



Western Illinois Bancshares, Inc.
2011 Annual Report

Dear Shareholder:

Western Illinois Bancshares, Inc. and Midwest Bank of Western Illinois experienced another good year in 2011. Benefiting from a slowly improving national economy and a strong local agricultural sector, the bank made significant strides in a number of areas, including record income and improved credit quality.

The company recorded earnings of \$3,272,443, compared to \$2,700,563 in 2010. This year's earnings compute to \$3.26 per share, versus \$2.69 the prior year. The bank was able to maintain a steady net interest margin and recorded gains on securities. The overall return for common shareholder was 10.55% for the year.

Total assets grew from \$385.0 million to \$417.0 million, for a growth rate of 8.30%. Securities owned increased 23.0%, from \$124.1 million to \$152.6 million. Net loans decreased from \$212.0 million to \$208.5 million. The decrease in loans is due to both lower demand and collection activities. On the demand side, the strong farm economy has been the most significant factor, as repayment rates on agricultural loans have increased significantly.

The bank experienced strong deposit growth of 10.13%, going from \$283.5 million to \$312.2 million. The combination of lower loan demand and increased deposits has created significantly more liquidity than we normally target and contributed to the growth of our investment portfolio.

Total stockholders' equity increased from \$35.0 million to \$38.5 million. Common shareholders equity, which excludes the Treasury's preferred shares, increased from \$23.6 million to \$26.7 million, or \$26.58 per share.

Net interest income increased slightly year over year from \$11.116 million to \$11.676 million. Our net interest margin remained steady, going from 3.48% to 3.51%.

Non-interest income, excluding one-time gains on securities and life insurance, increased from \$2.642 million to \$2.855 million. Service charge income went from \$947,703 to \$994,876, benefiting from growing debit card revenue. Net income from Porter Insurance decreased slightly from \$266,870 to \$255,993. Non-interest expense increased from \$8.772 million to \$8.904 million, or 1.50%.

Charge-offs were almost identical to last year at \$2.088 million, but were much less during the second half of the year. Provisions for loan losses were \$1.430 million, compared to \$2.845 million in 2010. Non-performing loans began the year at \$8.168 million and ended at \$1.316 million for an 84% reduction.

Like all community banks, we are challenged by increasing regulations and the scrutiny from those that enforce them. Though these regulations are designed to protect our customers and the taxpayers, they typically have the opposite effect. This is frustrating, but it does create opportunities for the banks most prepared to deal with these regulations effectively.

Despite the regulations and the recent difficult times we have seen in banking, I am enthused about the future of community banking and especially for Midwest Bank of Western Illinois. This comes in part from our industry's increasing ability to compete with the megabanks, but most is derived from the confidence I have in our team members. Their abilities and dedication truly make a difference in each of our markets.

The confidence in our team is what keeps us moving forward and 2012 will be another very important year for our company, with many new initiatives in the works. As our balance sheet grows stronger, our Board is able to consider additional strategies to improve the bank and enhance shareholder value. We hope to implement some of these strategies during the coming year and look forward to sharing them with you.

Cordially,

Chris

Christopher J. Gavin

President & CEO, Midwest Bank of Western Illinois

Message from Gus...

Our bank holding company had a good year in 2011. We were able to work out most of our problem loans and benefited from the strength of the agricultural economy. Once again, we owe much of our success to the continued good work of our employees.

As Monmouth College's new Business and Science building grows in presence during its construction, I'm enthused about the opportunities it will provide the student Scots and the Monmouth community. It might prove most worthwhile if my fellow college trustees and I were to offer a free Economics 101 course to the President and all of our legislators in both Springfield and Washington, D.C. Of course, some of them would have to take a remedial course in arithmetic first and a very few might qualify for more advanced economic studies.

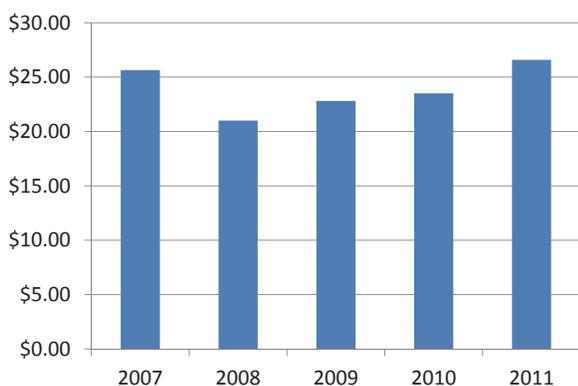
Speaking of math, my mother turned 90 in January and is a stock holder in our company. She has no problem expressing her frustrations about the ever-increasing regulations that require her to constantly fill out new forms. My mother objects that she must do this just to be able to receive the service she expects from her bank. Our job is to provide our older customers the service they expect while making sure that we also provide our younger customers the modern electronic banking services they demand.

Sometimes we can do both with one tool. Years ago, one could find a pad of counter checks at every merchant location. Many counter check users had the store clerk fill out everything but the signature line and then signed his or her name. Today we have the debit card. It whisks the money from your checking account to that of the merchant once the clerk (or the bar code scanner) has filled out all the pertinent information and you have signed the sales slip or electronic pad. My how things have changed!

Gus

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

Common Share Book Value



Message from Ray...

Today we have an adventure of managing four generations in the work place. These four are commonly known as the Veterans, Baby Boomers, Generation X, and Generation Y. The joy and difficulty comes from the extreme distinct differences each generation brings through the door. There are outliers within each generation, as a whole, which similarly exist. Businesses give service awards to employees who remain with them for five years. When the ten year service award arrives, the numbers quickly diminish from the five year point. Fifteen years at one location for certain generations is considered an extremely long time and twenty years is an eternity.

It is with great bliss that I remember welcoming a Veteran, Les Allen, through our bank doors years ago. His generation remembers rotary phones and a time when you would actually hand write a memo. You earned money, saved money, and paid cash. Although you might see him today with a mobile phone utilizing the functions of Outlook and other technological advances, he fits the distinction of the Veteran generation perfectly. He gives respect and earns respect through his business style. He may utilize a computer and most recently an Ipad, but his hand written memos are posted everywhere. He has massive amounts of paper that cross his desk and items on the agenda, yet there is rarely an occasion that you are not greeted by him with a smile, a hello, and time for a quick chat. His hello wave from across the way will stick in my mind forever and will be missed.

It is an honor to have greeted him on his first day and a gratification to be with him on his retirement day. His dedication and loyalty are a dying character. I would be amiss not take a moment to thank him for so many wonderful years as a colleague and close friend. We have many memories and many more to create. Les Allen you are one of a kind and part of a generation of its own.

Midwest Bank of Western Illinois will miss having Les in the office. However, business will continue and we will remain focused on risk management and proceed forward with continued optimism. The future will always be unknown for all generations. For Les, we send you our best wishes after your bank retirement. May your days continue as they started with respect, memos and savings.

Ray

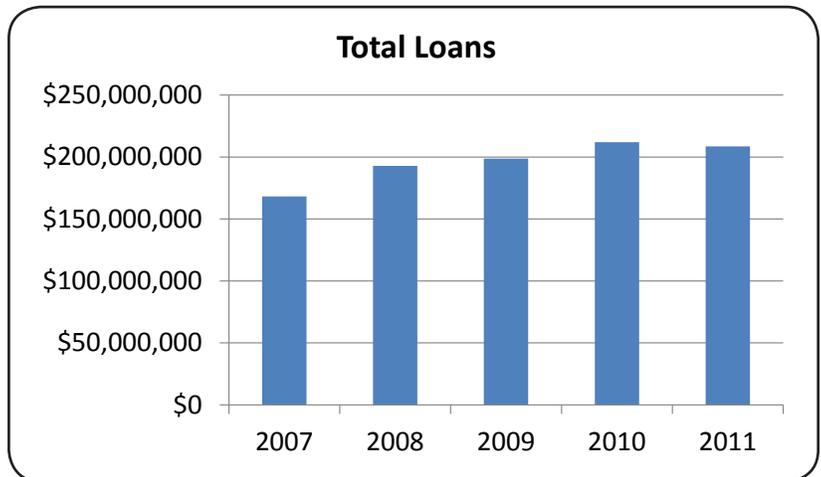
Raymond E. Defenbaugh
Chairman, Midwest Bank of Western Illinois

Loan Growth

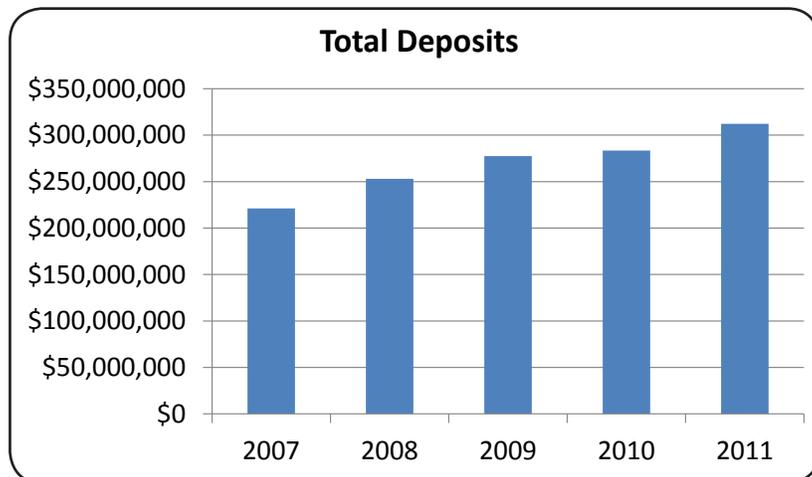
Loans grew from \$154,426,575 in 2006 to \$208,450,013 in 2011, representing 35% loan growth. We remain the largest community bank in the market areas of Warren, Henderson, Knox and Mercer Counties. The staff takes great pride in this accomplishment and we offer a full range of loans for personal, business and agricultural needs.

The opportunities associated with future loan growth will continue to be focused on the Galesburg and Aledo market areas. We are confident through the next several years our loan products and services will be structured to grow our market share yielding sustainable value to our customers and shareholders.

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



Deposit Growth



Deposits have increased from \$208.1 million in 2006 to \$312.2 million in 2011. This represents a five-year increase of 50%. During that time, we have expanded our products and services to meet the changing needs of our customers.

Recently the bank introduced its new and improved Mobile Banking with Triple Play. The new Mobile Banking product provides customers with instant access to their accounts 24 hours a day, 7 days a week via text messaging or mobile banking with a web-enabled device. A Bill Pay option is also available with our new Mobile Banking.

Later this spring we will upgrade our current debit card with a new product called MyPic. The new debit card will enable customers to have a personalized photo imprinted on their debit card or allow them to feature the logo of their favorite school.

A paperless new account opening system for deposit and loan accounts is slated for this fall. This new system will streamline the process allowing customers to spend significantly less time opening a new deposit or loan account. The customer will sign an electronic signature module and their signature will be entered on all new account documents simultaneously. Not only will this simplify the new account process, it will provide us with more time to discuss products with our customers.

We will continue to remain customer focused and build our relationships. While customers are bombarded with choices in banking products and services, we strive to offer them high tech products with a personal touch.

Bank Operations

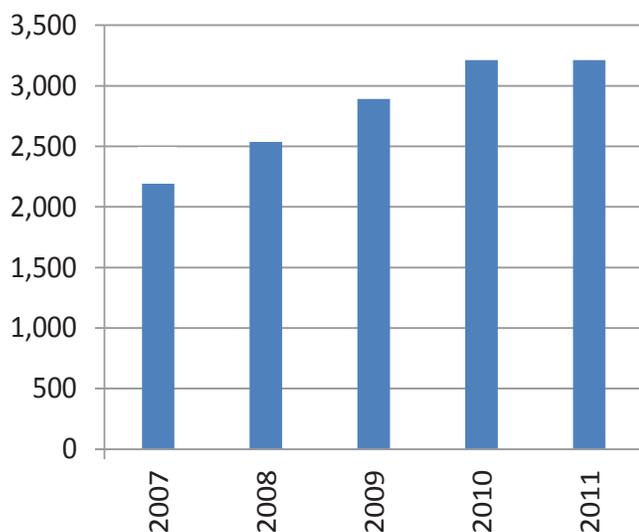
Technology continues to drive our efforts to improve the Bank's operating efficiency and deliver the latest products and the best service where the customer demands.

The technology plan, first established in 2008, and the Technology Team, have been key strategic enhancements that allow for organization-wide planning and implementation. The plan continues to evolve as the rapid integration of technology into the delivery of banking products continues. Key enhancements in 2011 included the expanded communications platform between our branches that carries more data at higher speeds. This allows our branch personnel to use computer platforms with quicker response times, speeding transaction and information exchange which means less waiting in line and improved customer service. The platform has proven to be much more stable and has significantly reduced "down-time" at our branch locations. This has also allowed the use of branch personnel to perform functions that were once only able to be done at the main branch.

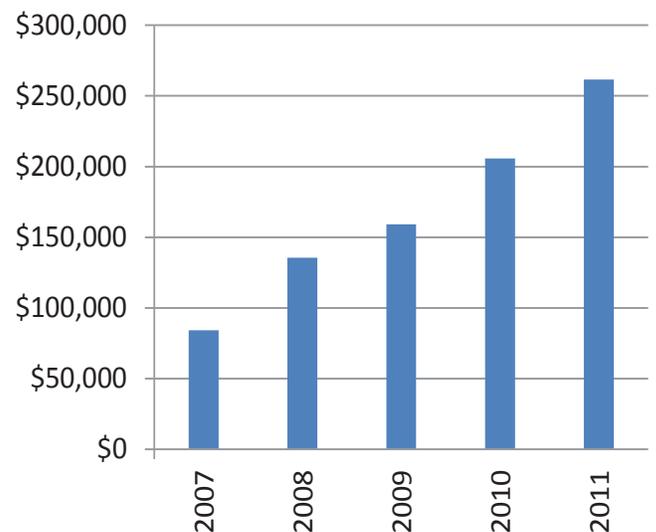
The drive to improve efficiency and the delivery of banking products with customer convenience in mind continues with several projects slated for 2012. The focus on efficiency continues with two projects that will significantly reduce the amount of paper circulated throughout the bank. Efforts are underway to eliminate the use of paper in most of our new accounts, reporting and file maintenance processes. The estimated cost reduction from going "paper-less" is \$30,000 per year. In addition, a new electronic document storage system will be implemented. This new system not only increases the capacity and efficiency of document storage, but provides new features that include automated document tracking and electronic signatures on new account documents. Both projects will reduce the internal processing time for new loan and deposit accounts and significantly reduce the amount of time a customer must spend executing those documents.

The complete integration of technology into the core operations of the Bank will drive operating costs lower and enhance profitability and shareholder value in the future.

Internet Banking Users



Debit Card Revenue



Western Illinois Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Cash and due from banks	\$ 12,458,952	\$ 4,771,134
Interest-bearing demand deposits in banks	991,441	279,677
Federal funds sold	<u>—</u>	<u>2,988,000</u>
Cash and cash equivalents	<u>13,450,393</u>	<u>8,038,811</u>
Interest-bearing time deposits in banks	2,988,000	—
Available-for-sale securities	152,567,810	124,190,196
Loans held for sale	164,692	564,464
Loans, net of allowance for loan losses of \$3,247,127 and \$3,904,828 at December 31, 2011 and 2010	208,450,013	212,006,018
Premises and equipment, net of accumulated depreciation of \$1,835,825 and \$1,346,411 at December 31, 2011 and 2010	7,392,507	7,790,416
Federal Reserve and Federal Home Loan Bank stock	2,910,220	2,910,220
Foreclosed assets held for sale, net	1,924,812	499,535
Cash surrender value of life insurance	8,278,468	7,975,973
Interest receivable	3,462,900	3,458,087
Deferred income taxes	337,529	2,155,085
Mortgage servicing rights	285,833	293,020
Goodwill	13,088,442	13,088,442
Other	<u>1,250,365</u>	<u>2,056,892</u>
Total assets	<u>\$ 416,551,984</u>	<u>\$ 385,027,159</u>

Liabilities and Stockholders' Equity

Liabilities

Deposits		
Demand	\$ 28,475,646	\$ 19,892,947
Savings, NOW and money market	160,812,999	111,375,411
Time	106,576,853	116,527,800
Brokered deposits	<u>16,369,285</u>	<u>35,661,916</u>
Total deposits	<u>312,234,783</u>	<u>283,458,074</u>
Short-term borrowings	23,891,195	21,901,124
Subordinated debentures	9,279,000	9,279,000
Other borrowings	31,000,000	33,000,000
Interest payable	181,721	291,943
Other liabilities	<u>1,487,102</u>	<u>1,714,044</u>
Total liabilities	<u>378,073,801</u>	<u>349,644,185</u>

Stockholders' Equity

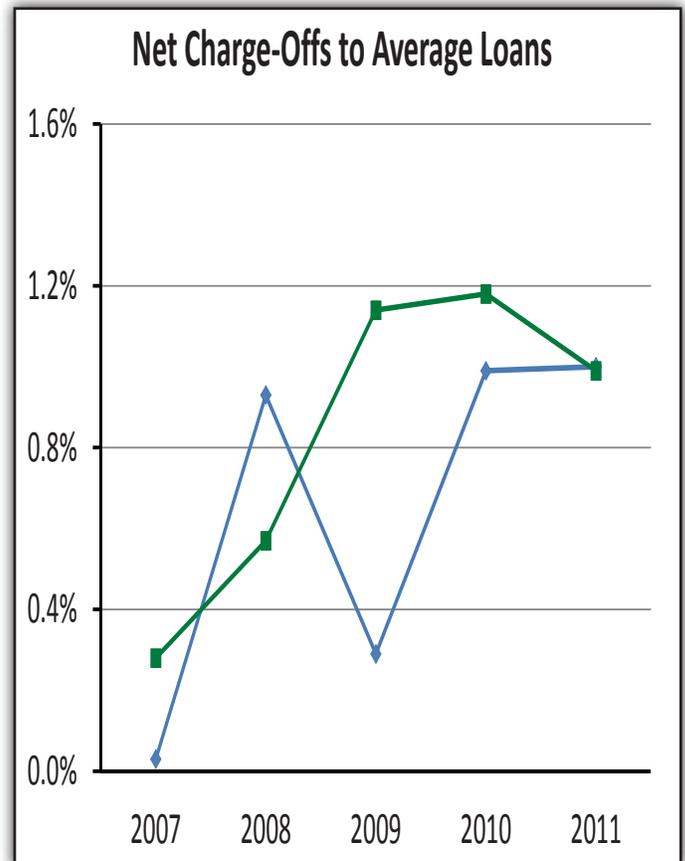
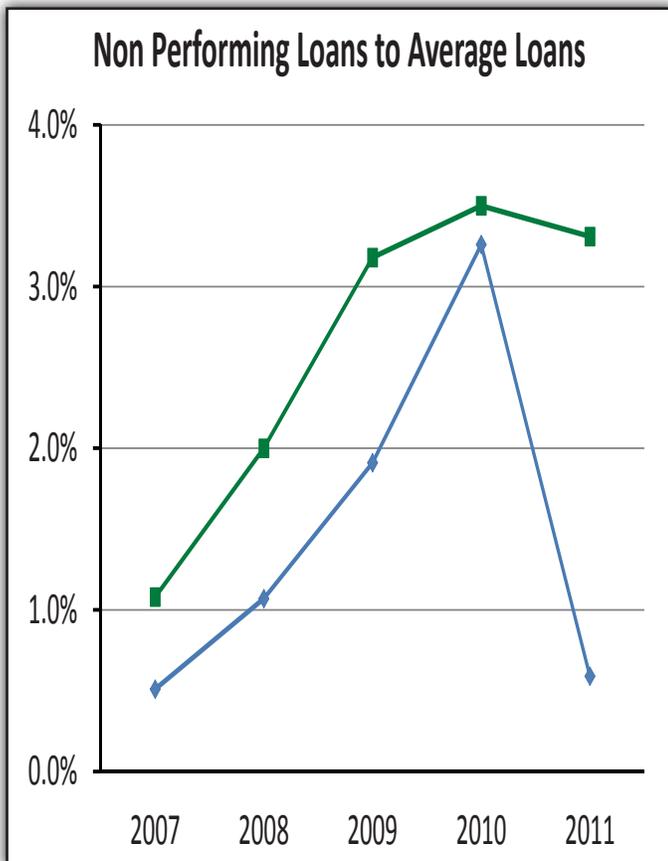
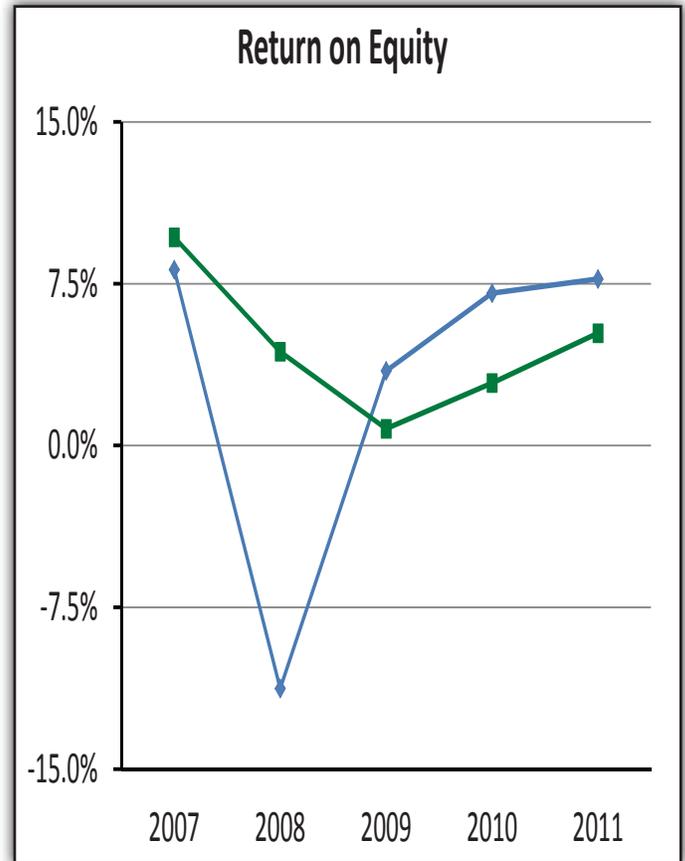
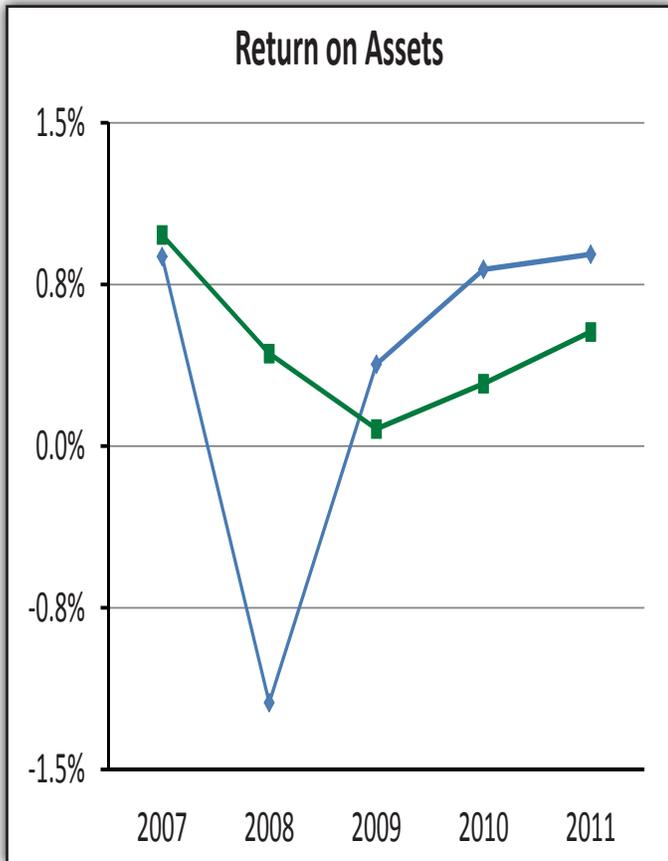
Preferred stock, 10,000,000 shares without par authorized; \$1,000 liquidation preference:		
Series A, 6,855 shares issued and outstanding	6,855,000	6,855,000
Series B, 343 shares issued and outstanding	343,000	343,000
Series C, 4,567 shares issued and outstanding	4,567,000	4,567,000
Common stock, \$1 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
Retained earnings (accumulated deficit)	1,233,833	(884,044)
Accumulated other comprehensive income	<u>1,866,150</u>	<u>888,818</u>
Total stockholders' equity	<u>38,478,183</u>	<u>35,382,974</u>

Total liabilities and stockholders' equity	<u>\$ 416,551,984</u>	<u>\$ 385,027,159</u>
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Western Illinois Bancshares, Inc.
Consolidated Statements of Income
December 31, 2011 and 2010

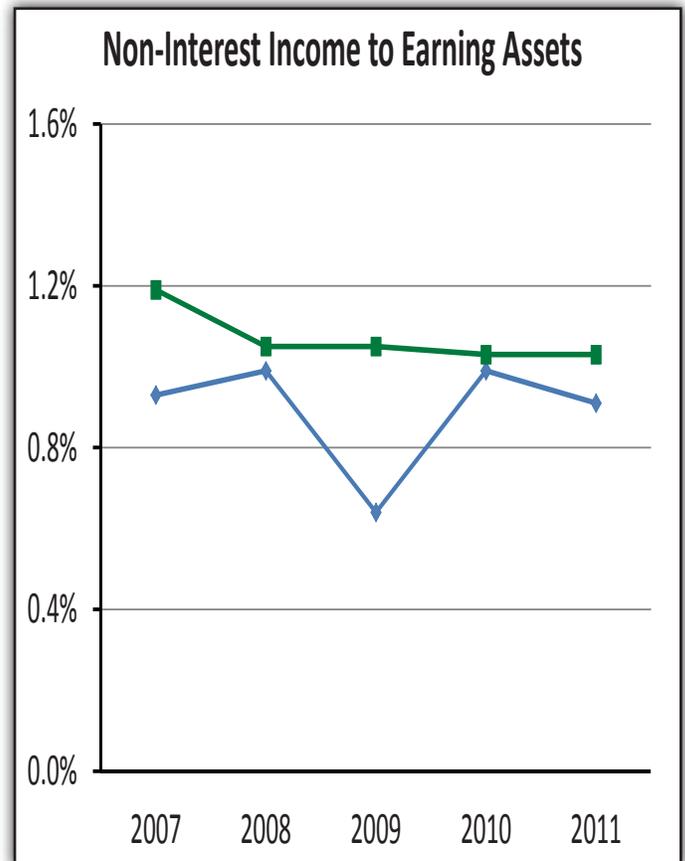
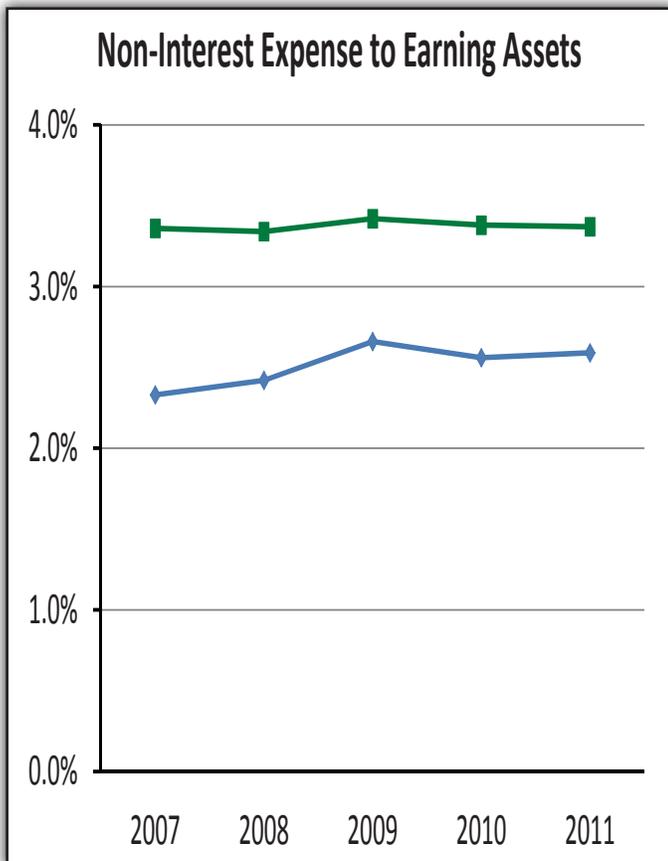
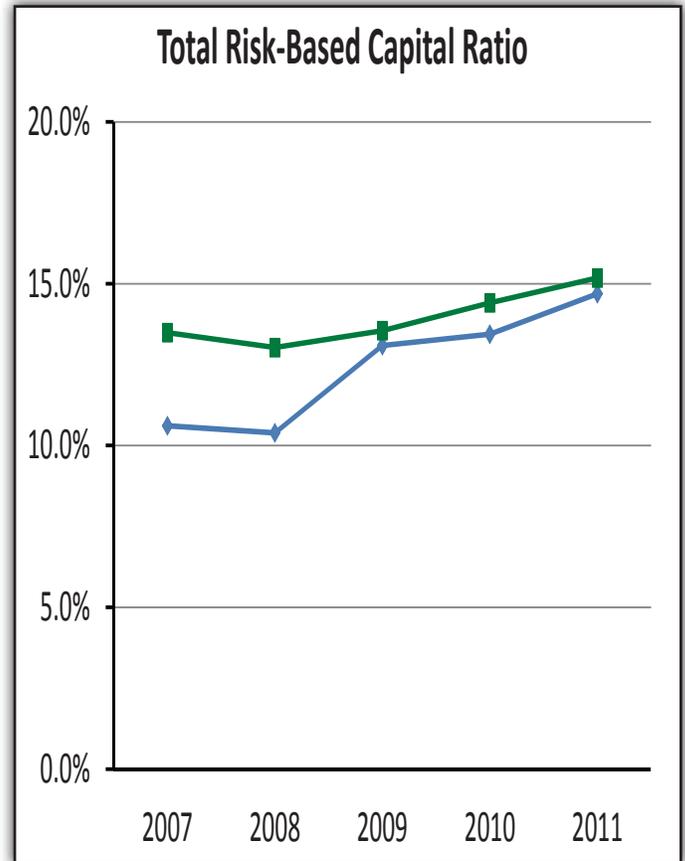
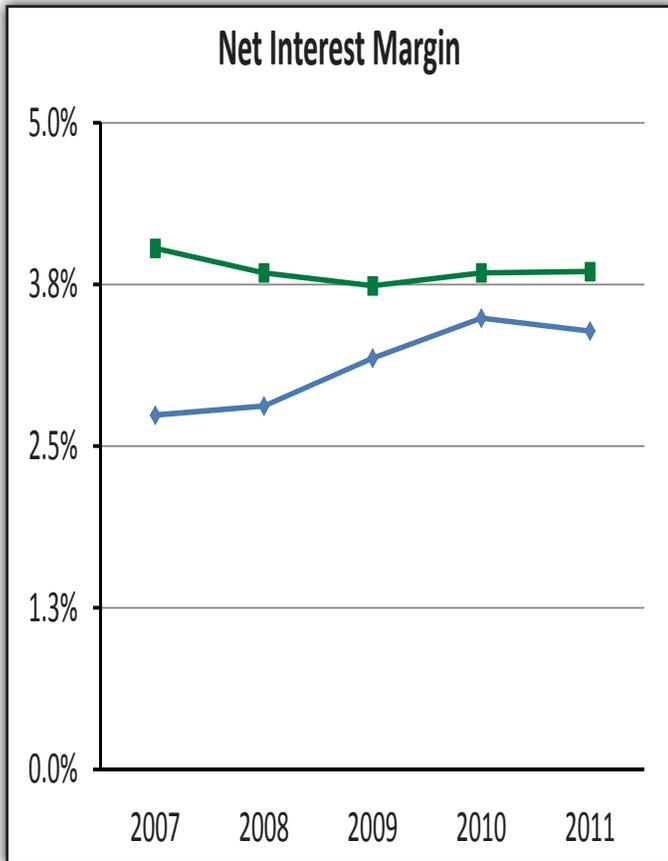
	<u>2011</u>	<u>2010</u>
Interest and Dividend Income		
Loans, including fees	\$ 12,092,336	\$ 12,651,942
Debt securities		
Taxable	3,218,720	3,535,674
Tax-exempt	943,713	888,272
Federal funds sold and other	20,215	13,865
Dividends	<u>75,843</u>	<u>79,036</u>
Total interest and dividend income	<u>16,350,827</u>	<u>17,168,789</u>
Interest Expense		
Deposits	3,319,506	4,191,692
Short-term borrowings	372,047	570,511
Subordinated debentures	338,572	548,897
Other borrowings	<u>644,406</u>	<u>742,071</u>
Total interest expense	<u>4,674,531</u>	<u>6,053,171</u>
Net Interest Income	11,676,296	11,115,618
Provision for Loan Losses	<u>1,430,000</u>	<u>2,845,000</u>
Net Interest Income After Provision for Loan Losses	<u>10,246,296</u>	<u>8,270,618</u>
Noninterest Income		
Fiduciary activities	271,048	277,289
Customer service fees	994,876	947,703
Insurance commissions and other	1,018,451	985,958
Increase in cash surrender value of life insurance	302,495	316,277
Gain on life insurance	—	748,233
Net realized gains on sales of available-for-sale securities	589,624	552,298
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>
Net impairment losses recognized in earnings	—	(47,383)
Other	<u>267,671</u>	<u>161,871</u>
Total noninterest income	<u>3,444,165</u>	<u>3,942,246</u>
Noninterest Expense		
Salaries and employee benefits	\$ 5,221,564	\$ 5,019,223
Occupancy	701,946	668,109
Equipment	724,450	716,328
Data processing	33,601	31,904
Professional fees	317,885	196,496
Marketing	132,656	151,117
Printing and office supplies	119,817	121,615
Foreclosed assets, net	(146,966)	224,730
Deposit insurance premiums	593,713	557,196
Amortization of intangibles	—	112,657
Other	<u>1,205,782</u>	<u>973,020</u>
Total noninterest expense	<u>8,904,448</u>	<u>8,772,395</u>
Income Before Income Taxes	4,786,013	3,440,469
Provision for Income Taxes	<u>1,513,570</u>	<u>739,906</u>
Net Income	<u>\$ 3,272,443</u>	<u>\$ 2,700,563</u>

Peer Group Comparisons



Legend: ■ = Midwest Bank ■ = Peer Group

Peer Group Comparisons



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 &
Raymond James Financial Advisor
Nancy Berry, Mortgage Loan Officer
Sara Bockelman, AVP Sales & Marketing
Laurie Bodeen, Human Resources Officer
Jackie Burnett, Internal Auditor
Amanda Campbell, AVP & Comptroller
Adam Carlson, Trust Operations Officer
Kathy Cavanaugh, AVP Retail 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
Cindy Helvick, AVP & Branch Manager
Rex Johnson, VP Lending
Derrick Johnston, Special Credit Officer
Ann McCreight, Executive Secretary
Kevin Murk, AVP Consumer Lending
Lance Otting, VP Commercial Lending
Laurie Perez, Assistant Branch Manager
Brad Ray, VP Lending
Linda Reaves, Personal Banking Officer

Team Members

Cesar Aceves
Carolyn Albert
Ashton Barker
Stefanie Boock
Tracy Brown
Kristen Brownlee
Gene Bratcher
Gladys Caldwell
Jodi Chandler
Judi Cox
Nita Cross
Janet Current
Marnie Damewood
Jolene Davidson
Lisa Davis
Tara Dean
Mary Dysert
Polly Elliott
Annie Fancher
Violet Fleming
Christy Flynn
Connie Frakes
Jennifer Fugman
Patrick Gavin
Jay Grant
Cassie Griffin
Brooke Hanson
Teresa Harris
Teresa Inness
Molly John
Jennifer Johnson
Molly Jones
Alex Kane
Rhonda Laake
Steve Lanham
Diana Mackey
Kim McKeown
Melonie McLaughlin
Kendra Merry
Ryan Meyer
Becky Moore
Ondria Moulden
Bonny Munson
Ted Munson
Robin Peel
Theresia Pettett
Teresa Schell
Mary Schisler
Christy Shelton
Charmaine Shinn
Ashley Shonkwiler
Paula Sims
Judy Smith
Jackie Telander
Janet Thomas
Michelle Thomas
Lisa Thompson
Elisha Vancil
Debbie Von Kannon
Mary Walker
Tiffany Watkins
Marge Winebright
David Wines
Susan Wright
Judie Zielkie

Porter Insurance

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



Western Illinois Bancshares, Inc.

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
Monmouth, IL 61462
309-734-7979

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

www.mbwi.com
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www.mbwi.com/mBanking

