshares in numerous ways as a result of the perseverance shown by our team during the prior years. Although it remains a tough environment for community banking, this was a very pivotal year, in that we were able to mark several milestones.

To begin with, we posted record earnings of \$3,616,784, or \$3.60 per share. This compares to \$3,272,443 in 2011 and \$2,700,563 in 2010. At the bank level we achieved a 0.97% return on assets, which was just shy of our 1.00% goal. This compares favorably with our peer group, which was at 0.74%.

Credit quality continued to improve, with non-performing loans, net charge-offs, classified loans and delinquent loans all declining year over year. Our Texas Ratio, which measures past due and non-performing loans to our allowance, was at 9.40%. This is approximately three times less in problem loans than our peer group, which was at 28.55%.

The most significant milestone was our capital raise and the retirement of the TARP securities. As reported in our newsletters, this past November we were able to repurchase these shares at a discount of approximately 6 percent. This resulted in a tax-free gain of approximately \$0.62 a common share.

Our new preferred stock was issued on November 15th in conjunction with this. The new issuance is comprised of \$7.7 million in convertible D Shares and \$1.7 million in fixed rate E Shares. It is most satisfying to keep those dividends in our community versus sending them to Washington.



2012 was also a launching year for a number of new initiatives to enhance revenue and improve operating efficiency. This includes a new retail banking platform, a document management system, a new credit card program and a new online mortgage origination system. In addition we will soon be formally introducing Midwest Bank Wealth Management, which combines the resources of both our retail investment and trust services.

Looking ahead, we know that it will be more difficult for all banks to maintain current interest rate spreads. The continued low rate environment will further compress margins and we will need to look for other ways to achieve desired profits. This will include both non-interest income initiatives and expense control.

Our Board is committed to balancing short-term results with longer term strategies. While it is tempting to take on more credit and interest rate risk to drive-up income, this would likely be detrimental in the long run. Balancing the distribution and retention of capital will also be important. As regulatory and margin challenges persist in the industry there is likely to be opportunities.

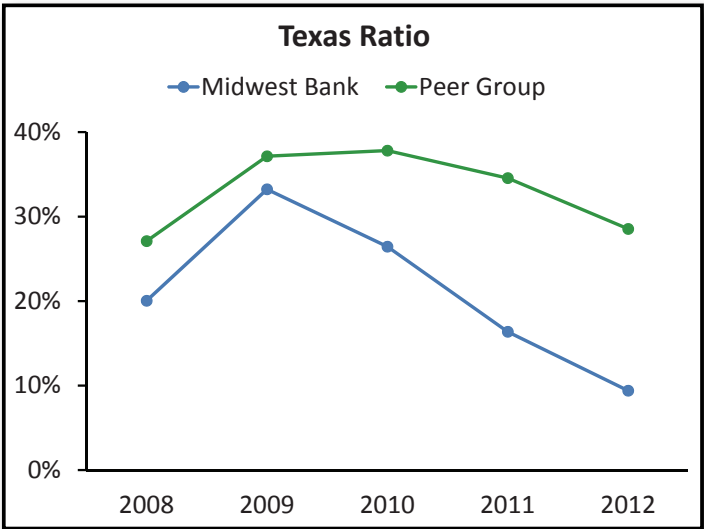
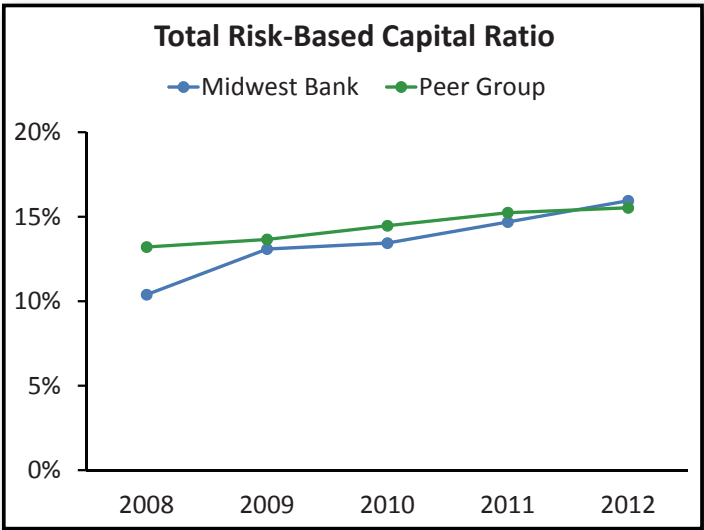
Each year when I work on this letter and prepare for our annual meeting, I am reminded of how fortunate that I am to work with so many talented and dedicated people. Karna Foster is one of those people. Karna, who has recently retired, has been instrumental in many of our marketing efforts, including this report. She has left her mark in so many positive ways and we cannot thank her enough for all that she has contributed.

As we move forward, we do so with 34 new shareholders that participated in our recent preferred offering. This brings the total number to 189. Both our new and existing shareholders are vital to our success and we greatly appreciate your support!

Cordially,

Chris

Christopher J. Gavin
President & CEO,
Midwest Bank of Western Illinois



{ 2012 AT A GLANCE }

Services Added and Improved



Launched MyPic
Personalized
Debit Cards.



New Online
Mortgage Center
at www.mbwi.com.



New iPhone and
Android Apps, text
banking & Enhanced
Mobile Banking.



Launched new Consumer
and Business Credit
Card Program.



Midwest Bank
Wealth Management

Announced our new
MBWI Wealth
Management division.

Connecting with our Community



Midwest Bank partners with Prairie
Radio Communications to address
agriculture issues and how they
impact our local economy.



The bank co-sponsored a luncheon
to celebrate the Giertz harvest rally.
This is the 9th harvest rally Midwest
Bank has participated in.



Employees participated in the
Prime Beef Festival parade and
took 2nd place in the Burger Cook
off with 'South of the Burger'.



Several employees volunteered to
teach Junior Achievement courses
and participated in the annual JA
bowl-a-thon.



MBWI donated \$1,000 and 400 pounds of fresh fruit to the Jamieson Center Food Pantry in Monmouth.



Over 230 Christmas gifts were collected from bank employees and community members for the Jamieson Center Angel Tree.



Bank employees participated in the Lighted Holiday Parade and the bank donated \$250 to Maple City Christmas.



The MBWI Relay for Life Team Donated \$13,950 raised from various fundraiser events held in 2012.



Employee donations combined with the bank donation resulted in over \$8,600 given to Warren County United Way.



Employees participated in the Celebrity Waiter event raising over \$4,000 for Operation Backpack.



The bank donated \$1,500 to Pay it Forward Ministries food pantry and \$500 to the Henderson County food pantry.



Over \$10,00 was donated to local schools through our Chalk Up Money for Schools Program in 2012.

Progress & Involvement

Consolidated Balance Sheets

		2012	2011
Assets	Cash and due from banks	\$14,502,099	\$12,458,952
	Interest-bearing demand deposits in banks	1,951,352	991,441
	Cash and cash equivalents	16,453,451	13,450,393
	Interest-bearing time deposits in banks	8,313,000	2,988,000
	Available-for-sale securities	125,923,143	152,567,810
	Loans held for sale	7,693,945	164,692
	Loans, net of allowance for loan losses of \$3,241,451 and \$3,247,127 at December 31, 2012 and 2011	214,892,721	208,450,013
	Premises and equipment, net of accumulated depreciation of \$2,310,835 and \$1,835,825 at December 31, 2012 and 2011	7,391,068	7,392,507
	Federal Reserve and Federal Home Loan Bank stock	3,317,220	2,910,220
	Foreclosed assets held for sale, net	997,015	1,924,812
	Cash surrender value of life insurance	8,568,540	8,278,468
	Interest receivable	3,126,076	3,462,900
	Deferred income taxes	202,733	337,529
	Mortgage servicing rights	272,818	285,833
	Goodwill	13,088,442	13,088,442
	Other	774,986	1,250,365
	Total assets	\$411,015,158	\$416,551,984
Liabilities & Stockholders' Equity	Demand deposits	\$31,504,084	\$28,475,646
	Savings, NOW and money market deposits	171,722,172	160,812,999
	Time deposits	96,874,498	106,576,853
	Brokered deposits	10,105,584	16,369,285
	Total deposits	310,206,338	312,234,783
	Short-term borrowings	21,493,049	23,891,195
	Subordinated debentures	9,279,000	9,279,000
	Other borrowings	31,197,800	31,000,000
	Interest payable	106,811	181,721
	Other liabilities	1,838,889	1,487,102
	Total liabilities	374,121,887	378,073,801
	Preferred stock, 10,000,000 shares without par authorized; \$1,000 liquidation preference:		
	Series A, 2011- 6,855 shares issued and outstanding	—	6,855,000
	Series B, 2012 - 335 and 2011- 343 shares issued and outstanding	335,000	343,000
	Series C, 2011- 4,567 shares issued and outstanding	—	4,567,000
	Series D, 2012 - 69,707 shares issued and outstanding	6,970,700	—
	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	23,237,297	22,608,480
	Retained earnings	3,423,110	1,233,833
	Accumulated other comprehensive income	1,922,444	1,866,150
	Total stockholders' equity	36,893,271	38,478,183
	Total liabilities and stockholders' equity	\$411,015,158	\$416,551,984

Statements of Income

		2012	2011
Interest & Dividend Income	Loans, including fees	\$11,939,320	\$11,863,299
	Debt securities		
	Taxable	1,879,875	3,218,720
	Tax-exempt	963,109	943,713
	Federal funds sold and other	55,598	20,215
	Dividends	42,331	75,843
	Total interest and dividend income	14,880,233	16,121,790
Interest Expense	Deposits	2,492,742	3,319,506
	Short-term borrowings	127,549	372,047
	Subordinated debentures	357,397	338,572
	Other borrowings	556,838	644,406
	Total interest expense	3,534,526	4,674,531
	Net Interest Income	11,345,707	11,447,259
	Provision for Loan Losses	750,000	1,430,000
	Net Interest Income After Provision for Loan Losses	10,595,707	10,017,259
Non-Interest Income	Fiduciary activities	303,358	271,048
	Customer service fees	1,023,730	994,876
	Insurance commissions and other	971,108	1,018,451
	Increase in cash surrender value of life insurance	264,901	302,495
	Net realized gains on sales of available-for-sale securities	677,645	589,624
	Mortgage banking, net	584,519	373,948
	Other	230,849	122,760
	Total noninterest income	4,056,110	3,673,202
Non-Interest Expense	Salaries and employee benefits	\$5,427,840	\$5,221,564
	Occupancy	706,882	701,946
	Equipment	718,522	724,450
	Data processing	32,285	33,601
	Professional fees	430,637	317,885
	Marketing	119,951	132,656
	Printing and office supplies	108,961	119,817
	Foreclosed assets, net	125,914	-146,966
	Deposit insurance premiums	462,059	593,713
	Other	1,099,346	1,205,782
	Total noninterest expense	9,232,397	8,904,448
	Income Before Income Taxes	5,419,420	4,786,013
	Provision for Income Taxes	1,802,670	1,513,570
	Net Income	\$3,616,750	\$3,272,443

Western Illinois Bancshares, Inc. Directors

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

Midwest Bank of Western Illinois Directors

Raymond E. Defenbaugh, Chairman, Agribusiness
Robert A. Riley, Secretary, Agribusiness
Leslie G. Allen, Senior Loan Consultant
Marvin Dahlberg, CPA & Treasurer for the City of Galesburg
Dr. Mauri A. Ditzler, President of Monmouth College
David C. Erickson, Agribusiness
Christopher J. Gavin, President & CEO
Augustin S. Hart III, Agribusiness
C. Dean Hennenfent, Agribusiness
Dr. Stephen A. Johnson, Dentist
Michael G. Luna, Owner/Operator of McDonalds

Midwest Bank of Western Illinois Executive Officers

Christopher Gavin, President & CEO
Matt Gillen, Senior VP & Chief Credit Officer
Aaron Jensen, VP & Chief Operations Officer
Terri Hippen, VP Marketing & Human Resources
Amanda Campbell, VP & Chief Financial Officer

Monmouth Locations

*Debbie Anderson, AVP Retail Banking
*Marcy Anderson, VP Data Processing
*Sara Bockelman, AVP Sales & Marketing
*Laurie Bodeen, Human Resources Officer
*Jackie Burnett, Internal Auditor
*Kathy Cavanaugh, AVP Retail Lending
*Dina Chick, Bookkeeping Manager
*Brent Dugan, VP Consumer Banking
*Jackie Flater, AVP Electronic Banking
*Karna Foster, AVP PR & Marketing
*Rachel Gibson, Branch Manager
*Derrick Johnston, AVP Commercial Lending
*Stephen Lanham, Network Operations
*Ann McCreight, Executive Secretary
*Kevin Murk, AVP Consumer Lending
*Lance Oetting, VP Commercial Lending
*Brad Ray, VP Lending

Cesar Aceves
Carolyn Albert
Kristen Brownlee
Gene Bratcher
Gladys Caldwell
Nita Cross
Janet Current
Marnie Damewood
Lisa Davis
Ashley Dye
Mary Dysert
Polly Elliott
Annie Fancher
Violet Fleming
Connie Frakes
Patrick Gavin
Stefanie Gavin
Amber Gibson
Jay Grant

Cassie Griffin
Teresa Harris
Molly John
Alex Kane
Diana Mackey
Dennis Mann
Kim McKeown
Becky Moore
Ondria Moulden
Bonny Munson
Brooke Robinson
Taylor Scanlon
Mary Schisler
Charmaine Shinn
Paula Sims
Janet Thomas
Michelle Thomas
Elisha Vancil
Debbie Von Kannon
Mary Walker
Marge Winebright

Galesburg Locations

*Cindy Helvick, AVP & Branch Manager
*Nancy Berry, Mortgage Loan Officer
Tracy Brown
Judi Cox
Tara Dean
Christy Flynn
Eric Hoffman
Teresa Inness
Jennifer Johnson
Rhonda Laake
Ryan Meyer
Kayla Norman
Ashley Shonkwiler
Jackie Telander

Aledo Location

*Faye Eckhardt, AVP & Branch Manager
*Rex Johnson, VP Lending
Christine Long
Melonie McLaughlin
Teresa Schell
Christy Shelton
Judy Smith

Oquawka Location

*Lori Austin, AVP & Branch Manager
*Linda Reaves, Personal Banking Officer
Molly Jones
Robin Peel
Lisa Thompson
Susan Wright
Judie Zielkie

Midwest Bank Wealth Management

*Dan Ashton, Trust Administration Officer
*Mark Brownlee, Sr. Investment Officer
*Adam Carlson, Trust Operations Officer
Jodi Chandler
Theresia Pettett
David Wines

Porter Insurance

Kent Porter, President
Cris Hunt, VP Operations
Debbie King
Sharon Lopeman
Darcy Tate

* denotes bank officer



MIDWEST BANK OF WESTERN ILLINOIS BRANCHES ARE LOCATED AT:

Aledo:

200 SE 13th Avenue Court

Galesburg:

612 West Main Street

2558 North Seminary Street

Kirkwood:

106 South Kirk

Monmouth:

200 East Broadway

1120 North 6th Street

1150 North 6th Street, Suite A

Oquawka:

Sixth and Schuyler Street



888.309.2265

www.mbwi.com

www.westernilbancshares.com