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## **Blackhawk Bancorp Announces Annual and Fourth Quarter 2008 Results**

- **2008 Diluted EPS of \$1.17 sets record**
- **2008 Net Income Up 11%**
- **2008 Net Interest Income Increases 17%**
- **Average total loans for 4<sup>th</sup> quarter up 12%**
- **Average deposits for 4<sup>th</sup> quarter increase 9%**

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**Beloit, WI, February 11, 2009** – Blackhawk Bancorp, Inc. (**OTCBB: BHWB**) today reported earnings for the year ended December 31, 2008 of \$2.6 million, an 11% increase compared to \$2.3 million for 2007. Earnings per share increased 14% to a record \$1.17 per diluted share compared to the \$1.03 per diluted share earned in 2007. The increase includes a \$2.1 million, or 17% increase in net interest income, reflecting strong loan and deposit growth for the year.

Earnings for the quarter ended December 31, 2008 were \$388,000, or \$0.18 per diluted share, compared with \$563,000, or \$0.26 per diluted share earned for the same period in 2007. The decrease in earnings for the quarter includes the effect of a \$348,000, or 184% increase in the provision for loan losses, and a \$101,000 increase in net losses on financial instruments that are accounted for at fair value. Total assets increased to \$500.4 million as of December 31, 2008 compared with \$464.7 million at year end 2007.

The company announced last week that it has received preliminary approval to receive \$10 million in capital under the U.S. Treasury's voluntary Capital Purchase Program, a part of the Emergency Economic Stabilization Act of 2008, designed to provide capital to healthy financial institutions to promote confidence and stabilization in the economy. "We are well capitalized and profitable," said Rick Bastian, president and CEO. "This investment gives

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us the resources to continue to meet the borrowing needs of businesses and individuals in the Stateline area at a time in the economy when dependable sources of credit are critical," he added. "We see this as a tremendous vote of confidence in the common sense approach to banking that Blackhawk has pursued", said Bastian.

"By sticking with our disciplined and focused approach to business we were able to achieve record earnings per share for 2008," said Bastian. "However, the current economic crisis threatens to slow the momentum we've built over the last several years. Participation in the Capital Purchase Program will allow us to confidently continue pursuing growth opportunities," he added.

### **Net Interest Income Rises**

Net interest income for the fourth quarter increased 12% to \$3.8 million as compared with \$3.4 million in the fourth quarter 2007. The net interest margin for the quarter increased 15 basis points to 3.39% compared to 3.24% in the fourth quarter of 2007. For the full year net interest income was up 17% to \$15.0 million, compared to \$12.9 million for 2007. During 2008 Blackhawk grew the earning asset base and improved the margin. Average earning assets for the year ended December 31, 2008 increased \$32.3 million, or 8% over the prior year, while the net interest margin increased 27 basis points to 3.45%. Strong loan and deposit growth and higher investment portfolio yields accounted for the gains in net interest income and the improved net interest margin.

Average total loans for the quarter increased \$34.3 million, or 12% to \$323.1 million compared with \$288.8 million in fourth quarter 2007. For the year ended December 31, 2008 average total loans increased \$26.5 million, or 9% to \$306.4 million compared to the prior year. The majority of the loan growth was generated through the company's business banking activities, increasing the average balance of the commercial and commercial real estate loans for the year by \$22.2 million over the average balance for 2007.

Average total deposits for the fourth quarter of 2008 increased 9% to \$372.7 million compared with \$341.5 million in the same period a year ago. This included an additional \$24.3 million in interest checking, driven by the success of Blackhawk's EasyMoney Checking product. For the twelve months, average total deposits increased 8% to \$356.8 million compared with \$331.1 million for 2007.

### **NonInterest Income and Operating Expenses**

Quarterly noninterest income decreased 14% to \$934,000 compared to \$1,089,000 the prior year. Increases in mortgage banking income, asset management fees and debit card revenue totaling \$118,000 were offset by a \$74,000 decline in deposit service charges and a \$101,000 increase in the loss on financial instruments accounted for at fair value.

For the year noninterest income was up 4% to \$5.2 million, compared to \$5.0 million in 2007. For the year, mortgage banking revenue, debit card income, deposit service charges and asset management fees increased by \$570,000, \$220,000, \$97,000, and \$76,000, respectively, compared to 2007. The increases in noninterest income were partially offset by a \$624,000 increase in net losses from the sale of securities, and on certain financial instruments accounted for at fair value, including a \$601,000 charge for "Other Than Temporary Impairment" of mortgage-backed securities.

Total operating expenses for the fourth quarter increased 5% to \$3.82 million compared with \$3.62 million for the fourth quarter of 2007. For the year, operating expenses increased 9% to \$15.5 million. The increase in the fourth quarter and annual operating expense is primarily attributable to increased compensation and data processing expense. The increase in compensation is partially due to higher mortgage loan production, which is generated by commission-based employees. It also reflects the increased cost of and higher participation in the company's health insurance benefit plans. Higher data processing costs reflect the increases in the number of accounts and transaction volume being processed.

### **Credit Quality**

"Although charge-offs and non-performing loans have bumped up from the very low levels we enjoyed earlier in 2008, the current level remains very manageable in this economic environment where many banking organizations are struggling with much higher numbers," said Bastian.

Credit quality of the loan portfolio remains strong however, nonperforming loans at December 31, 2008 have increased to \$4.9 million compared to \$2.4 million at September 30, 2008 and \$2.3 million at the end of 2007. Much of the increase in nonperforming loans in the fourth quarter relates to one lending relationship on which a significant loss is not expected. However, the number of delinquent borrowers is increasing and management anticipates an elevated level of nonperforming loans and charge-offs in 2009 as the bank begins to experience the effects of the economic recession.

The provision for loan losses in the fourth quarter increased by 184% to \$537,000, compared to \$189,000 provision recorded in fourth quarter 2007. For the year Blackhawk recorded a provision for loan losses of \$1,322,000, a 134% increase over the \$566,000 provision recorded in 2007. The increase in the provision strengthened the ratio of allowance for loan losses to total loans to .90% compared to .82% at December 31, 2007. Net loan charge-offs in the fourth quarter increased by \$238,000 to \$419,000 compared to \$181,000 for the same period in 2007. For the year, net charge-offs increased 71% to \$763,000, an amount equal to 0.23% of total loans, compared with \$446,000 for 2007.

The ratio of the allowance for loan losses to non-performing loans has decreased to 60% compared to 119% at September 30, 2008 and 105% at December 31, 2007. Non-performing loans plus other real estate owned equaled 1.64% of total assets at the end of the fourth quarter compared with .78% at December 31, 2007.

## **Outlook**

“We expect to continue strengthening loan loss reserves especially if economic conditions continue to deteriorate,” said Bastian. “We believe we’ve created a strong credit culture and processes to support it, but the potential for a prolonged economic downturn has us focused on fortifying our balance sheet. Applying for capital under the US Treasury’s Capital Purchase Program is just one of the things we’re doing to ensure we have the ability to continue growing and meeting the credit needs of our customers,” he added.

Blackhawk continues to seek profitable growth opportunities in its Wisconsin and Illinois markets, without sacrificing profitability or credit quality. It emphasizes the value of its personal attention and the service it provides that remain unmatched by larger competitors.

During the fourth quarter, Blackhawk completed construction of a new full service facility in a manufacturing and business section of Rockford, Illinois, convenient to its niche markets of small to medium sized manufacturing companies and the area’s Hispanic immigrant population. In spite of the soft economy, the Company believes by continuing its commitment to service and personalized attention it can continue to grow and prosper.

## **About Blackhawk Bancorp**

Blackhawk Bancorp, Inc. is headquartered in Beloit, Wisconsin and is the parent company of Blackhawk Bank, which operates eight banking centers in south central Wisconsin and north Central Illinois, along the I-90 corridor from Belvidere, Ill. to Beloit, Wis. Blackhawk’s locations serve individuals and small businesses, primarily with fewer than 200 employees. The company offers a variety of value-added consultative services to small businesses and their employees related to its banking products such as health savings accounts, investment management, and estate and succession planning. The bank has received numerous accolades for its work with the fast-growing Hispanic population in its served markets.

Further information is available on the Company’s website at [www.blackhawkbank.com](http://www.blackhawkbank.com).

**BLACKHAWK BANCORP, INC. AND SUBSIDIARY**  
**CONDENSED STATEMENTS OF INCOME**  
(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Interest and Dividend Income	\$ 6,957	\$ 7,165	\$ 27,807	\$ 27,664
Interest Expense	3,137	3,754	12,781	14,778
Net Interest and Dividend Income	3,820	3,411	15,026	12,886
Provision for loan losses	537	189	1,322	566
Non-Interest Income	934	1,089	5,196	4,988
Non-Interest Expense	3,819	3,620	15,484	14,195
Income Before Income Taxes	398	691	3,416	3,113
Income Taxes	10	128	864	822
Net Income	\$ 388	\$ 563	\$ 2,552	\$ 2,291

**Key Ratios**

Diluted Earnings Per Share	\$ 0.18	\$ 0.26	\$ 1.17	\$ 1.03
Dividends Per Share	0.09	0.09	0.36	0.36
Average Outstanding Shares	2,154,504	2,180,361	2,161,605	2,224,408
Ending Outstanding Shares	2,154,504	2,174,227	2,154,504	2,174,227
Net Interest Margin	3.39%	3.24%	3.45%	3.18%
Efficiency Ratio	78.92%	79.36%	75.45%	78.62%
Return on Assets	0.31%	0.48%	0.53%	0.51%
Return on Equity	6.32%	8.82%	10.39%	9.35%

**CONDENSED BALANCE SHEETS**  
(Unaudited)

(Dollars in thousands)	December 31, 2008	December 31, 2007
<b>Assets:</b>		
Cash and cash equivalents	\$ 18,558	\$ 22,793
Interest-bearing deposits in banks	1,080	1,066
Trading securities	19,603	26,520
Securities available-for sale	103,274	92,266
Federal Home Loan Bank Stock, at cost	4,085	4,085
Loans, net of allowances for loan losses	326,358	292,529
Office buildings and equipment, net	9,042	7,424
Intangible assets, net	6,739	6,636
Cash surrender value of bank-owned life insurance	7,915	7,286
Other assets	3,787	4,068
Total Assets	\$ 500,441	\$ 464,673
<b>Liabilities and Stockholders' Equity:</b>		
Deposits	\$ 376,995	\$ 331,239
Borrowings	88,370	100,931
Subordinated debentures	5,158	5,158
Other liabilities	3,104	2,852
Total liabilities	473,627	440,180
Stockholders' equity	26,814	24,493
Total liabilities and stockholders' equity	\$ 500,441	\$ 464,673