



Western Illinois Bancshares, Inc.

2008 Annual Report



Dear Shareholder:

The publishing of this year's annual report is hopefully our last step in closing the books on 2008. What started out to be a very good year was ruined with a stroke of a pen, when Fannie Mae and Freddie Mac were placed into conservatorship by our government. While we are happy to put this year behind us, we also realize that the banking and financial crises continues and many challenges remain.

During 2008 the total assets of the company grew from \$324.5 million to \$354.8 million for a growth rate of 9.33%. Securities decreased from \$111.0 million to \$101.2 million, largely due to the write-off of the Fannie and Freddie preferred stock. The good news is that loans grew solidly from \$168.1 million to 192.8 million, or 14.69%. The shift in assets from securities to loans will enhance our net interest margin and decrease our interest rate risk as we move forward.

The bank also experienced excellent deposit growth of 14.38%, going from \$221.1 million to \$252.9 million. Core deposits consisting of checking, savings, money markets and CD's less than \$100,000, increased from \$149.4 million to \$164.2 million. This represents growth of \$14.8 million, or 9.90%. A significant portion of our deposit growth can be attributed to our newest branch in Galesburg, which completed the year with deposits of \$16.3 million.

Stockholders equity increased from \$25.8 million to \$28.3 million, or from \$25.65 per share to \$28.17 per share. This includes \$7.2 million of capital from the Treasury's Capital Purchase Program. Excluding this capital the book price per share was \$21.01 as of year-end.

Net interest income increased year over year from \$7,001,657 to \$7,654,369. Our net interest margin decreased slightly, going from 2.94% to 2.92%. Margins were hurt by our large Fed Funds Sold position during the 4th quarter. This was a strategic decision made to strengthen the liquidity of the bank.

Non-interest income, excluding losses on securities increased from \$2,766,254 to \$2,961,834, or 7.07%. Service charges on deposit accounts increased by \$71,011, going from \$768,700 to \$839,711 and Porter Insurance had another excellent year with income of \$338,334, which was a 13.0% increase over last year.

Non-interest expense increased from \$6,730,701 to \$7,306,707, or 8.55%. Salaries and benefits increased by \$269,781, or 6.30%. The majority of the increases in non-interest expenses can be attributed to the opening of our Seminary Street Branch last March.

The company posted a net loss of \$4,666,714, or (\$4.64) per share, for 2008, compared to income of \$2,264,499, or \$2.25 per share, for 2007. The loss on sale of securities was \$10,100,282, which was primarily our Fannie and Freddie preferred stock.

The bank had net charge-offs on loans during the year of \$1,706,345 and made contributions to the loan loss reserve account of \$1,490,110. As of year-end our balance in the reserve account was \$1,778,449, or .91% of loans. The vast majority of these losses can be attributed to two real estate development loans that were purchased from other banks.

We have yet to identify any specific large loan losses for 2009. However, the weak economy will continue to increase credit risk, which will likely result in further losses. Our current plan is to contribute \$100,000 per month into the loan loss reserve and complete a detailed analysis of our loan portfolio every quarter.

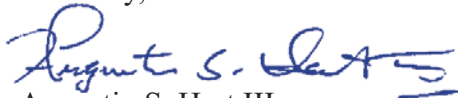
The bank began this year with a "Business As Usual" marketing campaign to address the potential concerns about the bank and the industry in general. We can tell you without hesitation that this is not false advertising. Our growth in deposits and loans demonstrates that the bank enjoys a strong reputation in the communities we serve and that our staff is working hard to achieve our goals.

We remain focused on our core business and have completed detailed action plans for 2009. Included in those plans are the strengthening of both liquidity and capital. The bank continues to meet the highest tests for capital and liquidity required by regulators, but in today's environment we feel it is prudent to go beyond those levels.

We will open our newest branch at North 6th in Monmouth on April 6th and hope that it fills the needs of present and future customers who work and/or shop in this area. We are excited to have another location, which includes a drive-up facility, at the busiest intersection in Monmouth. In addition, we are also exploring the relocation of our Aledo Branch, which caught fire in January.

As stated earlier, 2009 looks to be a year of many challenges. We are trying to position ourselves to be flexible enough to deal effectively with both the opportunities and challenges we will confront. Thanks to your support and the effort of our directors and excellent staff we are expecting a profitable year.

Sincerely,



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



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

Western Illinois Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash and due from banks	\$ 9,655,538	\$ 6,858,176
Federal funds sold	10,950,000	2,425,000
Total cash equivalents	20,605,538	9,283,176
Securities available-for-sale	101,197,013	111,038,736
Restricted stock, at cost	2,327,280	2,327,280
Loans, net of allowance for loan losses of \$1,778,449 and \$1,991,321, respectively	192,789,546	168,150,692
Premises and equipment, net	7,410,961	6,469,335
Goodwill	13,088,442	13,088,442
Other intangible assets	262,861	413,065
Cash surrender value of bank owned life insurance	7,894,456	7,428,445
Accrued interest receivable	3,073,427	3,916,908
Deferred tax asset	4,558,729	1,199,616
Other assets	1,665,745	1,201,327
TOTAL ASSETS	\$ 354,873,998	\$ 324,517,022

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits:		
Noninterest-bearing	\$ 16,705,892	\$ 17,829,261
Interest-bearing	236,230,787	203,276,445
Total deposits	252,936,679	221,105,706
Securities sold under agreements to repurchase	36,473,555	47,040,966
Subordinated debentures	9,279,000	9,279,000
Other borrowings	25,654,845	18,674,706
Accrued interest payable	777,868	986,998
Other liabilities	1,448,889	1,655,862
Total liabilities	326,570,836	298,743,238

STOCKHOLDERS' EQUITY

Preferred stock, 10,000,000 shares without par authorized:		
Series A, 6,855 shares issued and outstanding at December 31, 2008; none at December 31, 2007	6,855,000	-
Series B, 343 shares issued and outstanding at December 31, 2008; none at December 31, 2007	343,000	-
Common stock, \$1 par value, 10,000,000 shares authorized; 1,004,720 shares issued and outstanding	1,004,720	1,004,720
Additional paid-in capital	22,608,480	22,608,480
Retained earnings	(2,876,631)	2,886,623
Accumulated other comprehensive income (loss)	368,593	(726,039)
Total stockholders' equity	28,303,162	25,773,784

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 354,873,998	\$ 324,517,022
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Western Illinois Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 12,729,625	\$ 12,844,389
Securities available-for-sale	5,261,624	5,650,611
Federal funds sold and other	83,777	70,137
Restricted stock	57,800	95,189
Total interest and dividend income	<u>18,132,826</u>	<u>18,660,326</u>
 INTEREST EXPENSE		
Deposits	7,284,160	7,451,010
Federal funds purchased and securities sold under agreements to repurchase	1,682,738	2,681,498
Subordinated debentures	548,897	550,401
Other borrowings	962,662	975,760
Total interest expense	<u>10,478,457</u>	<u>11,658,669</u>
Net interest income	7,654,369	7,001,657
 PROVISION FOR LOAN LOSSES	<u>1,490,100</u>	<u>75,000</u>
Net interest income after provision for loan losses	<u>6,164,269</u>	<u>6,926,657</u>
 NONINTEREST INCOME		
Service charges on deposit accounts and other fees	917,030	903,252
Commissions	1,103,714	1,008,488
Trust fees	295,307	274,903
Net loss on sale of securities	(10,100,282)	(7,116)
Net gain on sale of other real estate	-	5,751
Other	645,783	573,860
Total noninterest income	<u>(7,138,448)</u>	<u>2,759,138</u>
 NONINTEREST EXPENSE		
Salaries and employee benefits	4,519,267	4,249,486
Net occupancy expenses	584,564	467,557
Equipment expenses	551,639	539,796
Professional fees	288,551	248,075
Marketing expenses	160,192	123,546
Amortization of intangibles	150,204	150,204
Other	1,052,290	952,037
Total noninterest expense	<u>7,306,707</u>	<u>6,730,701</u>
Income (loss) before income taxes	(8,280,886)	2,955,094
 INCOME TAX EXPENSE (BENEFIT)	<u>(3,614,172)</u>	<u>690,595</u>
 NET INCOME (LOSS)	<u>\$ (4,666,714)</u>	<u>\$ 2,264,499</u>

**Board of Directors
for Western Illinois Bancshares, Inc.**

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

**Board of Directors
for Midwest Bank of Western Illinois**

Augustin S. Hart III, Agri-Business
C. Dean Hennenfent, Agri-Business
Christopher J. Gavin, President and CEO
Midwest Bank of Western Illinois
David C. Erickson, Agri-Business
Leslie G. Allen, Executive Vice President and
Chief Credit Officer of Midwest Bank of Western Illinois
Dr. Mauri A. Ditzler, Monmouth College President
Michael G. Luna, Owner/Operator of McDonalds
Raymond E. Defenbaugh, Agri-Business
Robert A. Riley, Vice President Kleine Equipment, Inc.
Robert E. Meling, Realtor/Monmouth Farm and Home Realty
Dr. Stephen A. Johnson, Dentist

Bank Officers

Chris Gavin, President and CEO
Les Allen, Exec VP and CCO
Matt Gillen, Senior VP Lending
Terri Hippen, VP Retail Banking and HR
Aaron Jensen, VP Chief Financial Officer
Brad Ray, VP Lending
Lance Oetting, VP Commercial Lending
Rex Johnson, VP Lending
Greg Davis, VP Commercial Lending
Marcy Anderson, VP Information Systems
Lori Austin, AVP Branch Manager
Kevin Murk, AVP Consumer Lending; Security Officer
Kathy Cavanaugh, AVP Mortgage Lending
Cynthia Gillen, AVP Retail Banking
Debbie Anderson, AVP Retail Banking; BSA Officer

Jackie Burnett, Internal Auditor; Compliance Officer
Jackie Flater AVP Electronic Banking
Karna Foster, PR Marketing Officer
Cindy Helvick, AVP Branch Manager
Faye Eckhardt, AVP Branch Manager
Amanda Campbell, AVP Comptroller
Dina Chick, Bookkeeping Manager
Dan Ashton, Trust Administration Officer
Adam Carlson, Trust Operations Officer
Nancy Berry, Mortgage Loan Officer
Laurie Bodeen, Human Resources Officer
Laurie Perez, Assistant Branch Manager
Linda Reaves, Personal Banking Officer
Ann McCreight, Executive Secretary

Employees

Ashley Lambert	Janet Thomas	Nita Cross
Ashley Shonkwiler	Jennifer Carlson	Ondria Moulden
Becky Moore	Jodi Chandler	Paula Elliott
Bonny Munson	Jolene Davidson	Paula Sims
Carolyn Albert	Judi Cox	Pennie Ringle
Cassie Griffin	Judy Smith	Rachel Earp
Charmaine Shinn	Judy Zielkie	Rhonda Laake
Christy Flynn	Kayla Winbigler	Robin Peel
Christy Shelton	Kim McKeown	Shannon Martinez
Connie Frakes	Kristen Brownlee	Stefanie Boock
Crystal Brentise	LaJune Ricketts	Stephenie Gambetta
David Wines	Lisa Ryner	Tammy Edwards
David Gawthrop	Lisa Thompson	Ted Munson
Debbie Von Kannon	Luke Geer	Teresa Inness
Diana Mackey	Marge Winebright	Teresa Schell
Donna Olson	Marnie Damewood	Theresia Pettett
Elisha Lewis	Mary Dysert	Tiffany Watkins
Gene Bratcher	Mary Schisler	Tonya Defenbaugh
Gladys Caldwell	Mary Walker	Tracy Brown
Heather Nelson	Molly Jones	Violet Fleming
Janet Current		

Porter Insurance Agency, Inc.

Porter Insurance Agency, Inc is a subsidiary of the Midwest Bank of Western Illinois

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



Western Illinois Bancshares, Inc.

Locally Owned

Bank Locations

Midwest Bank of Western Illinois

200 East Broadway
Monmouth, IL 61462
309-734-2265
Toll Free 888-309-2265

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

104 Southeast 3rd Avenue
Aledo, IL 61231
309-582-5365

1120 North 6th Street
Monmouth, IL 61462
309-734-7979

1150 North 6th Street Suite A
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309-734-6679



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