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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

## **Blackhawk Bancorp Announces Record Results in First Quarter 2008**

- **1Q 2008 Net Income Up 27%; EPS Rises 29%**
- **Net Interest Income Increases 19%**
- **Non-interest income up 12% on strong mortgage revenue**
- **Deposits grow 6% in first quarter**

**Beloit, WI, April 24, 2008** – Blackhawk Bancorp, Inc. (**OTCBB: BHWB**) today announced financial results for the first quarter ended March 31, 2008. Net income rose to \$597,000, or \$0.27 per fully diluted share compared to \$471,000, or \$0.21 per diluted share in first quarter 2007. This was a record first quarter net income for the company. Total assets increased to \$482.5 million compared with \$464.7 million at year end 2007.

Average total deposits at quarter-end increased to \$342.4 million compared with \$318.0 million the first quarter of 2007. Net interest income increased to \$3.6 million compared with \$3.0 million in first quarter last year. Quarterly non-interest income increased 12% to \$1.34 million.

“It was gratifying in these challenging economic times to post record results, which we believe reflect our vigilant efforts to maintain high credit quality, provide superior customer service and to offer innovative products and services,” said Rick Bastian, president and CEO. “Our focus is maximizing customer loyalty and retention by listening to and working closely with customers. Winning business because of a reputation for service is one of the greatest rewards for a community bank. It inspires us to work even harder.”

### **Interest Income Rises; Loans and Deposits Up**

The net interest margin for the first quarter increased to 3.39% compared to 3.08% for the same quarter last year, which contributed significantly to the 19% rise in net interest income. The improvement in net interest margin reflects solid loan and deposit growth and improved yields on the investment portfolio, explained Bastian.

Average total loans for the quarter increased 7% to \$294.7 million compared with \$274.3 million in first quarter 2007. This growth included \$14.6 million increase in average commercial loans and a \$5.8 million increase in average consumer and residential mortgage loans. Bastian said refinancing activity drove the growth in residential mortgages while auto and home equity loans accounted for the growth in the consumer segment.

“Over the past year, we have structured our business to encourage dialogue between customers and employees, and our success in consumer and residential lending reflects this,” said Bastian. “Our staff, which is trained to uncover needs and cross-sell additional products, drove these increases.”

Commercial lending numbers benefited from ongoing business and increases in loan participations from other banks. Blackhawk maintains relationships with these banks to participate in quality loans in return for allowing them to participate in Blackhawk's lending relationships that exceed the bank's legal lending limit. Bastian said

the company's efforts to develop lending opportunities with Rockford-based manufacturers and service businesses also contributed to commercial loan growth.

Average total deposits in first quarter 2008 increased 8% to \$342.4 million compared with \$318.0 million in first quarter 2007. This includes an additional \$14.1 million in interest checking, fueled by the popularity of Blackhawk's EasyMoney Checking product.

"EasyMoney Checking is a good example of an innovative product that serves customers' needs and also benefits the company," said Bastian. "Many of our customers aren't able to maintain large balances, so they appreciate receiving a very attractive return with no minimum balance. The bank receives fee income from a required minimum number of debit card transactions each month – transactions the customers would make in any case."

In addition to strong growth in loans and deposits, the net interest margin was boosted by improved investment portfolio yield, which rose 71 basis points to 5.62% for the first quarter compared with 4.91% in first quarter 2007.

### **Non-Interest Income and Operating Expenses**

The net increase in non-interest income includes \$284,000, \$88,000, and \$42,000 in gain on sale of mortgage loans, deposit service charges and debit card interchange, respectively. These were partially offset by a \$274,000 loss on financial instruments accounted for at fair value. Attractive interest rates helped drive mortgage refinancing activity, but many of these transactions started with employee outreach. The popularity and growth of EasyMoney Checking drove the increases in service charges and debit card interchange. In addition, brokerage and investment advisory fees increased by \$90,000, or 118% over first quarter 2007.

"We're extremely pleased with the increases in core fee income, although we don't expect the mortgage loan volume to continue at the pace we enjoyed the first quarter," said Bastian.

The chief executive said Blackhawk continued to invest in its people, technology and marketing to drive growth. Total operating expense for the first quarter of 2008 increased 12% to \$3.89 million, compared with \$3.46 million the year before. This increase includes a 12% increase in compensation expense, and increases in occupancy, data processing and professional fees. The increase in compensation is partially due to the increases in mortgage loan production, and brokerage and investment management fees, which are generated by commission-based employees. The other expense increases reflect investment in new technology, equipment and staff development and retention.

### **Credit Quality Remains Strong**

Blackhawk's provision for loan losses in first quarter was \$228,000, a 77% increase over the \$129,000 provision recorded in first quarter 2007. However, net charge-offs in first quarter decreased by 68% to \$49,000 compared with \$154,000 for the same period in 2007. While Blackhawk's prudent underwriting practices and close relationships with customers have helped ensure the credit quality of the bank's loan portfolio, the bank has experienced an increase in delinquencies and non-performing loans. Non-performing loans increased to an amount equal to .95% of total loans at March 31, 2008 compared with .78% at December 31, 2007 and .38% at March 31, 2007.

While Blackhawk has not directly participated in the sub-prime mortgage business, management notes the recent slowdown in the housing market and overall economic downturn could result in further increases in non-performing loan levels and charge-offs. The company expects an increased level of loan loss provision to continue throughout 2008 to strengthen the allowance for loan losses.

"A key benefit of being a relationship bank is our frequent contact with customers, which allows us to more effectively monitor their financial situations and gives us more opportunities to work with them to avert late payments and defaults," said Bastian. "This is one of the best ways we know to protect the quality of our loan portfolio."

## Outlook

“Blackhawk will continue to seek profitable growth opportunities in the Wisconsin and Illinois markets served by the bank, but will not sacrifice profitability and/or credit quality to achieve that growth,” explained Bastian. “We will emphasize the value of the personal attention and service we provide that can’t be matched by our larger competitors. We are looking at ways to capitalize on taking market share, which is our primary growth strategy in the relatively stable markets we serve.

“We continue investing in sales training and tools, which allow our bankers to deliver personalized solutions to our customers, deepening the relationships and increasing our share of the financial services they purchase. We are continuing our commitment to innovative and niche products such as EasyMoney Checking and health savings accounts for small business owners.

“Blackhawk has acquired land for a new full service facility in a manufacturing and business section of Rockford, Illinois. This branch will be convenient to our niche markets of small to medium sized manufacturing companies and the Hispanic immigrant population. Although the economy is soft, we believe our commitment to service and personalized attention will appeal to a great number of people.”

## About Blackhawk Bancorp

Blackhawk Bancorp, Inc. is headquartered in Beloit, Wisconsin and is the parent company of Blackhawk State Bank, which operates seven office locations in south central Wisconsin and north Central Illinois, along the US 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 and trust, 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).

## Forward-Looking Statements

*When used in this communication, the words “believes,” “expects,” and similar expressions are intended to identify forward-looking statements. The company’s actual results may differ materially from those described in the forward-looking statements. Factors which could cause such a variance to occur include, but are not limited to: heightened competition; adverse state and federal regulation; failure to obtain new or retain existing customers; ability to attract and retain key executives and personnel; changes in interest rates; unanticipated changes in industry trends; unanticipated changes in credit quality and risk factors, including general economic conditions; success in gaining regulatory approvals when required; changes in the Federal Reserve Board monetary policies; unexpected outcomes of new and existing litigation in which Blackhawk or its subsidiaries, officers, directors or employees is named defendants; technological changes; changes in accounting principles generally accepted in the United States; changes in assumptions or conditions affecting the application of “critical accounting policies”; and the inability of third party vendors to perform critical services for the company or its customers.*

## Financial Summary Follows

<b>BLACKHAWK BANCORP, INC. AND SUBSIDIARY</b>		
<b>CONDENSED STATEMENTS OF INCOME</b>		
<b>(Unaudited)</b>		
<b>Three Months Ended March 31,</b>		
<b>(Dollars in thousands, except per share data)</b>	<b>2008</b>	<b>2007</b>
Interest and Dividend Income	\$ 7,031	\$ 6,627
Interest Expense	3,423	3,605
Net Interest and Dividend Income	<u>3,608</u>	<u>3,022</u>
Provision for loan losses	228	129
Non-Interest Income	1,340	1,193
Non-Interest Expense	<u>3,885</u>	<u>3,458</u>
Income Before Income Taxes	835	628
Income Taxes	<u>238</u>	<u>157</u>
Net Income	<u>\$ 597</u>	<u>\$ 471</u>
<b>Key Ratios</b>		
Diluted Earnings Per Share	\$ 0.27	\$ 0.21
Dividends Per Share	0.09	0.09
Average Outstanding Shares	2,171,962	2,229,690
Ending Outstanding Shares	2,171,527	2,174,497
Net Interest Margin	3.39%	3.08%
Efficiency Ratio	77.55%	77.64%
Return on Assets	0.51%	0.43%
Return on Equity	9.53%	7.93%
<b>CONDENSED BALANCE SHEETS (Unaudited)</b>		
<b>(Amounts in thousands)</b>		
	<b>March 31,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ 42,558	\$ 22,793
Interest-bearing deposits in banks	1,888	1,066
Trading securities	24,616	26,520
Securities available-for sale	89,496	92,266
Federal Home Loan Bank Stock, at cost	4,085	4,085
Loans, net of allowances for loan losses	293,979	292,529
Office buildings and equipment, net	7,573	7,424
Intangible assets, net	6,735	6,636
Cash surrender value of bank-owned life insurance	7,358	7,286
Other assets	4,173	4,068
Total Assets	<u>\$ 482,461</u>	<u>\$ 464,673</u>
<b>Liabilities and Stockholders' Equity:</b>		
Deposits	\$ 352,006	\$ 331,239
Borrowings	97,635	100,931
Subordinated debentures	5,158	5,158
Other liabilities	<u>3,078</u>	<u>2,852</u>
Total liabilities	457,877	440,180
Stockholders' equity	<u>24,584</u>	<u>24,493</u>
Total liabilities and stockholders' equity	<u>\$ 482,461</u>	<u>\$ 464,673</u>

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