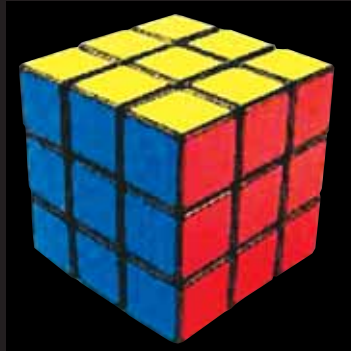


solutions



**Blackhawk**
Bancorp, Inc.

annual report 2007



s o l u t i o n s

MISSION STATEMENT

To add value.

CORE VALUES

- We will have an obsession with the quality of service we provide our customers, employees and the communities we serve. We will render intelligent, timely, accurate and considerate service all the time.
- We will build relationships with customers by providing proactive solutions that reflect a deep understanding of the customer's unique business and financial needs.
- We will take individual ownership for customer satisfaction. We will aggressively pursue real opportunities, and be creative problem solvers.
- We will acknowledge that our success will come through patience, perseverance and hard work. We will balance our priorities with our resources.
- We will treat employees and customers with honesty, trust, fairness, recognition and respect.
- We will communicate with others in ways that ensure mutual understanding.
- We will be a leading corporate citizen within the communities we serve.

Financial Highlights

(Amounts in thousands except per share data)

Years ended December 31,	2007	2006	2005	2004	2003	2002
Interest & dividend income	\$27,664	\$25,038	\$21,047	\$19,574	\$17,830	\$19,188
Interest expense	14,778	12,859	8,973	7,446	7,537	8,383
Net interest income	12,886	12,179	12,074	12,128	10,293	10,805
Provision for loan losses	566	407	301	414	650	1,004
Net interest & dividend income after provision for loan losses	12,320	11,772	11,773	11,714	9,643	9,801
Noninterest income	4,988	4,892	4,789	6,373	3,726	3,006
Noninterest expense	14,195	13,402	13,963	14,531	12,141	11,271
Income before income taxes	3,113	3,262	2,599	3,556	1,228	1,536
Income taxes	822	1,006	643	899	17	300
Net income	\$2,291	\$2,256	\$1,956	\$2,657	\$1,211	\$1,236
Basic earnings per share	\$1.04	\$1.01	\$0.86	\$1.05	\$0.48	\$0.50
Cash dividend declared per share	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
Return on average assets	0.51%	0.52%	.47%	.64%	.33%	.38%
Return on average equity	9.35%	10.01%	8.38%	10.11%	4.69%	4.92%
Years ended December 31,	2007	2006	2005	2004	2003	2002
Total assets	\$464,673	\$439,518	\$422,988	\$425,908	\$425,402	\$352,377
Securities	118,786	113,763	112,329	130,276	135,713	106,899
Total loans, net	292,529	268,616	255,287	234,336	230,142	186,300
Deposits	331,239	312,001	305,643	300,620	323,639	263,085
Short-term borrowings	31,278	38,917	30,802	27,782	9,486	13,454
Long-term borrowings	69,653	49,367	49,541	59,398	55,913	38,900
Subordinated debentures	5,158	11,341	11,341	7,217	7,217	--
Total stockholders' equity	24,493	24,208	22,247	27,333	25,763	25,798

Table of Contents

1	Financial Highlights
2-3	President Rick Bastian's Message
4	Kenneth A. Hendricks Memoriam
5	Todd James' Earnings Report
6-7	Solutions in our Marketplace
8	Consolidated Balance Sheets
9	Consolidated Statements of Income
10	Consolidated Statements of Changes in Stockholders' Equity
11	Net Interest Income and Margin Analysis
12	Quarterly Financial Information



Dear Shareholders, Clients and Friends,

Blackhawk Bancorp improved its position during a year that was difficult for the banking industry as a whole. While some banks struggled with soaring mortgage delinquencies and increasing problem loans, our asset quality remained excellent with net charge-offs down from 2006. In a very competitive environment for deposit and loan acquisition, our total deposits increased six percent and loans were up nine percent for the year. Although many in the banking industry struggled with declining net interest margins during 2007, ours actually increased. We also benefited from strong increases in deposit and debit card service charges, and asset management and brokerage fees during 2007. All of this added up to a year-over-year increase in earnings.

An important reason Blackhawk emerged from 2007 in strong financial shape rests on our business philosophy: providing highly personalized financial solutions for our clients. Personal service and solutions tailored to satisfy the needs of individuals, families and businesses is one of the most effective ways to retain customers and to build a reputation that wins new business. Building and maintaining relationships is especially important during uncertain economic times, when business is harder to come by and clients appreciate a proactive and supportive banking relationship.

The commitment to providing solutions permeates our organization. In business banking, we offer innovative value-added services such as Health Savings Accounts to help employers control rising healthcare costs while still offering their employees attractive health benefits. Throughout the year, we worked closely with clients in the home construction field – another significant part of our business – to anticipate and respond to fast-changing market conditions. A high level of “customer touch” helped these businesses run their operations more effectively and avoid becoming financially overextended as construction slowed. It also allowed Blackhawk to manage loan portfolio quality by staying in close touch with customers. These clients appreciate our attention and our understanding of their business.

In consumer banking, innovative solutions like our Easy Money Checking program, introduced in 2006, stimulated growth in deposits and fee income. The Easy Money Checking program alone added \$7.3 million in deposits from new customers. Its benefits, like high interest without a minimum balance requirement and free worldwide ATM service, were balanced by additional revenue from transaction fees. A win for customers, and for us.

We generated almost \$77 million in residential mortgages last year, an eight percent increase for us in a real estate environment that was down by nineteen percent. We achieved this success without participating in the sub-prime mortgage market and thus avoided the problems that have been capturing the headlines in recent months. Most of our mortgages are conforming and easily qualify for sale in the secondary market. While we sell the loans themselves, we retain the servicing of our mortgages, giving us many opportunities to communicate with customers and seek additional opportunities to win their business.

Recognizing the growing number of Hispanic individuals and Hispanic-owned businesses in our markets, we accelerated our commitment to meet the unique needs of these customers. From providing knowledgeable bilingual bankers, financial education, and alternative credit loan programs to participating with the Federal Reserve to facilitate cross-border money transfers, we sought solutions that were good for our communities and good for Blackhawk.

During 2007 we invested heavily in building a solid sales and service culture. We hired a number of new sales oriented employees, many from non-banking environments. We revised our sales incentive and referral plans to reward individual and team performance. Those who were successful got paid for it and paid well. We also initiated sales training



Rick Bastian,
President and CEO

and coaching protocols to improve our ability to identify client needs and offer value-added solutions. This commitment helped support increases in loans, deposits and non-interest income as well as improve client retention.

After years of consolidating our branch operations, during 2007 we made a strategic decision to expand our presence in Rockford with a second office. We purchased land in the south central part of the city; when finished in the fall of 2008, this banking center will serve an older industrial and light manufacturing area of the city that has been under-served. We think our unique approach to working with small businesses and our dedication to manufacturing will provide many opportunities yielding long-term benefits. In the last half of 2007 we began adding staff in preparation for the bank's opening and to begin business development activities in the area surrounding it.

The commitment to build a sales culture, rely more on incentive based compensation and begin staffing the new banking center contributed to an 8 percent year-over-year increase in salaries and employee benefits for the year. We do not take that kind of increase lightly, nor do we expect that rate of increase to continue. For a company whose business is driven by superior service, there is no better investment than finding and retaining talented, motivated employees and giving them the tools and incentives to perform at higher levels. They proved that investment to be worthwhile.

Going above and beyond the call is actually one of the most economical ways to cement customer relationships and build loyalty. The most efficient and cost-effective way to grow almost any business is to win more business from existing customers.

Asset management and brokerage represent one of the best opportunities to gain significant new business. Driven to serve only the largest and most profitable clients, many asset managers and financial advisors have raised their service and investment requirements to a level that excludes many deserving individuals and businesses. Through our affiliation with Raymond James Financial Services, Inc. we can profitably provide financial solutions for these customers.

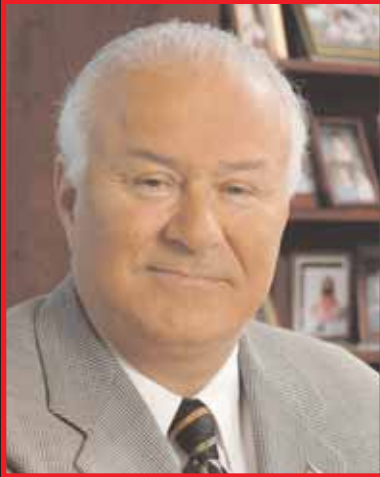
As we enter 2008, it is very clear that the economy is troubled and likely headed toward a recession. Unemployment has spiked. The collapse of the sub-prime lending market has caused a global liquidity crisis and shaken the confidence in some of the world's largest financial institutions. We see the local real estate market experiencing a marked slowdown exacerbated by the uncertainties in the market for mortgage backed securities. Since we didn't experience the speculative highs of real estate markets on either coast, the local impact should not be nearly as severe. On the other hand, many of our manufacturers who are not dependant on the auto industry are seeing business remain fairly strong although not as robust as 2006 or 2007. While quite satisfied with the quality of our loan portfolio going into an economic slowdown, we thought it prudent to increase our reserve for loan losses in 2007 and expect to do so again in 2008.

Just as we successfully thrived in a tough interest rate environment in 2007, we expect to also thrive in the tough economic environment expected in 2008. Blackhawk is in a good position to perform well and even grow despite a flat economy. We are in sound shape financially and our service-oriented culture gives me every reason to believe we can win our fair share of new business and continue to do an excellent job retaining clients.

Sincerely,



Rick Bastian,
President and CEO



In Memory of Kenneth A. Hendricks

Director, Blackhawk Bancorp, Inc.

Founder, ABC Supply Company, Inc. & Billionaire Entrepreneur

We at Blackhawk Bancorp are forever indebted to Ken Hendricks for his advocacy, mentoring and friendship. He was an open book, enthusiastically sharing his business expertise and philosophies. Ken was an extraordinary asset to our Board; as his colleagues, we're committed to furthering his principles and his vision for the direction of Blackhawk Bank.

Ken's work ethic, family values and unwavering dedication to enhancing the quality of life for his workforce - more than 6,000 people worldwide - while giving new vitality to the communities surrounding his birthplace, were his hallmark. For his ambition, accomplishments and humanity, Ken Hendricks will always be remembered as a truly great man.

Ken's published quotes that follow are like those often repeated by him around our Boardroom table. We share them in his memory:

Reader's Digest, September 2007:

"Don't let money be the motivator. Understand what the customer needs and how you, as a business owner, can help him improve his company. When you help your customer grow, you grow. Very few businesses understand that."

"Success is about how you take care of your employees and customers, and how sincere you are about that. You don't have to be smart to treat people well. Swallow the ego and hire somebody who's good at what you don't have the knowledge to do."

The Janesville Gazette, June 2007:

"It's all about treating people right and showing respect. I do it and our employees do it. Say what you're going to do and then do what you say."

Inc. Magazine, December 2006:

"My whole life is about trying to treat the working man fairly and give him a good opportunity. If you've got a job you have pride. You can dream. You can go home and talk about your kids going to college."

"There is no single smartest person. There's a broad range of talent and intelligence out there. There are smart salespeople and communicators and managers. I always go to the best person I can find in a specific area."

The Janesville Gazette, December 2005:

"My magic touch is the people I surround myself with. When I walk into a business, I go back and talk to the fork-lift operator and find out what's going on. He knows how to run the damn business."

"All the people here are my friends. I don't feel that I'm any better than anybody who works here. And who the hell am I? I dropped out of school in the 11th grade, a roofer's kid."

"How can you enjoy anything more than helping people that want to get ahead and work hard for their family? There's nothing more gratifying than that. There really isn't."

"I invest my wealth in our people and in growing so that more people can share in it and get more opportunities. It's what you do with wealth."

Blackhawk Bancorp, Inc. Board of Directors

Thomas L. Barnes, Beloit WI
Managing Director, Amfinity Capital Corp., LLC

R. Richard Bastian III, Beloit, WI
President & CEO, Blackhawk Bank

Roger G. Bryden, Beloit, WI
President, Bryden Motors, Inc. Chrysler, Dodge & Jeep

Stephen P. Carter, Rockford, IL
Independent Consultant and Director of Appleton Papers, Inc. & Paperweight Development Corp.

John B. Clark, Beloit, WI
Retired Senior Vice President, Wachovia Securities, Inc.

Diane M. Hendricks, Beloit, WI
Owner & Chairman, ABC Supply Co, Inc.

Prudence A. Harker, South Beloit, IL
President, LifeCircle, LLC

Charles Hart, Beloit, WI
Director, Hart, Kruse & Boutelle, Inc; Salesperson, Tricor, Inc.

G. Curtis Lansbery, South Beloit, IL
President, North American Tool Corporation

James D. Metz, Belvidere, IL
Assistant Superintendent of Operations, Belvidere School District 100

Merritt J. Mott, Rockford, IL
Owner & CEO, Rockford Sanitary Systems, Inc;

Stephen R. Thomas, Poplar Grove, IL
Owner, Operator Poplar Grove Airport & Emery Air, Inc.

To Our Shareholders:

Your company's trajectory continues on course through our commitment to deliver financial solutions that build solid relationships, and provide innovative services to profitable niche markets. I'm pleased to report another year of growth for the bank.

Overall Results: Blackhawk Bancorp posted net income of \$2,291,000 for 2007, a 2% increase compared to the year before. An earnings increase was achieved despite a rough year for the banking industry. High level performance ratios such as return on assets and return on equity, which are included in Financial Highlights on page 1, are slightly below last year. However, we achieved 3% growth in earnings per share.

While the overall results reflect only a modest improvement over the prior year, we have seen substantial improvement in many key areas. As mentioned in the president's letter to shareholders, in 2007 Blackhawk had solid balance sheet growth, and realized higher levels of fee income. The improvement in revenue was partially offset by increased operating expenses, including increases in compensation and data processing.

While Blackhawk doesn't directly participate in "sub-prime" mortgages, we are not insulated from the repercussions of the recent meltdown of that market. The "sub-prime" crisis has spilled over into the prime credit and bond markets, creating volatility and uncertainty. The spill-over of this financial crisis negatively impacts the market value of the bank's bond portfolio, interest rates on mortgage loans, and the cost of wholesale funding.

Net Interest Income: Net interest income increased by \$707,000, or 6%, to \$12.9 million. The net interest margin improved in 2007 to 3.18% compared to 3.14% the year before. The improvement reflects growth in loans and deposits and increased investment returns.

Average total earning assets increased by \$17.8 million to \$411.3 million, including an \$11.6 million, or 4.5% increase in average total loans, mostly in commercial and commercial real estate. The remaining increase in earning assets was in short-term investments.

Average total interest bearing deposits increased by \$33.3 million, or 13% in 2007 compared to the year before. This includes an increase of \$9.8 million, or 29% in interest bearing checking accounts, reflecting growth in the bank's Easy Money Checking Accounts and Blackhawk Health Savings Accounts. The growth in interest checking accounts was partially offset by a \$5 million decrease in the average balance of non-interest bearing demand deposits. The slowdown in the housing market reduced the need for the liquidity of high balance demand deposit accounts for many of our business customers.

The yield on earning assets increased 36 basis points to 6.77%, while the cost of interest bearing liabilities increased only 32 basis points to 3.97%. The higher increase in earning asset yields is attributable to the rate earned on investment securities, which increased by 39 basis points compared to 2006, while the rate on average loans increased only 31 basis points over the same period. As the "sub-prime" mortgage crisis spilled over into other areas of the market, Blackhawk took advantage of the opportunity to purchase quality mortgage-backed securities at reduced prices, increasing the yield on the portfolio overall.

Other Revenue: Non-interest income totaled \$4,988,000 for 2007, a \$96,000, or 2%, increase over the year before. The moderate 2% growth doesn't fully reflect the improvements we're seeing in core sources of fee income. We're extremely pleased with the growth in deposit service charges, gain on sale of mortgage loans, debit card interchange and

wealth management revenue, which on a combined basis increased by \$628,000, or 16% compared to 2006.

The increases in these primary sources of non-interest income were partially offset by a \$444,000 loss due to changes in the fair value of trading securities and other financial instruments. These losses, while being recognized in the income statement, have not been realized. We continue to hold the majority of these instruments whose decline in the value is primarily attributable to the credit and liquidity issues that have spilled over from the "sub-prime" mortgage crisis. Management believes that the value of these financial instruments will be recovered as financial markets stabilize or the underlying instruments continue to perform.

The increase in fee income was offset further by a \$192,000 decrease in other income, due to a difference in the amount of one time gains realized on the sale of real estate we owned.

Operating Expenses: After two years of holding the line on operating expenses, they increased by \$793,000, or 6%, in 2007 to \$14,195,000. The increase in operating expense is led by a \$536,000, or 8%, increase in compensation expense. In 2007 the bank expanded its business development staff and invested in sales training for all consumer, business and mortgage bankers, and financial advisors. In addition, increased production in the brokerage and mortgage areas increased the compensation expense to commissioned employees.

Data processing and telephone expense for 2007 increased a combined total of \$123,000, or 8%, over the prior year. Data processing and communication expenses are up due to the processing costs related to increased debit card transactions, and the acquisition of new technology services such as remote deposit capture and multi-factor authentication.

Credit Quality: In 2007 the bank recorded a provision for loan losses of \$566,000, a 39% increase over the 2006 provision of \$407,000. While the provision increased, net loan charge-offs decreased to \$446,000 in 2007 compared to \$480,000 the year before. As a result of the provision and charge-off activity, our allowance for loan losses increased \$120,000 to \$2,411,000 at December 31, 2007. Due to loan growth, the allowance for loan losses as a percent of total loans decreased to .82% at December 31, 2007 compared to .85% a year earlier.

During the same time period total nonperforming loans increased to \$2.3 million from \$1.6 million. While we're confident in the strength of our credit underwriting and administration practices, we do expect to see an increase in delinquent loans and loan losses throughout the next year as we would in any economic downturn.

In Summary: As the banking industry struggled with compressing net interest margins and escalating credit losses in 2007, Blackhawk produced another year of earnings growth. The bank is positioning itself to perform better in the future, making investments in training, top employees and technology. We're seeing growth in net interest income and from our primary sources of non-interest income. While a little more expensive to deliver, our commitment to service, innovative products and providing financial solutions is the key to our continued growth and success.

Sincerely,



Todd J. James
Executive Vice President & CFO





Blackhawk Bank is growing, winning new clients, and retaining more existing clients than ever.

How? By focusing on **solutions.**

Blackhawk Bank's professional, upbeat people are known for going the extra mile for clients, for building relationships and creating solutions for their long-term financial well-being. These words aren't the forerunner to a 'slogan', nor are they given mere lip-service. They're what we're all about.

We focus on truly understanding our clients' immediate needs / desires and their future goals. Then we go about creating a financial plan that adds real value to their personal and professional lives. We conduct business in a way that engenders goodwill, loyalty and advocacy.

Our practice of delivering innovative products paired with unmatched customer service paid off in account retention and allegiance to Blackhawk Bank. It's what differentiated us from our competitors. It's what will continue to be the primary driver of our future growth.

There were several key service factors that drove profitability in the bank's Business Banking Division:

- Banker's interacted early and often with commercial loan clients to help them become more adept at anticipating and managing their cash flow needs, resulting in better loan quality.
- A value-added consultative approach was offered to clients by the bank's managers. The initiative included advisory services pertaining to human resource issues, the cost-saving benefits of Health Savings Accounts combined with high deductible health plans, cash management improvements for builders and contractors, and financial planning.
- Business opportunities were cultivated within the region's growing number of Hispanic small business owners. Blackhawk became the area's most trusted resource for business banking services provided by highly respected bilingual bankers.
- 'Work Perks' paved the way for Personal Bankers to interact with employees of the bank's commercial clients, winning new account relationships. Work Perks is a package of discounted personal banking services that adds extra value to the company's benefit plan and its recipients.

In the bank's Consumer Division, our Personal Bankers' knowledge base was broadened and their information-gathering skills were honed to provide clients in-depth advisory service. 'Every client, every time' became our internal mantra, seeking always to answer, 'how can I add value for my client?'

- We learned to listen for opportunities that bankers less skilled in relationship building would miss.
- We achieved greater loyalty by advising clients on financial solutions to fit their unique situation.
- We offered innovative accounts like Easy Money Checking and Home Equity specials that were a win-win for clients and the bank.

- Strong ties were built with Hispanic clients, who comprise a growing percentage of the population in our marketplace.
- We gained ground with Mortgage clients with local 'service-after-the-sale' of their mortgage loan.
- We encouraged the referral of clients to skilled advisors at our Raymond James Financial Services offices to facilitate convenient 'one-stop shopping' for trust, asset management and brokerage services.

In the realm of Community Relations, we earned recognition while we continued to anchor our reputation:

- Countless hours of volunteer work were subsidized by the bank; awards for community service were received.
- Bank officers were highly visible in business and not-for-profit circles.
- We paid attention to economic, business and political conditions to identify and quickly address banking needs with the right solutions.
- We announced our commitment to a neglected section of Rockford that community leaders perceived as a boon to the area. Building a new banking center there will generate significant opportunities and visibility for Blackhawk Bank.
- We continued, in the spirit of the late Ken Hendricks, Director of Blackhawk Bancorp, to commit resources to support the health and success of our communities.

Blackhawk's tradition of placing high value on its workforce, mentoring a healthy lifestyle and offering educational support was evidenced by personal and financial reward among employees:

- Blackhawk has an energetic, vibrant, community-focused corporate culture.
- Employees are motivated and enthusiastic.
- Camaraderie among employees and between employees and managers offers a professional, upbeat working environment that attracts quality talent.
- The bank's Health Advisory Team offers tips, group exercise and incentives for making healthy choices.
- Our bankers obtain real personal satisfaction from helping others.

In 2007, Blackhawk Bancorp strengthened its commitment to building shareholder value through superior financial performance:

- The Company adopted a vigorous commitment to shareholder communications and reporting.
- In 2008, the Company will actively seek new investors to support the value-creation potential of the bank's stock.

We're excited about the results we're creating through diligence, enhanced skill-sets and an earnest dedication to extraordinary service. It's paying off for you, valued Shareholder, and for all of us.





Consolidated Balance Sheets

December 31, 2007 and 2006

(Amounts in thousands except per share data)

ASSETS	2007	2006
Cash and due from banks	\$13,315	\$15,403
Federal funds sold and securities purchased under agreements to resell	\$9,478	\$11,238
Interest-bearing deposits in banks	\$1,066	\$1,249
Trading securities	26,520	--
Available-for-sale securities	92,266	113,763
Federal Home Loan Bank (FHLB) Stock, at cost	4,085	4,085
Loans, less allowance for loan losses of \$2,411 and \$2,291 at December 31, 2007 and 2006, respectively	292,529	268,616
Office buildings and equipment, net	7,424	8,057
Intangible assets	6,636	6,675
Cash surrender value of bank-owned life insurance	7,286	7,014
Other assets	4,068	3,418
Total assets	\$464,673	\$439,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	\$45,251	\$50,300
Interest-bearing	285,988	261,701
Total deposits	331,239	312,001
Short-term borrowings	31,278	38,917
Long-term borrowings	69,653	49,367
Subordinated debentures	5,158	11,341
Other liabilities	2,852	3,684
Total liabilities	440,180	415,310
Stockholders' equity		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized; none issued	--	--
Common stock, \$0.01 par value, 10,000,000 shares authorized; 2,239,756 and 2,238,706 shares issued as of December 31, 2007 and 2006, respectively	22	22
Surplus	9,279	9,268
Retained earnings	16,582	15,468
Treasury stock, 65,599 and 3,000 shares, at cost as of December 31, 2007 and 2006, respectively	(733)	(34)
Accumulated other comprehensive loss	(657)	(516)
Total stockholders' equity	24,493	24,208
Total liabilities and stockholders' equity	\$464,673	\$439,518

Consolidated Statements of Income

Years Ended December 31, 2007 and 2006

(Amounts in thousands, except share and per share data)

	2007	2006
INTEREST INCOME:		
Interest and fees on loans	\$21,005	\$19,285
Interest on trading securities	1,288	--
Interest and dividends on available-for-sale securities:		
Taxable	3,972	5,023
Tax-exempt	352	369
Interest on federal funds sold and securities purchased under agreements to resell	946	261
Interest on interest-bearing deposits in banks	101	100
Total interest income	27,664	25,038
INTEREST EXPENSES:		
Interest on deposits	10,246	7,893
Interest on short-term borrowings	1,423	1,954
Interest on long-term borrowings	2,373	2,283
Interest on subordinated debentures	736	729
Total interest expense	14,778	12,859
Net interest income	12,886	12,179
Provision for loan losses	566	407
Net interest income after provision for loan losses	12,320	11,772
NONINTEREST INCOME:		
Service charges on deposit accounts	2,652	2,563
Gain on sale of loans	850	732
Debit Card Interchange fees	659	506
Net gains (losses) on sale of available for sale securities	66	(6)
Increase in cash value of bank-owned life insurance	272	250
Other	489	847
Total noninterest income	4,988	4,892
NONINTEREST EXPENSES:		
Salaries and employee benefits	7,472	6,936
Occupancy and equipment	2,098	2,081
Data processing services	1,366	1,172
Advertising and marketing	430	424
Amortization of intangibles	323	323
Professional fees	526	495
Office supplies	266	235
Telephone	267	338
Other	1,447	1,398
Total noninterest expenses	14,195	13,402
Income before income taxes	3,133	3,262
Income taxes	822	1,006
Net income	\$2,291	\$2,256
Basic earnings per share	\$1.04	\$1.01
Diluted earnings per share	\$1.03	\$1.00



Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2007 and 2006

(Amounts in thousands, except for share and per share data)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumu- lated Other Comprehen- sive Income (Loss)	Total
Balance, December 31, 2005	\$22	\$9,049	\$14,013	--	(837)	\$22,247
Comprehensive income:						
Net income	--	--	2,256	--	--	2,256
Change in net unrealized gains on available-for-sale securities, net of reclassification adjustment and tax effect	--	--	--	--	321	321
Total comprehensive income						2,577
Cash dividends paid - \$0.36 per share	--	--	(801)	--	--	(801)
Sale of 22,300 shares of stock for the exercise of stock options, net of tax effect		219				219
Purchase of 3,000 shares of treasury stock at cost	--	--	--	(34)	--	(34)
Balance, December 31, 2006	\$22	\$9,268	\$15,468	\$(34)	\$(516)	\$24,208
Comprehensive income:						
Net income	--	--	2,291	--	--	2,291
Cumulative effect of FAS 159, net of tax effect	--	--	(386)	--	311	(75)
Change in net unrealized gains on available-for-sale securities, net of reclassification adjustment and tax effect	--	--	--	--	(452)	(452)
Total comprehensive income						1,764
Cash dividends paid - \$0.36 per share	--	--	(791)	--	--	(791)
Exercise of stock options, net of tax effect	--	11	--	--	--	11
Purchase of 62,529 shares of treasury stock at cost	--	--	--	(699)	--	(699)
Balance, December 31, 2007	\$22	\$9,279	\$16,582	\$(733)	\$(657)	\$24,493

Average Balance Sheet with Resultant Interest and Rates

*(Amounts in thousands) (Yields on a tax-equivalent basis)	12 Months ended December 31, 2007			12 Months ended December 31, 2006		
	Average Balance	Interest	Average Rate*	Average Balance	Interest	Average Rate*
Interest Earning Assets:						
Interest-bearing deposits in banks	\$2,110	\$101	4.79%	\$2,100	\$100	4.75%
Federal funds sold & securities purchased under agreements to resell	15,721	946	6.02%	4,595	261	5.68%
Investment securities:						
Taxable securities	104,361	5,260	5.04%	108,397	5,023	4.63%
Tax-exempt securities	9,247	352	5.76%	10,009	369	5.58%
Total investment securities	113,608	5,612	5.10%	118,406	5,392	4.71%
Loans	279,909	21,005	7.50%	268,352	19,285	7.19%
Total Earning Assets	\$411,348	\$27,664	6.77%	\$393,453	\$25,038	6.41%
Allowance for loan losses	(2,365)			(2,335)		
Cash and due from banks	14,417			15,265		
Other assets	25,445			25,706		
Total assets	\$448,845			\$432,089		
Interest Bearing Liabilities:						
Interest bearing checking accounts	\$43,447	\$873	2.01%	\$33,623	\$376	1.12%
Savings and money market deposits	111,445	3,478	3.12%	92,578	2,470	2.67%
Time deposits	127,515	5,895	4.62%	122,923	5,047	4.11%
Total interest bearing deposits	282,407	10,246	3.63%	249,124	7,893	3.17%
Short-term borrowings	27,802	1,423	5.12%	39,143	1,954	4.99%
Subordinated debentures	11,391	736	6.46%	11,341	729	6.43%
Long-term borrowings	50,856	2,373	4.67%	53,046	2,283	4.30%
Total Interest-Bearing Liabilities	\$372,456	\$14,778	3.97%	\$352,654	\$12,859	3.65%
Interest Rate Spread			2.80%			2.76%
Noninterest checking accounts	48,669			53,739		
Other liabilities	3,211			3,151		
Total liabilities	424,336			409,544		
Stockholders' equity	24,509			22,545		
Total Liabilities and Stockholders' Equity	\$448,845			\$432,089		
Net Interest Income/Margin		\$12,886	3.18%		\$12,179	3.14%



Quarterly Financial Information

(Amounts in thousands except per share data)

	2007				2006			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest & dividend income	\$7,165	\$7,028	\$6,843	\$6,627	\$6,566	\$6,444	\$6,262	\$5,766
Interest expense	3,754	3,723	\$3,696	3,605	3,514	3,405	3,188	2,752
Net interest & dividend income	3,411	3,305	3,147	3,022	3,052	3,039	3,074	3,014
Provision for loan losses	189	124	124	129	115	103	96	93
Net interest & dividend income after provision for loan losses	3,222	3,181	3,023	2,893	2,937	2,936	2,978	2,921
Noninterest income	1,089	1,363	1,344	1,193	1,477	1,274	1,142	999
Noninterest expenses	3,620	3,620	3,497	3,458	3,275	3,369	3,428	3,330
Income before income taxes	691	924	870	628	1,139	841	692	590
Income taxes	128	279	257	157	373	245	208	180
Net income	\$563	\$645	\$613	\$471	\$766	\$596	\$484	\$410
Per share data:								
Basic earnings	\$0.26	\$0.29	\$0.28	\$0.21	\$0.34	\$0.27	\$0.22	\$0.18
Dividend	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09

The Consolidated Balance Sheets, Consolidated Statements of Income and Consolidated Statements of Changes in Stockholders' Equity contained in this annual report are based on the Company's 2007 audited Consolidated Financial Statements. The 2007 audited Consolidated Financial Statements and accompanying notes to Consolidated Financial Statements are available upon written request to:

Todd James
 Executive Vice President & Chief Financial Officer
 Blackhawk Bancorp, Inc.
 400 Broad Street
 Beloit, WI 53511

Email:
tjames@blackhawkbank.com



Beloit, WI

400 Broad Street
608.364.8911

2200 Cranston Road
608.364.8900

Roscoe, IL

5206 Elevator Road
815.623.3323

Machesney Park, IL

9609 Forest Hills Road
815.639.0777

Rockford, IL

2475 N. Perryville Road
815.636.4371

Belvidere, IL

2141 N. State Street
815.544.0777

Capron, IL

290 W. Main Street
815.569.2336

www.blackhawkbank.com

800.209.2616

Blackhawk Bank Executive Officers

R. Richard Bastian III,
President & CEO

Todd J. James,
Executive Vice President & CFO

Terri L. Burdick,
Senior Vice President
Administration & Operations

Todd L. Larson,
Senior Vice President
Commercial Banking

David K. Adkins,
Senior Vice President
Consumer Banking

**For More Information About
Blackhawk Bancorp, Inc. Stock:**

Blackhawk Bancorp, Inc.
Investor Relations
P.O. Box 719
Beloit, WI 53512-0719

Trading Symbol for
Blackhawk Bancorp, Inc.
is BHWB.

