

October 12, 2010

Dear Shareholder,

Earnings for the third quarter of 2010 totaled \$561,000, or \$1.17 per share. This compares favorably to the \$501,000 earned in the third quarter of 2009 (an increase of 12%), but is down from second quarter 2010 earnings of \$1,137,000. The second quarter, however, did include one-time, pre-tax gains on the sale of securities of \$603,000, which positively impacted that quarter. Year-to-date earnings totaled \$2,240,000 (\$4.66 per share), an increase of \$216,000 (10.7%) over the \$2,024,000 reported for the same period in 2009.

Mortgage banking activity provided a positive contribution to earnings in the recently completed quarter, as demand for mortgage refinancings have increased dramatically in this continued low rate environment. While still not at the levels of activity seen during the first half of 2009, mortgage loan activity is still quite strong. Internally generated mortgage loans and those generated by third-party banks contributed about equally to the \$421,000 in gains on sales of loans to Fannie Mae during the quarter.

Net interest income declined by \$104,000 (4.4%) in the quarter, to \$2,286,000, from the \$2,390,000 reported in the second quarter of this year. This number was impacted by the reduced earnings on the proceeds of the securities sales in the second quarter, as redeployment of those proceeds has progressed more slowly than anticipated. Year-to-date net interest income totaled \$7,022,000, and increase of \$198,000 (2.9%) over the \$6,824,000 reported for the first nine months of 2009. This growth is a direct result of the increase in outstanding loans and the continued low rate environment, which has had a more pronounced effect on interest expense for the subsidiary banks.

The Corporation's capital position continues to strengthen, as stockholders' equity at the end of September, 2010, totaled \$21,046,000, an increase of \$1,836,000 (9.6%) from the \$19,210,000 reported as of the same date in 2009. The total risk-based capital ratio was 14.08% , compared to 13.29%, as of September 30, 2010 and 2009, respectively.

While there are many positives in the performance of the Corporation and its subsidiary banks, there are some areas of concern. The net interest margin has seen a slow but steady compression over the past 12 months, declining by five (5) basis points during that time period, and stood at 3.72% as of September 30, 2010. While the banks have benefited from the repricing of short maturity deposits downward, that trend has been slowing. At the same time, maturing loans and cash flows generated by the banks' investment portfolios are all repricing at lower levels, negatively impacting the margin. The Corporation will likely see this situation continue in the coming months, as all indications are the country is in for a continuation of the current low-rate, slow growth economy well into 2011.

Provisions for loan losses also have negatively impacted earnings, as the lead bank, Illini Bank, made \$411,000 in provisions during the third quarter, an increase from the \$309,000 in provisions made during the second quarter. The majority of this provision expense related to one commercial credit. Subsequent to the making of this provision, the performance of that credit has seen substantial strengthening, but the bank will continue to hold the above amount in reserve as a precautionary measure.

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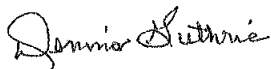
Continued earnings performance at the levels seen in 2009 and so far in 2010 will be increasingly challenging for the Corporation as we move forward. Further compression of the net interest margin and possible future provision expense for underperforming loans as a result of the slow economic recovery will have a negative impact on future earnings. At some point, the frenzied pace of home mortgage refinancings will slow down, reducing future fee income. Illini Corporation, along with all financial institutions in the country, remain concerned about the negative effect the recently enacted Dodd-Frank Act, along with other anti-business legislation passed in the past year, will have on our future earnings capacity. Some impact has already been seen in reduced fees collected on overdrawn deposit accounts as a result of legislation that took effect during the past quarter. Concerns also exist over the effect that restrictions on debit card interchange fee income will have on overall earnings. Health care costs going forward continue to be an area of concern, as the health care bill, enacted earlier this year, is phased in over the coming years. Basel III capital requirements, when enacted, will shape capital considerations for many financial organizations. FASB (Financial Accounting Standards Board) Proposed 1800-100, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, which would require financial institutions to mark their loans and deposits to market value on their books, could have a devastating effect on the banking community, as there are no ready markets available to adequately price loans or deposits.

The above comments are not intended to display a “doom and gloom” mentality. Rather, they merely reflect the changing environment in which all financial companies must operate in today’s world. The Corporation’s and its subsidiary banks’ management will continue to review operations and revise and adapt your Corporation to operate efficiently and effectively in this new financial arena.

The Board of Directors of the Corporation at its September board meeting approved a quarterly dividend of \$0.30 per share. Your dividend check is enclosed or will be deposited electronically to your account.

As always, we thank you for your continued support of Illini Corporation and welcome your comments.

Sincerely,



Dennis Guthrie
SVP & CFO