

ANNUAL REPORT **2013**



Western Illinois Bancshares, Inc.



OUR MISSION STATEMENT

Midwest Bank of Western Illinois will be the premier independent community bank in the markets we serve. We will do so by providing exceptional quality banking and related financial services at competitive rates, and on a profitable basis, that meet the needs of individuals, families and businesses in our communities. Our business activities will: (1) demonstrate our continued commitment to our communities as a responsible partner for growth and quality of life; and (2) generate above average returns on investment over time to support future growth and shareholder value. Our efforts will be based upon a mutual respect for our customer, employees and shareholders.

WIBI PRESIDENT'S REPORT

You will see elsewhere in this report that 2013 was a pretty good year for the bank and its holding company. Credit for that goes to our staff, our customers and you, our stockholders.

I am writing this on the first day of spring, following what would have been a normal winter in my youth. I suspect it might be too much to ask for what we used to consider a normal summer back then; i.e. warm sunny days with an inch of gentle rain weekly.

My hat is tipped to the folks running our local ethanol plant, Big River Resources. They have done just what they promised at the start, eked out a small profit when corn prices were high and paid big dividends when corn prices fell - a perfect balance for their farmer owners.

I find myself befuddled by those who continue to have faith in the folks running things in Washington and Springfield. Admittedly, I believed in Santa Claus, the Easter Bunny and the Tooth Fairy for six or seven years, but then I grew up. I still believe that St. Patrick's Day calls for celebration, but I do not try to catch leprechauns to snatch their pots of gold.

Our country was founded on the premise that free individuals are responsible for themselves, not a government managed by those who think themselves free of responsibility.

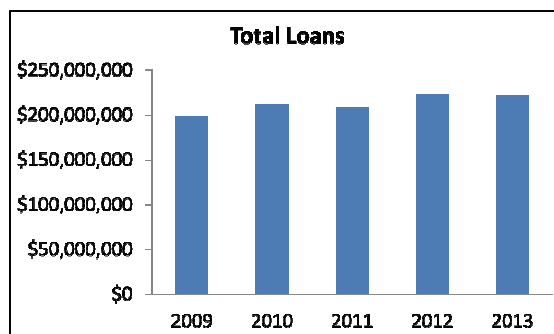
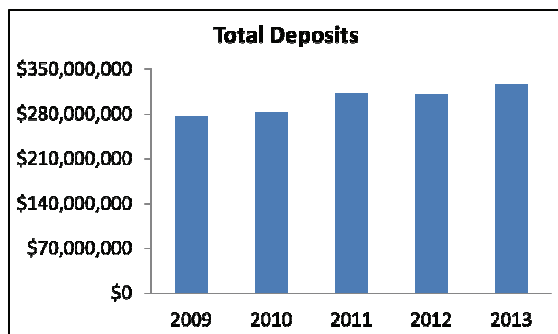
A recent news article said that cursive writing soon will no longer be taught. That will bolster the need for notary publics to witness the "X" future students will be using to sign the massive volume of documents the government requires before we can make you a loan.

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:

In looking back on 2013 for Western Illinois Bancshares, I am reminded of the classic tortoise and the hare story. After experiencing our best year ever in 2012 with a number of significant milestones, we knew it would be a tough act to follow. While we would like to set new earnings records every year, the risk associated with interest rates, credit and compliance often require us to pursue a more conservative, tortoise-like pace at times.

The community banking environment remains challenging due to extremely low interest rate margins and what the industry refers to as "borrower fatigue". In December of 2008, the Fed effectively moved interest rates to zero and there we remain. Until rates start to move up, margins will remain compressed.

Since 2009, overall industry credit quality has improved. However, the weak economic recovery along with concerns about new regulations has gradually eroded the health of some of our small businesses and hurt consumers. This has been detrimental to both loan quality and demand.

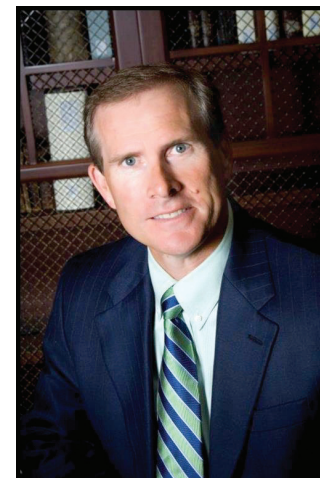
Despite these headwinds, 2013 was another very successful year for the company and we remain optimistic about the future. Our strong market position, improving loan demand, strong non-interest income, adequate loan loss reserves and improved sensitivity to rising rates provide for a positive outlook.

Our earnings were \$3,256,069 or \$3.24 per share for the year. This compares to \$3,616,750 in 2012, \$3,272,443 in 2011 and \$2,700,563 in 2010. At the bank level we achieved a 0.91% return on assets which compares favorably with our peer group, which was at 0.86%. Our return on common equity was 12.84%.

Credit quality is always a priority and even though our metrics deteriorated slightly last year, they remain better than peers. Our Texas Ratio, which measures past due and non-performing loans to our loan loss allowance, was at 12.56%. Our peer group is experiencing higher levels of problem loans with a ratio of 21.14%.

This past year we focused our efforts on the implementation and support of the numerous new initiatives that were launched in 2012. These included a new retail banking platform, a document management system, a new credit card program and a new online mortgage origination system.

In addition, we formally introduced Midwest Bank Wealth Management, which combines the resources of both our retail investment and trust services. Through the efforts of our wealth management team, led by Mark Brownlee, this has been very successful and should have a positive impact on our earnings this year and in the future.



On the lending front, we added two new loan officers in 2013. Rick Lasek joined the bank last May as a Vice President serving the Quad City market area. Blake Rappenecker joined the staff in Monmouth as an AVP of Consumer Lending. Both are great additions to our staff.

Our combined holding company and bank Boards, along with Senior Management, recently met to chart our company's course for the next five years. This was a very productive session and reinforced our commitment to our shareholders, our employees and the communities we serve.

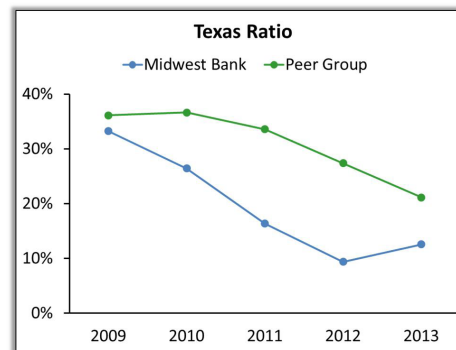
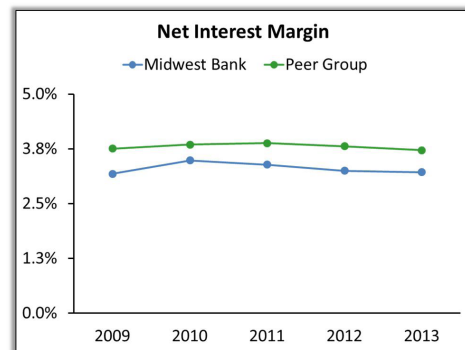
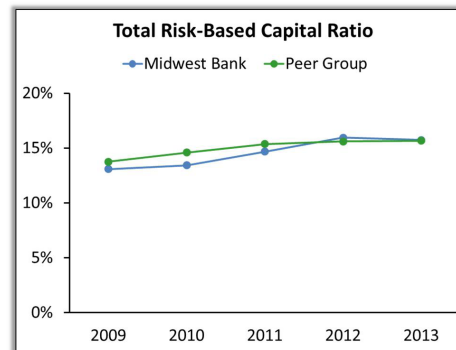
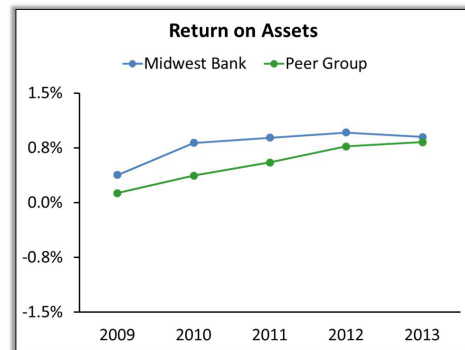
While we will always be looking to improve efficiencies and keep up with the fast changing technologies of our industry, we are reminded every day that our business is all about people and relationships. We are very fortunate to have many great relationships in the communities we serve that would not exist without a dedicated team of directors, officers and staff members. I want to thank all of them for their extraordinary service and commitment.

We greatly appreciate your support and look forward to continuing our efforts in fulfilling the mission of your company.

Cordially,

Chris

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





CONNECTING WITH OUR COMMUNITIES

- ◆ MBWI donated over \$14,000 to Relay for Life raised from various fundraising events.
- ◆ Employee donations combined with the bank contribution resulted in over \$8,100 given to Warren County United Way and earned us the United Way cup with over 97% employee participation.
- ◆ 255 Christmas gifts were collected from bank employees and community members for the Jamieson center Angel Tree.
- ◆ Employees donated \$795 to City of Washington Tornado Relief Fund and the bank kindly matched the donation making a total of \$1590.
- ◆ Midwest Bank co-sponsored its 10th harvest rally with a luncheon to assist with the Dave Gillen Fall Harvest.
- ◆ Over \$8,500 was donated to local schools through our Chalk Up Money for Schools program in 2013 as part of our ongoing priority to support local education.
- ◆ MBWI partnered with Prairie Radio Communications to host the 10th annual spring and fall Ag Roundtables discussing local agriculture issues and their impact on our future.
- ◆ We hosted our first annual Midwest Bank Gives a Hoot 5K, Kids Run and Family Day and had over 90 runners/walkers.
- ◆ Money was donated to both the Henderson and Mercer County Historical societies.
- ◆ Several employees volunteered their time to teach Junior Achievement classes along with the bank donating \$400 to the organization.

- ◆ \$1,000 was donated to the Galesburg Walmart Angel Tree to purchase Christmas gifts for needy families in Knox County.
- ◆ Donations were given to several food pantries in the area including Pay it Forward Ministries Food Pantry, Henderson County Food Pantry, Jamieson Center Food Pantry and the Mercer County Food Pantry.
- ◆ Several employees volunteered for the “Welcome to the Real World” program designed to teach eighth grade students from Knox, Warren and Henderson counties about finances and real world decision making.
- ◆ Funds were contributed to the Aledo Central Park Band Shell and Aledo Main Street Project.
- ◆ \$2500 was given to the Galesburg Foundation Rotary Park renovation project.
- ◆ Employees celebrated Halloween by dressing up at the branches and trick-or-treating our drive-through customers along with several local preschools.
- ◆ School supplies were collected and delivered to Project Now Headstart Aledo and West Central Headstart.
- ◆ Midwest Bank helped sponsored several events including the Galesburg Public Schools Foundation Annual Rubber Duck Race, Market Alley Music Days, Galesburg Railroad Days and the New Windsor Rodeo.



CONSOLIDATED BALANCE SHEETS

CONSOLIDATED BALANCE SHEETS

	2013	2012	
Assets	Cash and due from banks	\$10,829,927	\$14,502,099
	Federal funds sold	2,949,000	—
	Interest-bearing demand deposits in banks	6,702,912	1,951,352
	Cash and cash equivalents	20,481,884	16,453,451
	Interest-bearing time deposits in banks	8,416,760	8,313,000
	Available-for-sale securities	126,303,046	125,923,143
	Loans held for sale	1,876,693	7,693,945
	Loans, net of allowance for loan losses of \$2,874,710 and \$3,241,451 at December 31, 2013 and 2012	220,251,247	214,892,721
	Premises and equipment, net of accumulated depreciation of \$2,398,601 and \$2,310,835 at December 31, 2013 and 2012	6,846,180	7,391,068
	Federal Reserve and Federal Home Loan Bank stock	3,317,220	3,317,220
	Foreclosed assets held for sale, net	389,718	997,015
	Cash surrender value of life insurance	10,133,718	8,568,540
	Interest receivable	2,921,054	3,126,076
	Deferred income taxes	1,472,542	202,733
	Mortgage servicing rights	257,672	272,818
	Goodwill	13,088,442	13,088,442
	Other	1,095,533	774,986
	Total assets	\$416,851,709	\$411,015,158
Liabilities & Stockholders' Equity	Demand deposits	\$29,554,188	\$31,504,084
	Savings, NOW and money market deposits	186,505,693	171,722,172
	Time deposits	96,724,830	96,874,498
	Brokered deposits	13,128,221	10,105,584
	Total deposits	325,912,932	310,206,338
	Short-term borrowings	19,710,451	21,493,049
	Subordinated debentures	9,279,000	9,279,000
	Other borrowings	22,397,800	31,197,800
	Interest payable	32,518	106,811
	Other liabilities	2,295,917	1,838,889
	Total liabilities	379,628,618	374,121,887
	Preferred stock, 10,000,000 shares without par authorized; \$1,000 liquidation preference:		
	Series B, 2013 - 0 and 2012- 335 shares issued and outstanding	—	335,000
	Series D, 2012 - 69,707 shares issued and outstanding	6,970,700	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	23,239,537	23,237,297
	Retained earnings	5,722,703	3,423,110
	Accumulated other comprehensive income	285,431	1,922,444
	Total stockholders' equity	37,223,091	36,893,271
	Total liabilities and stockholders' equity	\$416,851,709	\$411,015,158

STATEMENTS OF INCOME

Interest & Dividend Income

Interest Expense

Non-Interest Income

Non-Interest Expense

	2013	2012
Loans, including fees	\$11,108,341	\$11,939,320
Debt securities:		
Taxable	1,209,439	1,879,875
Tax-exempt	1,016,796	963,109
Federal funds sold and other	118,843	55,598
Dividends	117,765	42,331
Total interest and dividend income	13,571,184	14,880,233
Deposits	1,972,743	2,492,742
Short-term borrowings	52,981	127,549
Subordinated debentures	337,172	357,397
Other borrowings	548,300	556,838
Total interest expense	2,911,196	3,534,526
Net Interest Income	10,659,988	11,345,707
Provision for Loan Losses	800,000	750,000
Net Interest Income After Provision for Loan Losses	9,859,988	10,595,707
Fiduciary activities	332,601	303,358
Customer service fees	1,042,717	1,023,730
Insurance commissions and other	1,051,423	971,108
Increase in cash surrender value of life insurance	315,178	264,901
Net realized gains on sales of available-for-sale securities	192,265	677,645
Mortgage banking, net	396,443	584,519
Gain on sale of premises and equipment	245,180	—
Other	172,987	230,849
Total noninterest income	3,748,794	4,056,110
Salaries and employee benefits	5,536,968	\$5,427,840
Occupancy	702,698	706,882
Equipment	563,097	718,522
Data processing	5,969	32,285
Professional fees	291,810	430,637
Marketing	158,202	119,951
Printing and office supplies	108,787	108,961
Foreclosed assets, net	63,281	125,914
Deposit insurance premiums	224,182	462,059
Other	1,272,099	1,099,346
Total noninterest expense	8,927,093	9,232,397
Income Before Income Taxes	4,681,689	5,419,420
Provision for Income Taxes	1,425,620	1,802,670
Net Income	\$3,256,069	\$3,616,750

OUR LEADERS

Western Illinois Bancshares, Inc. Directors

Augustin S. Hart III, President
Raymond E. Defenbaugh, Vice President
Christopher J. Gavin, Secretary & Treasurer
Scott T. Champion, Owner MCM Media and COO for Civitas Media
Dr. John Dooley, Anesthesiologist , Bettendorf, IA
Robert C. Fick, President of Mel Foster, Davenport, IA
C. Dean Hennenfent, Agribusiness
Robert A. Riley, Retired Owner/Operator of John Deere Dealership
Mark J. Sexton, Bart Bank Group, Attorney, St. Paul, MN

Midwest Bank of Western Illinois Directors

Raymond E. Defenbaugh, Board Chairman, President & CEO of Big River Resources
Robert A. Riley, Board Secretary, Retired Owner/Operator of John Deere Dealership
Leslie G. Allen, Retired Executive VP of Midwest Bank of Western Illinois
Marvin Dahlberg, CPA & Treasurer for the City of Galesburg
Dr. Mauri A. Ditzler, President of Monmouth College
Christopher J. Gavin, President & CEO of Midwest Bank of Western Illinois
Augustin S. Hart III, Agribusiness and Insurance
C. Dean Hennenfent, Agribusiness
Dr. Stephen A. Johnson, Dentist
Michael G. Luna, Owner/Operator of McDonalds, Monmouth and Aledo

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
Brad Ray, VP Lending

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
*Rachel Gibson, Branch Manager
*Derrick Johnston, AVP Commercial Lending
*Stephen Lanham, Network Operations
*Kim McKeown, Executive Secretary
*Kevin Murk, AVP Consumer Lending
*Blake Rappenecker, AVP Consumer Lending
Cesar Aceves
Carolyn Albert
Angie Alberts
Kristen Brownlee
Nita Cross
Janet Current
Marnie Damewood
Lisa Davis
Jaime DeCrane
Ashley Dye
Mary Dysert
Polly Elliott
Annie Fancher
Violet Fleming
Connie Frakes
Patrick Gavin
Stefanie Gavin
Amber Gibson
Jay Grant
Cassie Griffin
Teresa Harris

Megan Haynes
Diana Mackey
Becky Moore
Ondria Moulden
Bonny Munson
Michelle Nelson
Brooke Robinson
Taylor Scanlon
Mary Schisler
Charmaine Shinn
Paula Sims
Alex Temple
Janet Thomas
Elisha Vancil
Debbie Von Kannon
Mary Walker
Marge Winebright

Galesburg Locations

*Lance Oetting, VP & Market President
*Cindy Helvick, AVP & Branch Manager
*Nancy Berry, Mortgage Loan Officer
Tracy Brown
Judi Sopher
Tara Dean
Christy Flynn
Eric Hoffman
Teresa Inness
Alex Kane
Rhonda Laake
Jennifer McMurl
Jessica Shepard
Ashley Shonkwiler
Jackie Telander

Aledo Location

*Rex Johnson, VP & Market President
*Christy Shelton, Consumer Loan Officer
Christine Long
Melonie McLaughlin
Teresa Schell
Judy Smith
Cassie Stone

Oquawka Location

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

Quad City Area

*Rick Lasek, VP & Market President

Midwest Bank Wealth Management

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

Porter Insurance

Kent Porter, President
Cris Hunt, VP Operations
Debbie Meeker-King, Monmouth Location
Sharon Lopeman
Darcy Tate

** denotes bank officer*



MIDWEST BANK OF WESTERN ILLINOIS BRANCH LOCATIONS

Monmouth:

200 East Broadway
1120 North 6th Street
1150 North 6th Street, Suite A

Oquawka:

Sixth and Schuyler Street

Galesburg:

612 West Main Street
2558 North Seminary Street

Aledo:

200 SE 13th Avenue Court

Kirkwood:

106 South Kirk

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www.mbwi.com

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