

Better Together.



ANNUAL REPORT 2020



OUR VISION:

To create exceptional results by creating exceptional experiences...
the fun, smart place to bank, invest and work.

OUR MISSION:

To make every customer a customer for life.

OUR CORE VALUES:

Be obsessed with your Client's success.

Keep learning and teaching.

Own it.

Work smart, play hard.

Communicate in ways that engage & inform.

Give.

Be grateful.

Financial Highlights

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

YEARS ENDED DECEMBER 31,	2020	2019	2018	2017	2016
Interest income	\$41,496	\$40,653	\$32,131	\$25,403	\$23,097
Interest expense	3,647	6,969	4,660	2,523	2,641
Net interest income	37,849	33,684	27,471	22,880	20,456
Provision for loan losses	7,600	2,010	1,180	1,790	1,880
Net interest income after provision for loan losses	30,249	31,674	26,291	21,090	18,576
Noninterest income	19,684	15,128	11,542	10,060	12,411
Noninterest expense	36,053	34,613	27,731	23,621	22,547
Income before income taxes	13,880	12,189	10,102	7,529	8,440
Income taxes	3,033	2,585	1,960	1,329	2,462
Net income available to common shareholders	\$10,847	\$9,604	\$8,142	\$6,200	\$5,978
Basic earnings per common share	\$3.25	\$2.90	\$2.47	\$2.02	\$2.60
Diluted earnings per common share	\$3.25	\$2.90	\$2.47	\$2.01	\$2.59
Cash dividend declared per share	\$0.44	\$0.40	\$0.38	\$0.28	\$0.16
Return on assets	1.02%	1.02%	1.06%	0.89%	0.90%
Return on common equity	10.35%	10.49%	10.19%	8.73%	11.95%
Total assets	\$1,141,599	\$963,861	\$817,287	\$720,621	\$665,728
Securities	349,565	235,083	198,670	176,350	191,815
Total loans, net	662,225	619,359	541,760	479,539	407,331
Deposits	987,254	829,609	685,639	616,995	572,366
Short-term borrowings	-	-	36,500	16,229	21,200
Subordinated debentures	5,155	5,155	5,155	5,155	11,255
Senior secured term note	12,833	14,000	-	-	7,500
Other borrowings	14,000	10,000	-	-	-
Total stockholders' equity	111,755	97,324	84,292	78,134	49,550

Table of Contents

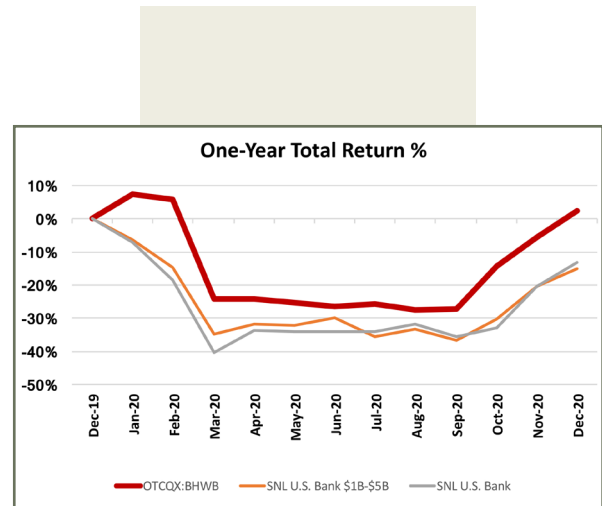
1	Financial Highlights	12	Consolidated Statements of Income
2-3	Letter from Todd James	13	Consolidated Statements of Comprehensive Income
4	Letter from Dave Adkins	13	Consolidated Statements of Changes in Stockholders' Equity
5	Retiring Directors; Board of Directors	14	Average Balance Sheet with Resultant Interest and Rates
6-7	Blackhawk Success Stories	15-16	Quarterly Financial Information
8-9	Financial Performance Review		
10	Technology Milestones in 2020		
11	Consolidated Balance Sheets		

Dear Fellow Shareholders;

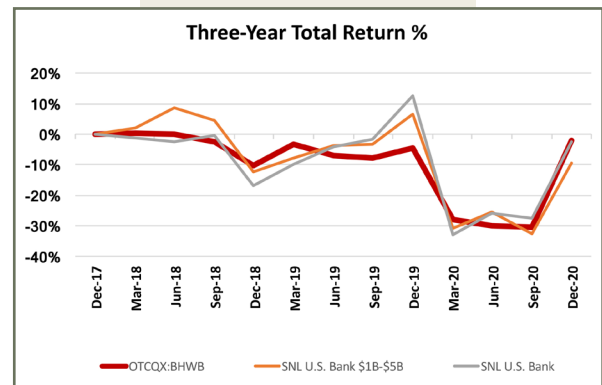
Last March when the entire world was turned on its head by a deadly virus, we began preparing for the worst. With the economy essentially shut-down and the U.S. unemployment rate hitting an all-time high of nearly 15%, we were in uncharted territory. It's times like these that Blackhawk's unique entrepreneurial culture with its engrained Core Values is most valuable as our guide. I'm extremely proud of how the Blackhawk Family demonstrated our Core Values over the past year, pulling together to support our customers, our communities and each other. Knowing the uncertainties and challenges of the past year, makes it even more gratifying than it otherwise would be to report that Blackhawk achieved another year of record earnings, posting net income of \$10.8 million and diluted earnings per share of \$3.25 for 2020, a 12% increase over the prior year.

If nothing else, this past year has taught us just how resilient community bankers are. As bankers we adjusted our priorities, ensuring that economic relief was distributed as quickly as possible to the businesses and consumers who needed it. This required us to make quicker decisions, implement new technologies and change the ways we do business. The adoption rate of digital banking technologies, remote working capabilities and the ability to do almost anything virtually seems to have accelerated by several years due to the pandemic. This past year our bankers and support staff confronted what seemed like insurmountable challenges at times. Through dedication, hard work and by embracing the Blackhawk Core Values they got through it. As we reflect on the losses incurred and advancements made over the last year, we are working to incorporate what we've learned into our operations and strategies for years to come. I'm proud of our team for facing a year of tragedy, loss and disruption with resiliency, innovation and action.

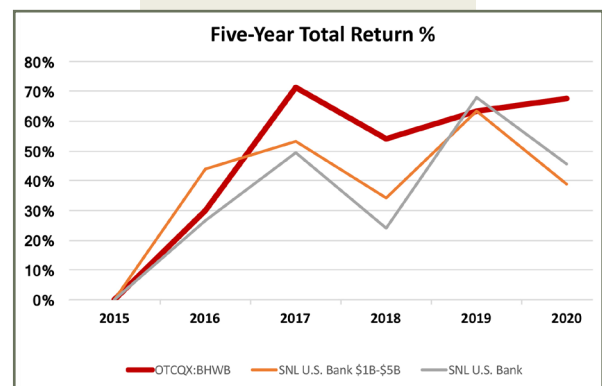
Last year also demonstrated the resiliency of our institution. We achieved record earnings, but the path we took to achieve the results was quite different than we had planned.



Source:
S&P GLOBAL MARKET INTELLIGENCE



Source:
S&P GLOBAL MARKET INTELLIGENCE



Source:
S&P GLOBAL MARKET INTELLIGENCE

The provision for loan losses was increased substantially in response to the pandemic-driven economic conditions. Even though we didn't experience an onslaught of credit losses due to the shutdowns, the pandemic isn't over and the path to recovery still isn't completely clear. The government stimulus programs may be masking or delaying credit problems and we intend to maintain strong loan loss reserves for the foreseeable future to accommodate for that uncertainty. The increased provision for loan losses was offset by an increase in net mortgage banking revenue, which was driven by the historically low interest rate environment following the Federal Reserve's action to drop rates last March. Having strong mortgage banking capabilities has served us well. The mortgage business provides a natural countercyclical hedge to credit losses. When economic conditions are strained, the loosening of monetary policy, such as lowering interest rates to support economic activity, accelerates refinance activity. In addition to revenue from the sale and servicing of mortgage loans, Blackhawk has a strong and stable core deposit base, which is critical to maintaining a low cost of funds and produces strong levels of service charge and debit card processing income.

The company's stock price dropped substantially in March of 2020 when the virus struck, but rebounded in the fourth quarter. The Company produced a positive one-year total return for shareholders of 2.44% for the year ended December 31, 2020, which compares favorably to the SNL U.S. Bank Index and the SNL U.S. Bank Index for banks with assets of \$1 to \$5 billion. Total return for Blackhawk is in line with or favorable to each of these indices for the three-year and five-year periods ending December 31, 2020.

We are proud of what was accomplished in 2020, but needless to say, we're happy to be moving on from 2020 and are looking for brighter days ahead. We appreciate the confidence and support of our outstanding Board of Directors and will continue doing our best to deliver truly exceptional service to our customers and the communities we serve, while building value for our shareholders.

**Todd James**

Chairman,
President &
Chief Executive Officer

A stylized, handwritten signature in black ink, appearing to read "Todd James".

COVID-19 Response

2020 began as most years do, with great excitement and anticipation of the unrealized opportunities ahead. However, by March we quickly realized it would be a year for adaptations. What began as the need to minimize physical contact and wash our hands frequently in order to flatten the infection curve soon transitioned to stay at home orders and business closings. The level of uncertainty among our clients, communities, and coworkers hit levels previously unseen.

As we reflect back on the challenges of 2020 I am exceptionally proud of the way our team adapted to best serve our clients and communities. Whether it was providing access to the stimulus checks consumers received, generating historically low rate mortgages to buy or refinance homes, generating capital for the vital business clients through PPP loans, supporting locally owned businesses and not-for-profits, or simply providing advice, counsel and an understanding sounding board to clients, our team delivered every day. They delivered while navigating personal health and safety challenges and the work/home balance.

By mid-March we had our team safely situated, observing health protocols, limited lobby access and deployed to remote work environments, where appropriate. This allowed us to focus entirely on client and community needs. We adapted practices to allow quick access to much needed stimulus funds at a critical time for consumers. Our mortgage team changed the lives of more than 1900 families by originating almost \$300 million in new home loans. The commercial team helped more than 800 local businesses with PPP loans, injecting more than \$84 million into the local economy which supported the retention of more than 10,000 local employees.

Some business and personal clients were hit harder than others early in the year. We were there for them by expanding existing programs to provide relief through payment deferrals, interest only payments and other

payment relief to allow them to survive the darkest of periods most had ever faced. There were 135 business clients with approximately \$67 million in loan balances and 207 personal or mortgage clients with more than \$5 million aided by this proactive approach during 2020 by these programs with nearly all current on normal or modified payments at year end.

Our communities, too, felt significant impact from the economic downturn in 2020. Local restaurants, retailers, and not-for-profits were often on the front lines of the revenue reductions experienced. We understand the vital nature of these organizations to the health and vitality of our communities and pledged to provide support where we could. Together with our partners and friends, we made donations to local not-for-profit entities three times our historical level. Additionally, we supported locally owned and operated food/retail businesses by purchasing gift cards for our teammates as a thank you for their dedication. Our annual Grateful Giving Campaign, which provides meals at Thanksgiving, was also extremely successful this year when families in our communities needed it the most.

Upon reflection on what 2020 threw at us and each of our team members, we can acknowledge it was a very challenging but rewarding year. It is during the most difficult of times that true character emerges and we are very proud of the way Blackhawk and each member of our family stepped up. The fallout from these events is not yet fully passed, but we stand ready to continue to adapt and support our clients, staff, and communities.



Dave Adkins

Chief Operating Officer;
President and Chief Executive
Officer, Blackhawk Bank

A handwritten signature in dark ink, reading "David K. Adkins".

Retiring Directors

Diane Hendricks and Stephen Carter are retiring from the Board of Directors of the Company as their terms end as of the 2021 annual shareholder meeting.



Diane has been a director since joining the Board in 2008, but her connection to Blackhawk goes back more than 30 years. She has been extremely supportive of Blackhawk and the community banking model, and has often expressed her belief that community banks are vital to having a vibrant and growing economy. Over the years, Diane has been generous with her time and has given us invaluable guidance based on her own business experience. Diane is well known for her business success and generosity to the community. She serves as an inspiration to all of us, and we are truly grateful for all her contributions to our success.



Steve has been a director since joining the Board in 2003, and is currently the longest serving Board Member. His experience as the Chief Financial Officer of a large publicly traded company and serving on other public company boards has been invaluable to enhancing

Blackhawk's corporate governance practices. He also uses his more recent experience as an entrepreneur, starting and growing his own manufacturing company, to give us insight and guidance as we strive to meet the needs of businesses like his. Steve has been generous with his time and has been instrumental in helping the Company navigate through many challenges over the last eighteen years. We are grateful for his service to the Company and he will be missed.

Blackhawk Bancorp, Inc. Board of Directors



David K. Adkins
Beloit, WI
COO of Blackhawk Bancorp; President and CEO of Blackhawk Bank



Eric Anderberg
Rockford, IL
Vice President/Secretary of Dial Machine, Inc., a family-owned contract machine shop



Thomas L. Barnes
Beloit, WI
Retired Real Estate Asset Manager/Banker and Owner of National Flag Store and Mini Warehousing



Todd Buehl
Beloit, WI
Chief Financial Officer of ABC Supply Company, Inc.



Steven A. Ceroni
Belvidere, IL
Owner, President and CEO, Ceroni Piping Company, Ceroni Construction Management LLC, and Ceroni Real Estate, LLC



Lucas Derry
Rockford, IL
President & Owner, Header Die & Tool, Inc.



April Glosser
Rochelle, IL
President & Founder, Thrive Market Intelligence



Todd J. James
Beloit, WI
Chairman, President & CEO, Blackhawk Bancorp, Inc.



Paul L. Palmby
Janesville, WI
President, CEO and Director for Seneca Foods Corporation

Blackhawk Bank Spirit Award Winner

Congratulations to Blackhawk Bank's 2020 Spirit Award Winner, Sara Porter!

The Blackhawk Bank Spirit Award is the highest award Blackhawk Bank bestows upon an employee. To be considered, the employee must have been on staff for at least one year and demonstrate exceptional qualities in all of the following criteria areas:

- Be obsessed with your Client's success
- Keep learning and teaching
- Own it
- Work smart, play hard
- Communicate in ways that engage and inform
- Give back
- Be grateful

Here is what Sara's nominator had to say:

Sara is the Vice President of Digital Solutions and a well-loved team member at Blackhawk Bank. Even though Sara primarily works with the digital team, she is known to help client services, the retail team, and the commercial team if they have an issue with anything digital. She has also held multiple training classes for employees, as she wants to make sure everyone is comfortable with the technology we are offering to customers.

Sara is also an amazing team player! She participates on many project committees because she's open to new ideas, is able to add great input, but is also extremely capable of leading the project. She comes prepared to every activity, ready to give 110% of her energy and attention. Sara's a capable leader and enjoys working and helping any way she can.



Sara Porter
Vice President, Digital Solutions

Sara gives back to our communities: she's a board member of the Loves Park and Roscoe North Suburban Library district and has been a leader within her daughter's Girl Scout organization. She's also a Beloit Meals on Wheels volunteer, participates in our Grateful Giving food drive and United Way Day of Caring, a Security Summit Speaker for the Business Council, a member of the Rockford Chamber, and is active in her church.

WE'RE ALL IN THIS TOGETHER!

In 2020, we all found many ways to have fun, to stay connected, to support our communities, and to celebrate all sorts of occasions with our co-workers!

#BlackhawkFamily





In gratitude for what we have, we gratefully give.

Once again, Blackhawk Bank's Leadership Academy participants spearheaded our annual food drive: **Grateful Giving**. Even with all the added challenges of 2020, Grateful Giving raised \$14,484.60 and collected 2,616 non-perishable items, in just a few weeks!

Donations were made by both employees and clients, and the drive was topped off by a gift of 170 cases of canned corn and green beans from Seneca Foods of Janesville.

Blackhawk Bank's ten mission partners for 2020 included The Salvation Army of Beloit, St. Vincent DePaul of Beloit, Caritas, Old Stone Church of Northern Winnebago County, Victory Outreach of Rockford, Rock River Valley Food Pantry of Rockford, YWCA of Janesville, Empower Boone, FISH of McHenry, and Wauconda Island Lake Food Pantry.

Each mission partner received over \$1,400 in cash donations and over 260 non-perishable items.

We are very proud of everyone's efforts to make this happen! We completed it as one company, one team and one family working towards one common goal.



2020 Financial Performance Review

Dear Fellow Shareholders;

I am happy to report that Blackhawk Bancorp achieved another year of record earnings in 2020, increasing net income by \$1.2 million, or 13%, to \$10.8 million compared to \$9.6 million earned the year before. This net income produced record diluted earnings per share (EPS) of \$3.25, a \$0.35, or 12%, increase compared to \$2.90 in 2019. These results produced a Return on Average Equity (ROAE) of 10.35% and a Return on Average Assets (ROAA) of 1.02%.

Total assets increased by \$177.7 million, or 18%, to \$1.14 billion as of December 31, 2020, compared to \$963.9 million as of December 31, 2019. Total gross loans increased by \$44.4 million, or 7%, during 2020 to \$679.1 million, compared to \$633.8 million on December 31, 2019. This included \$60 million in SBA Paycheck Protection Program (PPP) loan balances at December 31, 2020. Total deposits increased by \$157.6 million, or 19%, to \$987.3 million, compared to \$829.6 million at the end of 2019. With an influx of deposits, driven by government stimulus programs at a time where loan demand is low, investment securities increased by \$114.6 million, or 48%, during 2020 to \$352.1 million, compared to \$237.4 million at December 31, 2019.

Net interest income for 2020, increased by \$4.2 million, or 12%, to \$37.8 million, as compared to \$33.7 million in 2019. The increase in net interest income for 2020, compared to the prior year, was the result of a \$123.8 million, or 14%, increase in average total earning assets to \$1.0 billion. Average total loans for the twelve months of 2020 was \$675.5 million (including \$54.9 million in average PPP loans), an increase of \$65.0 million, or 11%, as compared to \$610.5 million for 2019. Average total deposits for 2020 were \$915.2 million, an increase of \$101.5 million, or 12%, as compared to \$813.7 million for 2019. With deposit growth outpacing loan growth, average total investments for 2020 increased by \$49.9 million, or 20%, to \$294 million compared to \$244 million for 2019. The drop in interest

rates in 2020 resulted in a 48 basis-point decrease in the yield on average earning assets as compared to 2019. Being funded primarily by a stable core deposit base, the Company was able to act swiftly in adjusting deposit rates, achieving a 51 basis-point drop in cost of funds resulting in a six basis-point decrease in the net interest margin to 3.82% compared to 3.88% for 2019.

Provision for Loan Losses:

The provision for loan losses was \$7.6 million for 2020, a \$5.6 million increase over 2019. The increased provision was made to replenish the allowance for charge-offs taken in 2020, and to accommodate an increase in qualitative factors due to uncertainty and potential losses related COVID-19. Net charge-offs for 2020 equaled \$4.8 million, with \$3.8 million related to one relationship. The default on this particular credit was not related to COVID-19, but the severity of the loss was increased due to lack of buyers for used equipment in 2020.

At December 31, 2020, the ratio of nonperforming assets to total assets decreased to 0.79%, compared to 1.41% on December 31, 2019; and the ratio of the allowance for loan losses to total loans increased to 1.59%, compared to 1.25% as of December 31, 2019. With the allowance increasing and nonperforming loans decreasing, the allowance for loan losses to nonperforming loans increased to 118.7% as of December 31, 2020, compared to 58.8% at December 31, 2019. While overall delinquency rates and non-performing asset levels have improved, the heightened level of uncertainty in the economy increases the risk of elevated losses in future quarters. Many borrowers have taken advantage of PPP, other stimulus programs, and payment deferral loan modifications provided by the Company. Blackhawk will continue being proactive with borrowers to ensure credit issues are identified and addressed as early as possible, and will grant borrower concessions that improve the overall probability of repayment.

Noninterest Income:

Noninterest income for 2020 increased \$4.7 million to \$19.8 million, compared to \$15.1 million for 2019. Excluding a \$0.6 million decrease in the gain on sale of securities, non-interest income increased by \$5.3 million, including increases of \$6.9 million in net gain on sale of loans and \$0.3 million in debit card interchange fees. This was partially offset by a \$0.7 million decrease in service charges on deposit accounts.

Operating Expenses:

Operating expenses for 2020 totaled \$36.2 million, a \$1.5 million, or a 4% increase, over 2019. The 2019 results included \$2 million of nonrecurring acquisition related expenses. Excluding the acquisition related expenses for 2019, operating expenses would have increased by \$3.5 million, or 11%, over the previous year.

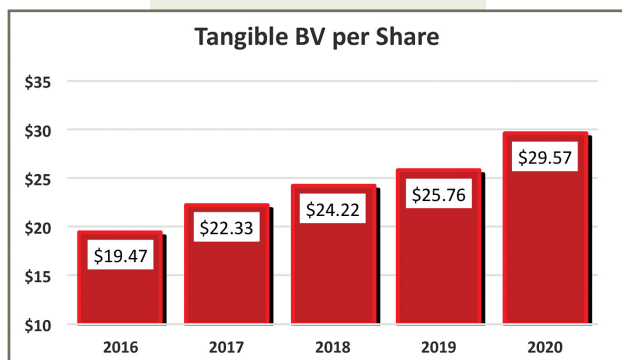
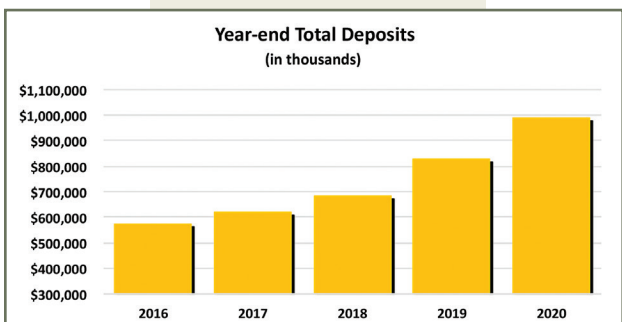
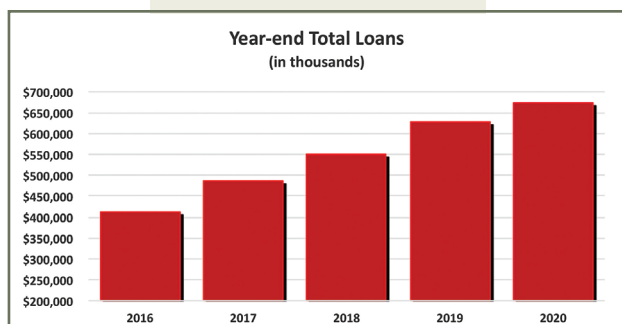
Capital:

The Company continues to build the level of common equity and tangible book value per share. Total capital increased \$14.4 million, or 14.8%, to \$111.8 million on December 31, 2020, as compared to \$97.3 million as of December 31, 2019. This included increases of \$3.5 million and \$9.4 million in accumulated other comprehensive income and retained earnings, respectively. The Company increased its dividend on common stock to \$0.44 per share in 2020, as compared to \$0.40 in 2019.



Matthew McDonnell

SVP, Chief Financial Officer

Technology Milestones in 2020

While adoption of digital solutions and online resources have steadily increased in previous years, 2020 also pushed clients to adapt more quickly and many turned to our suite of digital banking tools for their everyday financial needs. Although in-person appointments were somewhat limited, Blackhawk was still able to provide excellent service to customers and hit significant milestones along the way.

Mobile and Online Banking

- **Upgraded Online and Mobile App**

In May 2020, Blackhawk Bank upgraded the online and mobile experience for Personal Banking customers. With this enhancement, iPhone and Android users can easily manage accounts with a sleek new design.

- **Online Account Openings**

In addition to providing an exceptional experience for users, we also saw a **122% increase** in online account openings. Customers were able to open an account from the comfort of their home, without needing to set up an in-person appointment.

- **Mobile Deposits**

Clients without direct deposit turned to this easy-to-use feature to deposit much-needed funds, including multiple rounds of stimulus checks.

- **Zelle and Budgeting Tools**

In January 2021 Blackhawk launched Zelle and Budgeting Tools as an enhancement to our online and mobile app. While still in the early phases, these tools allow users to make person to person payments, budget their funds and even set savings goals, all from our mobile app.

Website Traffic Growth in 2020

Blackhawk also experienced robust engagement and growth with our online brand. Our website continues to be a place of advice and insight for customers, and in 2020 customers turned to blackhawkbank.com even more.

- **Website Sessions and Users**

Overall sessions on blackhawkbank.com **increased 65%** in 2020, and the total number of visitors **increased 76%** in 2020.

- **New visitor traffic**

New visitors to our site **increased 89.9%** year over year, showing that Blackhawk has become a trusted source for people (and search engines), seeking guidance on financial topics.

- **Common Cent\$ Blog**

Our blog, which has always been a great resource for those who wish to grow personally, professionally and financially saw a significant increase in views. As the year progressed, we tracked an average of **12,000 views per month**.

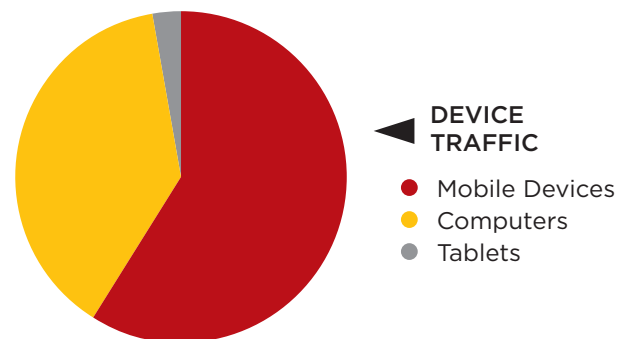
These remarkable increases show that our customers are adapting to technology quicker than we anticipated, and are ready and eager for more advancements. While we are still in the early phases of 2021, we continue to be a reliable source of information and provide users with an exceptional digital banking experience.

- **blackhawkbank.com overall sessions up 65% over 2019**

- **All visitors up 76% year over year over 2019**

- **New users up 89.9% year over year over 2019**

Users clearly made the transition from desktop to mobile devices in 2020, a goal we were not expecting yet to achieve. New users also outpaced returning users for the year.



- NEW vs. RETURNING USERS
- New Visitor
 - Returning Visitor



Consolidated Balance Sheets

December 31, 2020 and 2019

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

	2020	2019
ASSETS		
Cash and due from banks	\$12,012	\$12,320
Interest-bearing deposits in banks and other institutions	42,119	20,761
Total cash and cash equivalents	54,131	33,081
Certificates of deposit in banks and other institutions	4,159	6,325
Equity securities at fair value	2,517	2,365
Securities available-for-sale	349,565	235,083
Loans held for sale	6,096	6,540
Federal Home Loan Bank stock, at cost	2,150	742
Loans, less allowance for loan losses of \$10,764 and \$7,941 at December 31, 2020 and 2019, respectively	662,225	619,359
Premises and equipment, net	20,254	21,025
Goodwill and core deposit intangible	12,018	12,455
Mortgage servicing rights	3,409	3,106
Cash surrender value of bank-owned life insurance	11,126	11,118
Other assets	13,949	12,662
Total assets	<u>\$1,141,599</u>	<u>\$963,861</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	\$268,866	\$155,978
Interest-bearing	718,388	673,631
Total deposits	987,254	829,609
Subordinated debentures and notes (including \$1,031 at fair value at December 31, 2020 and 2019)	5,155	5,155
Senior secured term note	12,833	14,000
Other borrowings	14,000	10,000
Other liabilities	10,602	7,773
Total liabilities	<u>1,029,844</u>	<u>866,537</u>
Stockholders' Equity		
Common stock, \$0.01 par value, 10,000,000 shares authorized; 3,435,348 and 3,399,803 shares issued as of December 31, 2020 and 2019, respectively	35	34
Additional paid-in capital	35,062	33,989
Retained earnings	69,676	60,295
Treasury stock, 62,999 and 105,185 shares, at cost as of December 31, 2020 and 2019, respectively	(941)	(1,408)
Accumulated other comprehensive income	7,923	4,414
Total stockholders' equity	<u>111,755</u>	<u>97,324</u>
Total liabilities and stockholders' equity	<u>\$1,141,599</u>	<u>\$963,861</u>

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

(Amounts in thousands, except per share data)

	2020	2019
Interest Income:		
Interest and fees on loans	\$33,441	\$32,449
Interest and dividends on available-for-sale securities:		
Taxable	6,328	6,089
Tax-exempt	1,451	1,587
Interest on deposits in other financial institutions	276	528
Total interest income	41,496	40,653
Interest Expense:		
Interest on deposits	2,840	5,806
Interest on subordinated debentures	182	248
Interest on senior secured term note	498	591
Interest on other borrowings	127	324
Total interest expense	3,647	6,969
Net interest income before provision for loan losses	37,849	33,684
Provision for loan losses	7,600	2,010
Net interest income after provision for loan losses	30,249	31,674
Noninterest Income:		
Service charges on deposit accounts	3,035	3,715
Net gain on sale of loans	11,080	4,211
Net loan servicing (loss) income	(431)	369
Debit card interchange fees	3,738	3,402
Net gains on sales of securities available-for-sale	535	1,171
Change in value of equity securities	70	33
Increase in cash surrender value of bank-owned life insurance	310	306
Other	1,347	1,921
Total noninterest income	19,684	15,128
Noninterest Expenses:		
Salaries and employee benefits	21,948	19,382
Occupancy and equipment	4,278	4,115
Data processing	2,383	3,574
Debit card processing and issuance	1,584	1,574
Amortization of core deposit intangible	437	398
Advertising and marketing	297	450
Professional fees	1,531	1,659
Office supplies	363	405
Telephone	577	536
Other	2,655	2,520
Total noninterest expenses	36,053	34,613
Income before income taxes	13,880	12,189
Provision for income taxes	3,033	2,585
Net income	\$10,847	\$9,604
Basic Earnings per Share	\$3.25	\$2.90
Diluted Earnings per Share	3.25	2.90

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

(Amounts in thousands, except per share data)

	2020	2019
Net income	\$10,847	\$9,604
Other comprehensive income (loss):		
Unrealized gains on securities:		
Unrealized holding gains rising during the period	6,359	7,682
Reclassification adjustment for gains included in net income	(535)	(1,171)
	5,824	6,511
Tax effect	(1,582)	(1,768)
Net of tax	4,242	4,743
Unrealized losses on cash flow hedge:		
Unrealized holding losses arising during the period	(1,018)	(419)
Tax effect	285	117
Net of tax	(733)	(302)
Total other comprehensive income	3,509	4,441
Total comprehensive income	\$14,356	14,045

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2020 and 2019

(Amounts in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE, DECEMBER 31, 2018	\$34	\$33,478	\$52,011	\$(1,204)	\$(27)	\$84,292
Net income			9,604			9,604
Other comprehensive income					4,441	4,441
Adoption of ASU 2016-02			(3)			(3)
Cash dividends paid on common stock			(1,317)			(1,317)
Purchase of treasury shares				(204)		(204)
Vesting of shares of restricted stock		511				511
BALANCE, DECEMBER 31, 2019	34	33,478	60,295	(1,408)	4,414	97,324
Net income			10,847			10,847
Other comprehensive income					3,509	3,509
Cash dividends paid on common stock			(1,466)			(1,466)
Purchase of treasury shares				(737)		(737)
Issuance of treasury shares		395		1,204		1,599
Vesting of shares of restricted stock	1	678				679
BALANCE, DECEMBER 31, 2020	\$35	\$35,062	\$69,676	\$(941)	\$7,923	\$111,755

Average Balance Sheet with Resultant Interest and Rates

Years Ended December 31, 2020 and 2019

(Amounts in thousands)
(yields on a tax-equivalent basis) (1)

	TWELVE MONTHS ENDED DECEMBER 31, 2020			TWELVE MONTHS ENDED DECEMBER 31, 2019		
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVERAGE BALANCE	INTEREST	AVERAGE RATE
Interest Earning Assets:						
Interest-bearing deposits and other	\$31,899	\$276	0.86%	\$23,058	\$528	2.29%
Investment securities:						
Taxable investment securities	247,389	6,328	2.56%	193,954	6,089	3.14%
Tax-exempt investment securities	46,594	1,451	4.01%	50,100	1,587	3.88%
Total Investment securities	293,983	7,779	2.79%	244,054	7,676	3.29%
Loans	675,466	33,441	4.95%	610,472	32,449	5.32%
Total Earning Assets	\$1,001,348	\$41,496	4.19%	\$877,584	\$40,653	4.67%
Allowance for loan losses	(9,535)			(7,778)		
Cash and due from banks	16,453			15,765		
Other assets	58,475			57,920		
Total Assets	\$1,066,741			\$943,491		
Interest Bearing Liabilities:						
Interest bearing checking accounts	\$281,053	\$807	0.29%	\$254,228	\$1,483	0.58%
Savings and money market deposits	318,169	676	0.21%	286,719	2,237	0.78%
Time deposits	97,747	1,357	1.39%	116,814	2,086	1.79%
Total interest bearing deposits	696,969	2,840	0.41%	657,761	5,806	0.88%
Subordinated debentures	5,155	182	3.53%	5,155	248	4.81%
Borrowings	34,227	625	1.83%	27,145	915	3.37%
Total Interest-Bearing Liabilities	\$736,351	\$3,647	0.50%	\$690,061	\$6,969	1.01%
Interest Rate Spread			3.69%			3.66%
Noninterest checking accounts	218,254			155,936		
Other liabilities	7,357			5,956		
Total liabilities	961,962			851,953		
Total Stockholders' equity	104,779			91,538		
Total Liabilities and Stockholders' Equity	\$1,066,741			\$943,491		
Net Interest Income/Margin		\$37,849	3.82%		\$33,684	3.88%

(1) Management discloses certain non-GAAP financial measures to evaluate and measure the Company's performance including a presentation of net interest income with a net interest margin ratio on a tax-equivalent (TE) basis. The net interest margin is calculated by dividing net interest income on a TE basis by average earning assets for the period. Management believes this measure provides investors with information regarding comparative balance sheet profitability. Nonaccrual loans are included in the above-stated average balances.

Quarterly Financial Information

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)	FOR THE QUARTER ENDED				
	DEC. 31, 2020	SEPT. 30, 2020	JUNE 30, 2020	MAR. 31, 2020	DEC. 31, 2019
<i>(Amounts in thousands, except share and per share data)</i>					
Interest Income:					
Interest and fees on loans	\$8,079	\$8,671	\$8,658	\$8,033	\$8,284
Interest and dividends on available-for-sale securities:					
Taxable	1,598	1,607	1,618	1,505	1,496
Tax-exempt	384	372	371	323	331
Interest on deposits in other financial institutions	33	41	40	162	107
Total interest income	10,094	10,691	10,687	10,023	10,218
Interest Expense:					
Interest on deposits	458	565	639	1,177	1,400
Interest on subordinated debentures and notes	41	42	45	53	58
Interest on senior secured term note	113	119	111	156	165
Interest on other borrowings	40	47	19	22	24
Total interest expense	652	773	814	1,408	1,647
Net interest income before provision for loan losses	9,442	9,918	9,873	8,615	8,571
Provision for loan losses	1,715	2,615	2,505	765	980
Net interest income after provision for loan losses	7,727	7,303	7,368	7,850	7,591
Noninterest Income:					
Service charges on deposits accounts	781	747	610	897	1,002
Net gain on sale of loans	3,572	3,412	3,192	905	1,257
Net loan servicing (loss) income	(177)	26	(389)	110	119
Debit card interchange fees	979	1,002	924	832	876
Net gains on sales of securities available-for-sale	428	-	8	99	-
Net other gains (losses)	-	58	6	-	(87)
Increase in cash surrender value of bank-owned life insurance	75	76	74	85	75
Other	310	344	425	273	632
Total noninterest income	5,968	5,665	4,850	3,201	3,874
Noninterest Expenses:					
Salaries and employee benefits	5,851	5,585	5,477	5,035	4,964
Occupancy and equipment	986	1,137	1,074	1,083	1,038
Data processing	683	629	561	510	520
Debit card processing and issuance	384	409	394	397	449
Advertising and marketing	75	87	38	97	101
Amortization of core deposit intangible	107	107	107	115	119
Professional fees	373	386	405	367	300
Office Supplies	90	94	88	90	118
Telephone	140	138	149	150	153
Other	637	714	659	646	730
Total noninterest expenses	9,326	9,286	8,952	8,490	8,492
Income before income taxes	4,369	3,682	3,266	2,561	2,973
Provision for income taxes	1,021	819	704	487	621
Net income	\$3,348	\$2,863	\$2,562	\$2,074	\$2,352
KEY RATIOS					
Basic Earnings Per Common Share	\$1.00	\$0.86	\$0.77	\$0.63	\$0.71
Diluted Earnings Per Common Share	1.00	0.86	0.77	0.63	0.71
Dividends Per Common Share	0.11	0.11	0.11	0.11	0.10
Net Interest Margin ⁽¹⁾	3.63%	3.83%	3.99%	3.83%	3.83%
Efficiency Ratio ^{(1) (2)}	61.80%	59.39%	60.43%	71.89%	67.25%
Return on Assets	1.20%	1.03%	0.96%	0.85%	0.97%
Return on Common Equity	12.08%	10.64%	10.16%	8.31%	9.60%

(1) Non-GAAP Presentations: Management discloses certain non-GAAP financial measures to evaluate and measure the Company's performance, including the presentation of net interest income, net interest margin and efficiency ratio calculations on a taxable equivalent basis ("TE"). The net interest margin is calculated by dividing net interest income on a TE basis by average earning assets for the period. Management believes this measure provides investors with information regarding comparative balance sheet profitability.

(2) The efficiency ratio is calculated as noninterest expense divided by the sum of net interest income on a TE basis, noninterest income less any securities gains (losses) or other gains (losses), and also includes a TE adjustment on interest on tax-exempt securities, loans, and the increases in cash surrender value of bank-owned life insurance.

Quarterly Financial Information

(UNAUDITED)

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

	DEC. 31, 2020	SEPT. 30, 2020	As of JUNE 30, 2020	MAR. 31, 2020	DEC. 31, 2019
Cash and due from banks	\$12,012	\$17,403	\$14,527	\$15,240	\$12,320
Interest-bearing deposits in banks and other	46,278	47,848	25,246	6,775	27,086
Securities	352,082	317,761	301,726	265,165	237,448
Net loans/leases	668,321	681,060	697,881	626,797	625,899
Goodwill and core deposit intangible	12,018	12,125	12,232	12,340	12,455
Other assets	50,888	50,105	49,485	50,688	48,653
Total assets	\$1,141,599	\$1,126,302	\$1,101,097	\$977,005	\$963,861
Deposits	\$987,254	\$960,773	\$939,066	\$843,061	\$829,609
Subordinated debentures	5,155	5,155	5,155	5,155	5,155
Senior secured term note	12,833	13,222	13,611	14,000	14,000
Borrowings	14,000	29,000	29,000	10,000	10,035
Other liabilities	10,602	10,161	9,758	6,083	7,738
Stockholders' equity	111,755	107,991	104,507	98,706	97,324
Total liabilities and stockholders' equity	\$1,141,599	\$1,126,302	\$1,101,097	\$977,005	\$963,861

ASSET QUALITY DATA

(Amounts in thousands)

Non-accrual loans	\$7,013	\$8,584	\$8,427	\$9,680	\$10,642
Accruing loans past due 90 days or more	-	196	-	845	-
Troubled debt restructures - accruing	2,057	2,176	2,361	2,770	2,866
Total nonperforming loans	\$9,070	\$10,956	\$10,788	\$13,295	\$13,508
Other real estate owned	1	1	762	123	54
Total nonperforming assets	\$9,071	\$10,957	\$11,550	\$13,418	\$13,562
Total loans	\$679,085	\$691,003	\$707,983	\$634,957	\$633,840
Allowance for loan losses	\$10,764	\$9,943	\$10,102	\$8,160	\$7,941
	\$668,321	\$681,060	\$697,881	\$626,797	\$625,899
Nonperforming Assets to total Assets	0.79%	0.97%	1.05%	1.37%	1.41%
Nonperforming loans to total loans	1.34%	1.59%	1.52%	2.09%	2.13%
Allowance for loan losses to total loans	1.59%	1.44%	1.43%	1.29%	1.25%
Allowance for loan losses to nonperforming loans	118.7%	90.8%	93.6%	61.4%	58.8%

	DEC. 31, 2020	SEPT. 30, 2020	JUNE 30, 2020	MAR. 31, 2020	DEC. 31, 2019
ROLLFORWARD OF ALLOWANCE					
Beginning Balance	\$9,943	\$10,102	\$8,160	\$7,941	\$8,324
Provision	1,715	2,615	2,505	765	980
Loans charged off	1,334	2,892	639	633	1,463
Loan recoveries	440	118	76	87	100
Net charge-offs	894	2,774	563	546	1,363
Ending Balance	\$10,764	\$9,943	\$10,102	\$8,160	\$7,941

The Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income and Consolidated Statements of Changes in Stockholders' Equity contained in this annual report are based on the Company's 2020 audited Consolidated Financial Statements. The 2020 audited Consolidated Financial Statements and accompanying notes to Consolidated Financial Statements are available upon written request to:

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David K. Adkins

Chief Operating Officer and President &
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Todd L. Larson

Executive Vice President & Chief Credit Officer

Phyllis Oldenburg

Executive Vice President & Chief Information Officer

Matthew McDonnell

Senior Vice President & Chief Financial Officer

Tammy Zurfluh

Senior Vice President Mortgage Banking

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Senior Vice President Business Banking

Mathew Reynolds

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Vice President Human Resources

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