

2009

Annual

Report



**Western Illinois Bancshares, Inc.**

*Locally Owned*

Dear Shareholder:

2009 was the second consecutive year of serious difficulty in the financial world here and abroad. While many economists said that a recovery was underway and the recession was over, high bank failure rates continued. Though not a stellar year for us, we feel fortunate that Western Illinois Bancshares made a profit, while many banks did not.

The company had earnings of \$909,750 in 2009, compared to a loss in 2008 of \$4,666,714. Those earnings compute to \$0.90 per share. As you will remember, our large loss in 2008 was caused by the government takeover of Fannie Mae and Freddie Mac making our preferred stock holdings virtually worthless. 2009 earnings were reduced by higher credit expense and FDIC insurance premiums.

During 2009, the total assets of the bank grew from \$355.6 million to \$373.8 million, a growth rate of 5.12%. Securities owned increased 18%, from \$103.5 million to \$122.4 million and net loans grew from \$192.8 million to \$198.7 million, or 3.06%. Loan demand decreased during the year and remains lower than in recent times. The good news was that many of our farm customers bolstered their financial positions, reducing their need to borrow.

The bank experienced deposit growth of 8.71%, going from \$256.1 million to \$278.4 million. Core deposits, consisting of checking, savings, money markets and CD's less than \$100,000, increased from \$164.2 million to \$183.9 million. This represents growth of \$19.7 million, or 12.00%. The core deposit growth allowed us to reduce our reliance on wholesale funding and helped lower interest expense. A key factor in the growth was new deposits in Galesburg and Monmouth.

Stockholders equity increased from \$28.3 million to \$34.7 million or from \$28.17 per share to \$34.52 per share. This includes \$11.765 million of capital from the Treasury's Capital Purchase Program. Excluding capital from the U.S. Treasury, the book value was at \$22.919 million or \$22.81 per share.

Net interest income increased year over year from \$7.654 million to \$9.403 million. Our net interest margin improved substantially, going from 2.92% to 3.35%. Margins improved as a result of lower deposit interest costs at both the retail and wholesale levels.

Non-interest income, excluding gains and losses on securities, decreased from \$2.962 million to \$2.033 million. The majority of that decline was due to write-downs on other real estate owned. The service charges on deposit accounts and other fees increased by \$89,457, going from \$917,030 to \$1,006,487. Porter Insurance net income declined from \$338,324 to \$230,184, as a result of reduced crop insurance revenue.

Non-interest expense increased from \$7.307 million to \$8.515 million, or 16.53%. Salaries and benefits increased by \$240,345, or 5.32%. This increase included the personnel costs for our new branch at Venture Plaza in Monmouth. FDIC insurance premiums went from \$72,264 to \$693,457, an increase of 959%!

The bank had net charge-offs on loans during the year of \$580,149, compared to \$1.706 million in 2008. Provisions for loan losses were \$1.950 million, resulting in a year-end reserve for loan loss of \$3.148 million, or 1.56% of loans. While we continue to see weakness in our loan portfolio, it appears that most problem loans have been identified. Current reserves, plus the reserve additions budgeted for 2010, should cover potential losses.

Our new branches and upgrades to existing facilities greatly improved our market presence in the communities we serve. This trend will continue when our new Aledo building opens this summer. This 2,500 square foot branch will be located at one of the busiest intersections in Mercer County.

Moving forward, we remain focused on our core business and have developed strategic plans for 2010, which call for improving our loans while carefully monitoring capital and liquidity levels. Other than the hours spent preparing for and undergoing audits and examinations, we spend most of our time being proactive in ways that should allow for continued growth and improved profitability.

Bankers nationwide will remain challenged to improve asset quality and profitability as they become burdened with ever-greater government regulation. We feel that larger rural community banks like ours will be able to compete with the big regional and global institutions in terms of product offerings and efficiencies, while far out shining them in terms of service.

Our staff must be complimented on their fine performance during trying times, as should you, our stockholders, for your continued support of our efforts. This is a pivotal time for community banking in this country. While there is a tremendous opportunity to gain market share from the “too big to fail” banks, there is also growing concern of new and harmful regulation. We ask that you strongly support the efforts of community bankers in any contact you have with state and federal legislators.

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, 2009 and 2008**

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Cash and due from banks	\$ 6,578,976	\$ 9,655,538
Federal funds sold	8,316,762	10,950,000
Total cash equivalents	14,895,738	20,605,538
Securities available for sale	119,926,469	101,197,013
Restricted stock, at cost	2,510,430	2,327,280
Loans, net of allowance for loan losses of \$3,148,300 and \$1,778,449, respectively	198,675,901	192,789,546
Premises and equipment, net	7,434,654	7,410,961
Goodwill	13,088,442	13,088,442
Intangible assets	112,657	262,861
Cash surrender value of bank owned life insurance	8,088,035	7,894,456
Prepaid FDIC Assessment	1,583,349	-
Accrued interest receivable	3,269,545	3,073,427
Deferred tax asset	1,909,241	2,746,540
Other assets	1,570,735	3,477,934
<b>Total Assets</b>	<b>\$ 373,065,196</b>	<b>\$ 354,873,998</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 20,569,821	\$ 16,705,892
Interest-bearing	256,968,620	236,230,787
Total Deposits	277,538,441	252,936,679
Securities sold under agreements to repurchase	22,588,476	36,473,555
Subordinated debentures	9,279,000	9,279,000
Other borrowings	27,417,622	25,654,845
Accrued interest payable	460,694	777,868
Other liabilities	1,096,898	1,448,889
Total Liabilities	338,381,131	326,570,836
<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 at December 31, 2009; none at December 31, 2008	4,567,000	-
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
Accumulated deficit	(2,602,479)	(2,876,631)
Accumulated other comprehensive income	1,908,344	368,593
Total Stockholders' Equity	34,684,065	28,303,162
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 373,065,196</b>	<b>\$ 354,873,998</b>

**Western Illinois Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2009 and 2008**

<b>Interest and Dividend Income</b>	<b>2009</b>	<b>2008</b>
Loans, including fees	\$ 12,605,879	\$ 12,729,625
Securities available for sale	4,772,563	5,261,624
Federal funds sold and other	10,438	83,777
Restricted stock	68,689	57,800
Total interest and dividend income	<u>\$ 17,457,569</u>	<u>18,132,826</u>
<b>Interest Expense</b>		
Deposits	5,487,972	7,284,160
Federal funds purchased and securities sold under agreements to repurchase	1,162,612	1,682,738
Subordinated debentures	548,897	548,897
Other borrowings	855,516	962,662
Total interest expense	<u>8,054,997</u>	<u>10,478,457</u>
Net interest income	9,402,572	7,654,369
<b>Provision for Loan Losses</b>	<u>1,950,000</u>	<u>1,490,100</u>
Net interest income after provision for loan losses	<u>7,452,572</u>	<u>6,164,269</u>
<b>Noninterest Income</b>		
Service charges on deposit accounts and other fees	1,006,487	917,030
Commissions	1,001,538	1,103,714
Trust fees	255,215	295,307
Net gain (loss) on sale of securities	10,002	(10,100,282)
Gain (loss) on foreclosed assets, net of write-downs	(689,608)	6,783
Other	458,939	639,000
Total noninterest income	<u>2,042,573</u>	<u>(7,138,448)</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	4,759,612	4,519,267
Net occupancy expenses	658,866	584,564
Equipment expenses	608,863	551,639
Professional fees	277,315	288,551
Marketing expenses	162,179	160,192
Deposit insurance expense	693,457	72,264
Amortization of intangibles	150,204	150,204
Other	1,204,944	980,026
Total noninterest expense	<u>8,515,440</u>	<u>7,306,707</u>
Income (loss) before income taxes	979,705	(8,280,886)
<b>Income Tax Expense (Benefit)</b>	<u>69,955</u>	<u>(3,614,172)</u>
<b>Net Income (Loss)</b>	<u>\$ 909,750</u>	<u>(4,666,714)</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**

Raymond E. Defenbaugh, Chairman of the Board/President of Big River Resources  
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  
Dr. Mauri A. Ditzler, Monmouth College President  
Dr. Stephen A. Johnson, Dentist  
Leslie G. Allen, EVP and Chief Credit Officer Midwest Bank of Western Illinois  
Marvin Dahlberg, CPA & Treasurer for the City of Galesburg  
Michael G. Luna, Owner/Operator of McDonalds  
Robert A. Riley, Vice President Kleine Equipment, Inc.

## Bank Officers

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  
Brad Ray, VP Lending  
Lance Oetting, VP Commercial Lending  
Rex Johnson, VP Lending  
Marcy Anderson, VP Data Processing  
Lori Austin, AVP Branch Manager  
Kevin Murk, AVP Lending  
Kathy Cavanaugh, AVP Lending  
Cynthia Gillen, AVP Retail Banking  
Debbie Anderson, AVP Retail Banking  
Jackie Burnett, Internal Auditor

Jackie Flater, AVP Electronic Banking  
Karna Foster, AVP PR & Marketing  
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  
Rachel Gibson, Branch Manager  
Derrick Johnston, Credit Analyst Officer  
Kevin Ball, AVP Commercial Lending and  
Raymond James Financial Advisor

## Employees

Alex Kane  
Andrea Costner  
Ashley Shonkwiler  
Becky Moore  
Bonny Munson  
Carolyn Albert  
Cassie Griffin  
Cesar Aceves  
Charmaine Shinn  
Christy Flynn  
Christy Shelton  
Connie Frakes  
Crystal Brentise  
David Wines  
Debbie Von Kannon  
Diana Mackey  
Donna Olson  
Elisha Vancil  
Gene Bratcher  
Gladys Caldwell  
Heather Nelson

Janet Current  
Janet Thomas  
Jennifer Carlson  
Jennifer Fugman  
Jodi Chandler  
Jolene Davidson  
Judi Cox  
Judy Smith  
Judy Zielkie  
Kayla Winbigler  
Kim McKeown  
Kristen Brownlee  
LaJune Ricketts  
Lisa Ryner  
Lisa Thompson  
Marge Winebright  
Marnie Damewood  
Mary Dysert  
Mary Schisler  
Mary Walker  
Molly Jones

Nita Cross  
Ondria Moulden  
Paula Elliott  
Paula Sims  
Pennie Ringle  
Rhonda Laake  
Robin Peel  
Stefanie Boock  
Stephen Lanham  
Stephenie Gambetta  
Susan Wright  
Tammy Edwards  
Ted Munson  
Teresa Inness  
Teresa Schell  
Theresia Pettett  
Tiffany Watkins  
Tonya Defenbaugh  
Tracy Brown  
Violet Fleming

## Porter Insurance Agency, Inc.

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

Kent Porter, President  
Alana Links

Charles Lindsey  
Chris Hunt , VP Operations

Debbie Meeker-King  
Sharon Lopeman



## Western Illinois Bancshares, Inc.

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

*Locally Owned*

### **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

Future Home:  
200 SE 13th Ave CT  
Aledo, IL 61231  
309-582-5365

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

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

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