



## **Acquisition of First McHenry Corporation**

October 18, 2018

# Forward-Looking Statements

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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”; inability to recover previously recorded losses as anticipated, and the inability of third party vendors to perform critical services for the company or its customers.

# Strategic and Financial Rationale

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- Expansion into market with strong economy and favorable demographics.
- McHenry and Lake County markets are similar to Blackhawk's existing markets with a high number of businesses that can benefit from Blackhawk's consultative approach to banking, especially small to medium sized manufacturers.
- Continuation of Blackhawk's strategy to fund growth with core deposits while generating increasing levels of service fee income.
- Leverage Blackhawk's mortgage banking infrastructure and capabilities in a similar market but with higher average home values.
- Enhance company valuation by gaining scale, with combined assets nearing \$1 billion.
- Earnings improvements through cost savings and redeployment of excess liquidity.
- Drive shareholder value through improved earnings and increasing future EPS.
- First McHenry is a well-run non-complex organization, reducing integration risk.

# Transaction Details

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## Key Terms

- \$23 million deal value
- 100% cash consideration
- \$14 million of debt financing obtained to finance acquisition
- Anticipated closing Q1 2019
- Price / Tangible Book Value: 154%
- Price / Last Twelve Months Earnings: 22.1x
- Core Deposit Premium: 5.4%

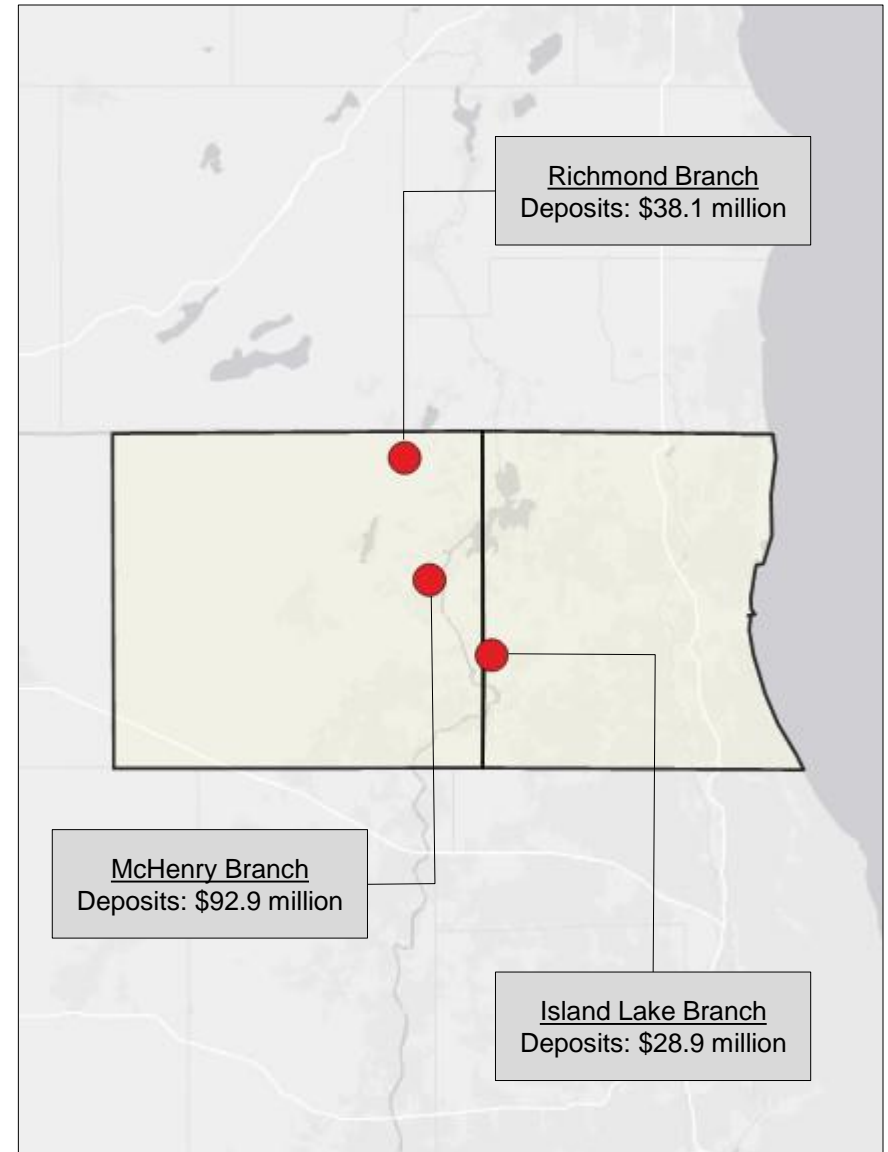
## Financial Impact

- Conservative merger assumptions do not incorporate loan growth or fee income synergies
- Zero shareholder ownership dilution
- 10.4% tangible book value dilution with a 4.25 year earn back period
- Fully realized EPS accretion of 20%

# McHenry County and Lake County Market Dynamics

- Located 60 miles northwest of Chicago
- In 2017, McHenry ranked in the top 25 for year over year deposit growth among all Illinois cities
- McHenry county boasts 3rd highest per capita income in Illinois

	McHenry County	Lake County
Population	306,828	703,060
Median Household Income	\$85,821	\$88,712
Unemployment Rate <sup>(1)</sup>	3.2%	4.1%
Deposit Market Share	1.92%	0.14%

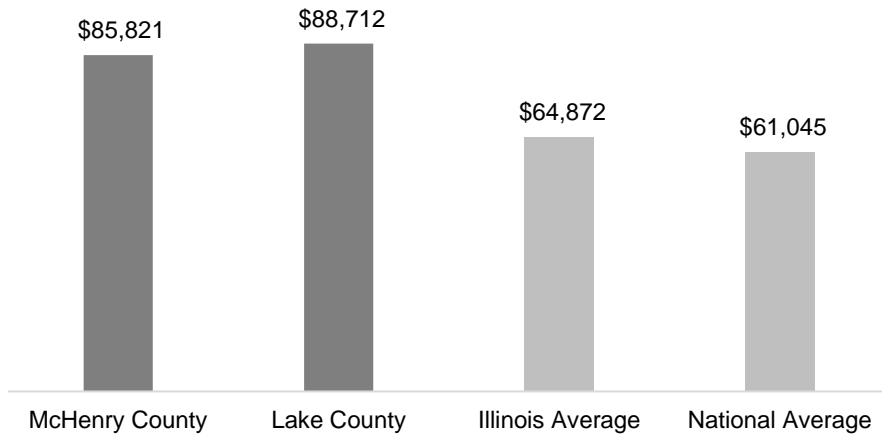


Source: S&P Global Market Intelligence, Claritas

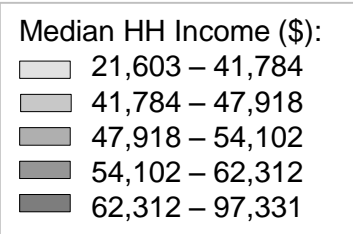
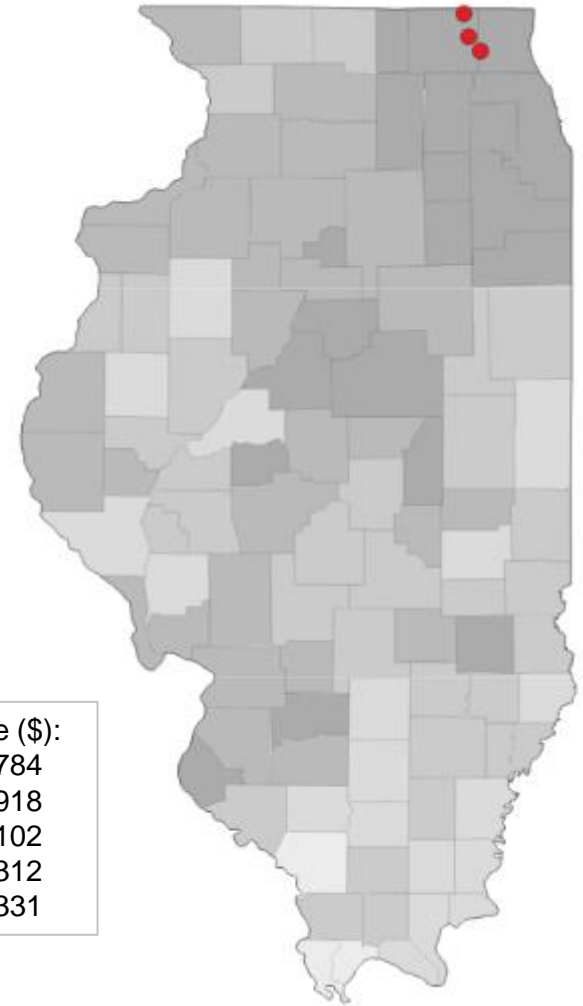
(1) Unemployment rates as of August 2018

# Median Household Income

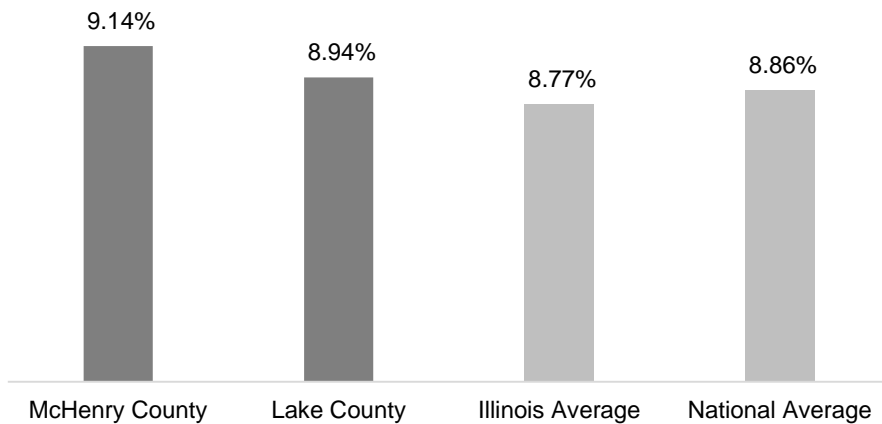
## Median HH Income: 2018



## Illinois Median HH Income by County



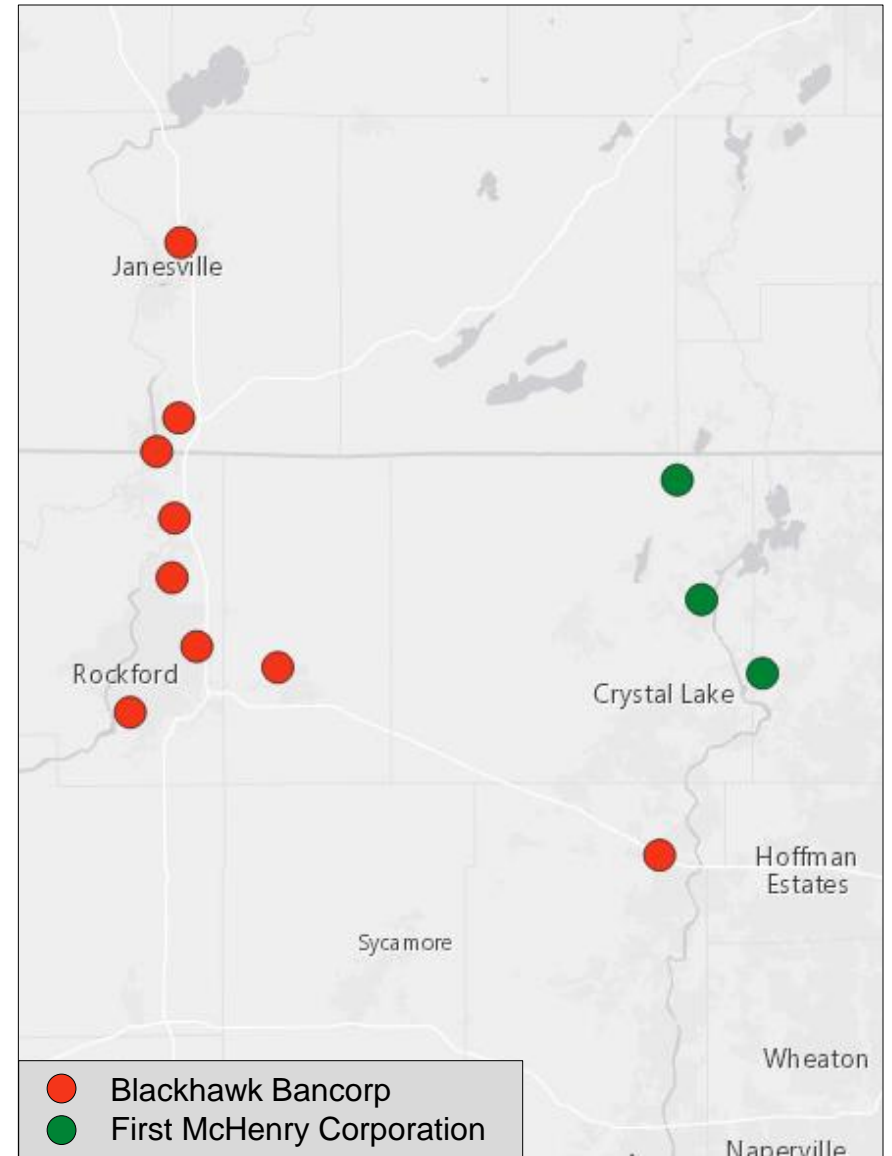
## Median Projected HH Income Growth: 2018-2023



Source: S&P Global Market Intelligence, Claritas

# Company Financial Overview

<i>(Dollar values in thousands)</i>	<b>Blackhawk Bancorp<sup>(1)</sup></b>	<b>First McHenry Corporation<sup>(2)</sup></b>
Assets	\$772,354	\$174,940
Loans	\$509,675	\$44,437
Deposits	\$680,132	\$160,511
Offices	9	3



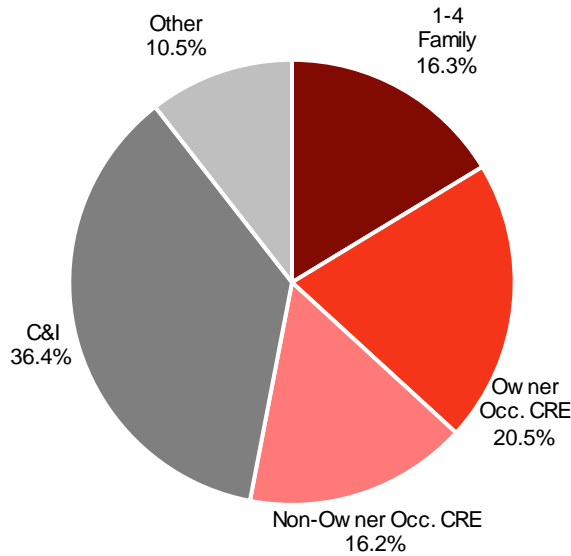
Source: S&P Global Market Intelligence

(1) Financial metrics for Blackhawk Bancorp as reported on form Y-9C

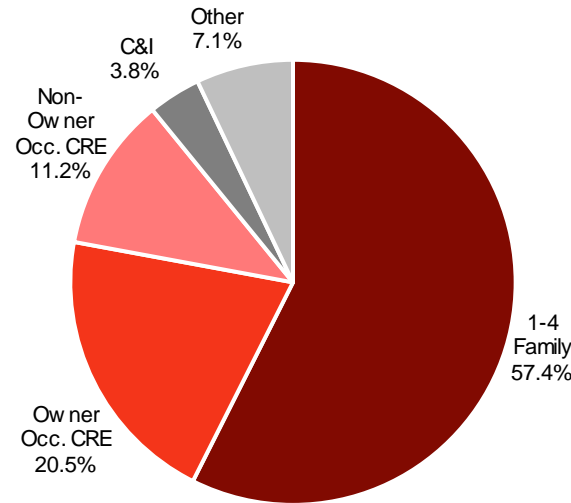
(2) Financial metrics for First McHenry Corporation as reported on the First National Bank of McHenry call report

# Loan Portfolio Diversification<sup>(1)(2)</sup>

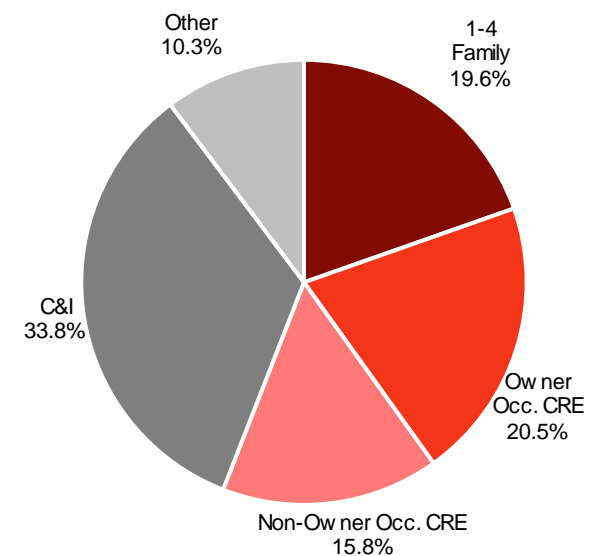
**Blackhawk Bancorp**



**First National Bank of McHenry**



**Pro Forma**



Category	(\$000s)	%
1-4 Family	83,162	16.3%
Owner Occ. CRE	104,464	20.5%
Non-Owner Occ. CRE	82,638	16.2%
C&I	185,704	36.4%
Other	53,707	10.5%
<b>Total</b>	<b>509,675</b>	<b>100.0%</b>

**Q3 2018 Yield on Loans: 5.39%**

Category	(\$000s)	%
1-4 Family	25,516	57.4%
Owner Occ. CRE	9,104	20.5%
Non-Owner Occ. CRE	4,983	11.2%
C&I	1,699	3.8%
Other	3,135	7.1%
<b>Total</b>	<b>44,437</b>	<b>100.0%</b>

**Q3 2018 Yield on Loans: 5.39%**

Category	(\$000s)	%
1-4 Family	108,678	19.6%
Owner Occ. CRE	113,568	20.5%
Non-Owner Occ. CRE	87,621	15.8%
C&I	187,403	33.8%
Other	56,842	10.3%
<b>Total</b>	<b>554,112</b>	<b>100.0%</b>

**Pro Forma Yield on Loans: 5.39%**

Source: S&P Global Market Intelligence

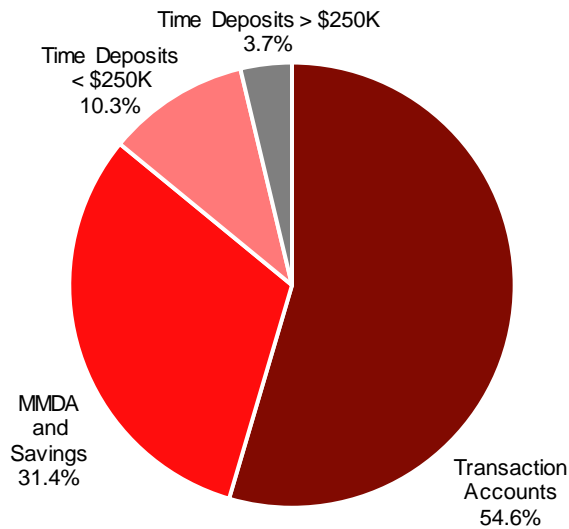
(1) Loan balances for Blackhawk Bancorp as reported on form Y-9C schedule HC-C

(2) Loan balances for First National Bank of McHenry as reported on call report schedule RC-C

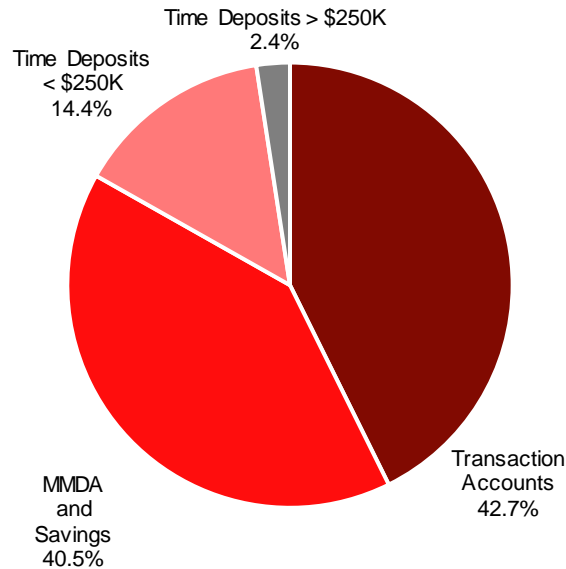


# Low Cost Deposit Franchise<sup>(1)(2)</sup>

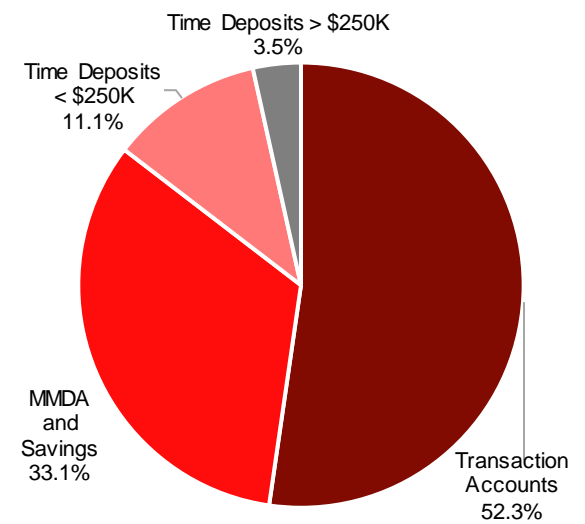
## Blackhawk Bancorp



## First National Bank of McHenry



## Pro Forma



Category	(\$000s)	%
Transaction Accounts	371,081	54.6%
MMDA and Savings	213,423	31.4%
Time Deposits < \$250K	70,275	10.3%
Time Deposits > \$250K	25,353	3.7%
Total	680,132	100.0%

**Q3 2018 Cost of Total Deposits: 0.65%**

Category	(\$000s)	%
Transaction Accounts	68,509	42.7%
MMDA and Savings	65,005	40.5%
Time Deposits < \$250K	23,100	14.4%
Time Deposits > \$250K	3,897	2.4%
Total	160,511	100.0%

**Q3 2018 Cost of Total Deposits: 0.50%**

Category	(\$000s)	%
Transaction Accounts	439,590	52.3%
MMDA and Savings	278,428	33.1%
Time Deposits < \$250K	93,375	11.1%
Time Deposits > \$250K	29,250	3.5%
Total	840,643	100.0%

**Pro Forma Cost of Total Deposits: 0.62%**

Source: S&P Global Market Intelligence

- (1) Deposit balances for Blackhawk Bancorp as reported on form Y-9C schedule HC-E. Transaction Account and MMDA and Savings Account balances based on internal Blackhawk projections that do not match the numbers in published regulatory filings.
- (2) Deposit balances for First National Bank of McHenry as reported on call report schedule RC-E