



CEOCFO

Interviews & News!

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Focusing On The Hispanic Community And Relationship Banking Gives Blackhawk Bancorp An Edge In Attracting Individual And Small Business Customers In The State Line Area Of Wisconsin And Illinois



**Financial
Commercial Bank
(BHWB-OTC: BB)**

Blackhawk Bancorp, Inc.

**400 Broad Street
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**R. Richard Bastian III
President and CEO**

BIO:

R. Richard Bastian, III is president and chief executive officer of Blackhawk Bancorp and its subsidiary Blackhawk Bank. Blackhawk is a 127 year-old, \$475

million community bank headquartered in Beloit, Wisconsin.

When he joined Blackhawk in May of 2001, he brought over 30 years of banking experience to the organization. He had previously been president of banks in Racine and Kenosha, WI, Rockford, IL and Tulsa, OK. He began his career in Philadelphia and spent his first few years in the industry as a business banker in Philadelphia and Tulsa.

He received his undergraduate degree at the University of Pennsylvania. He is also a graduate of the Stonier Graduate School of Banking.

Company Profile:

Blackhawk Bancorp, Inc. is headquartered in Beloit, Wisconsin and is the parent company of Blackhawk Bank, which operates seven banking centers in south central Wisconsin and north Central Illinois, along the I-90 corridor from Belvidere, Ill. to Beloit, Wis. Blackhawk's locations serve individuals and small businesses, primarily with fewer than 200 employees. The company offers a variety of value-added consultative services to small businesses and their employees related to its banking products such as Health Savings Accounts 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. The company is traded over the counter under the symbol BHWB.

**Interview conducted by:
Lynn Fosse, Senior Editor**

CEOCFO: Mr. Bastian, what is the focus of Blackhawk today?

Mr. Bastian: "We are a \$475 million community bank organization with soon to be 8 offices in the state line area, which includes Beloit and the Greater Rockford MSA. We have two banking centers in Beloit, two in Boone County and soon to be four in the Winnebago County. As a typical community bank, we specialize in serving the needs of individuals and small to medium sized businesses with headquarters in the area. We are particularly proud of our leadership in HSAs and Hispanic banking."

CEOCFO: What is the economy like, today in the area you serve?

Mr. Bastian: "The economy is showing some signs of strain. Although export related businesses continue to be strong, we are seeing unemployment creep up in both the Rockford and Beloit markets. The residential real estate market has slowed dramatically. We have seen some price weakness and increase in foreclosures but nothing like what has been experienced on either coast of the US. Lucky for us, our non-performing assets continue to be very low."

CEOCFO: How do you break down between retail and commercial and do you see the mix changing?

Mr. Bastian: "We have a good balance of retail and commercial business. Out of a \$300 million plus loan portfolio, a little over \$200 million is commercial with the balance consumer and mortgage loans. Since our roots are as a savings bank, we have worked very hard over the past few years to expand our share of the commercial market particularly small manufacturers. We are very much focused on relationship-based banking. We try to use our business relationships to leverage rela-

tionships with the client's employees using our in-plant banking program called Work Perks. We expect continued explosive growth in our immigrant banking initiative but do not see that having a significant impact on our basic retail and commercial mix."

CEOCFO: Blackhawk is dedicated to adding value to the banking experience; how do you do that and what sets you apart?

Mr. Bastian: "We think we set ourselves apart in a number of ways. First, we are the only bank I know of that looks at its clients and potential clients and says, 'We want to help you attract and retain talent and improve productivity in a difficult economic environment?' We organize our bank and our delivery services to answer that question. Our focus is to build a relationship by understanding needs and using our lending, cash management, human resources, technology and marketing skills to bring solutions to the table. When an employee opinion survey or benefit review joins loans and deposits in our toolbox, it gives us a bit different value proposition than the bank down the street. The Hispanic population is one of the fastest growing in both population and in household incomes. A lot of banks have bilingual staff but not a bi-cultural approach to providing service to this segment. We go beyond bi-lingual to build relationships and trust with the Hispanic community based on an extensive commitment to financial education and products tailored specifically for this segment. We think we do a pretty good job at that and are one of the leaders if not the leader in the Stateline area."

CEOCFO: Would you give me a concrete example of what you might do that's a little bit different?

Mr. Bastian: "Let me give you a couple of examples. We are the 'go to' bank for Health Savings Accounts in our area because of the unique way we manage and deliver the product. We manage the health savings accounts not out of our retail banking area, but out of our human resource area. We recognize, first, that

the client and his insurance agent need to make a benefit decision, which is to go towards high deductible healthcare plan. Once that decision is made, the HSA follows. We work with over 120 health insurance agents to help them communicate the benefits of high deductible healthcare plans to clients. Once the benefit decision is made we help the client draft communications plans to promote understanding and acceptance in his or her workforce. We even assist the agent in sign-up. From the agent, client and employee perspectives it is a win-win."

"We have also positioned our Human Resources department as a consultancy to small businesses who are not capable of staffing themselves with HR professionals. We have done things like opinion poll opinion surveys, personnel policy

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manuals as well as benefit analyses and reviews. As an example, a client of ours has started a medical beauty spa where clients can get injectibles and non-evasive beauty enhancing processes. We did a focus group with employees on how to organize and align themselves in a way that maximizes the customer's experience. We talked about expectations and upgraded the employee manual. The feedback from this client and others is that we have done something they never thought a bank would do and that is provide value in a way that allows them to be more successful. We are not just committed to lending money; we are committed to making them more successful by using all of the resources in the bank."

CEOCFO: You surely think outside the box!

Mr. Bastian: "Yes. We pride ourselves on finding ways to be just a bit different."

CEOCFO: What's the financial picture like for Blackhawk today?

Mr. Bastian: "We are a well capitalized bank that has recorded record earnings in the first and second quarter. Our non-performing loans are quite low and are at levels better than most of our peers. We didn't make sub-prime loans and don't own any Freddie Mac or Fannie Mae stock. We are experiencing year on year growth of 7, 8, and 9% in loans and deposits as we have taken advantage of the opportunities offered by the bigger banks distracted by their own loan and capital problems. At \$10 a share and seven times earnings, we are a heck of a buy. Our annual dividend of \$.36 per share is well protected."

CEOCFO: What's the competitive landscape like with other community banks and why are people coming to you?

Mr. Bastian: "It is a very competitive banking environment. Three or so new banks have been organized in the past few years. I know that we have grown because of our high interest checking account, until recently an exclusive for us in the area. We are the only bank offering Sunday hours in its stand-alone branches. Our turnaround time on loan requests also seems to be a factor in the decision to bank with us."

CEOCFO: Blackhawk has a long history; is that important today – do people care about that anymore?

Mr. Bastian: I don't think it makes a whole lot of difference. I think it's probably nice for people to understand that you have been around since 1881. With heightened concerns over the economy and FDIC insurance coverage, it's who we are today that is really important. What is your financial condition today? How well do you serve the client? What kind of value added services do you bring to the table? That's the sort of stuff that goes into to the decisions people make about where they bank."

CEO CFO: Is wealth management a growing area for you?

Mr. Bastian: "It's relatively small, but it's a rapidly growing area for us. We do our do our brokerage and wealth management through our affiliation with Raymond James. We have had substantial increases over the past year in our revenue from our wealth management and retirement plan activities."

CEO CFO: Would you tell about your branching strategy?

Mr. Bastian: "Because of remote capture, it is not as pressing to put brick and mortar facilities everywhere as much as it once was. Therefore, our strategy has been to really use branching as a way of extending our reach to the niche markets we serve. After years of consolidating our branch footprint, we are opening a new branch in November. We now have one branch located on the East side of Rockford, a community of about 150,000. We will be opening another facility in the South Central part of town where a lot of the older industrial base is. We are focused on being particularly good at serving manufacturing which accounts for about 20% of the employment base in Rockford and Beloit. I am probably the only bank president who had been through the lean manufacturing course. Although the manufacturing in the United States has shrunk, we think what is left will be a very viable segment of our business base for years to come."

CEO CFO: You put a lot of focus on your employees and feedback and really making a positive experience for your people

and for your customers; tell us a little a bit about what you do there that's different.

Mr. Bastian: "Feedback is the essence of good performance and outstanding customer service. Besides having an active coaching culture, we do an employee opinion survey every other year. We share the feedback, good, bad or indifferent, with the employees. We develop action plans, very specific action plans to address the important issues. We then circle back on a regular basis and provide them feedback on where we stand on each of the action plans. We believe that this has built a level of commitment and trust you don't see much of these days."

We communicate like crazy. We have all employee meetings about every quarter where we talk about what's going on and answer questions. We think that being open and honest with our employees is the only way to build lasting relationships with our employees and give them the knowledge and confidence to build lasting relationships with our customers.

We ask the customer and we listen. Customer surveys and focus groups are useful tools to help us understand what works and what needs to be improved. We also have an active mystery-shopping program, which allows us to assess our delivery of the customer experience and provides coaching opportunities to improve performance."

CEO CFO: Are there services that you would like to add or that you plan to add that you don't offer now?

Mr. Bastian: "We are looking at mobile banking as a logical extension of the current technology. We are also looking for opportunities to extend our product offerings for the Hispanic market. We are always open to new ideas and don't mind being a leader."

CEO CFO: There are a lot of banks for investors to look at; why pick Blackhawk out of the crowd?

Mr. Bastian: "We have an experienced management team that has proven it can manage and mitigate risk in a variety of economic and interest rate environments. Performance should be the ultimate criterion. We have improved margin in an environment where many banks have struggled. Our problem loans have remained low while others' have soared. We have no subprime mortgages when other institutions are awash in them. We have reported record earnings for the first half of 2008 when others have reported record losses. We have limited float, but at seven or eight times earnings, we are not a limited value."

CEO CFO: Final thoughts; what should people reading about Blackhawk Bank remember most?

Mr. Bastian: "Blackhawk is a disciplined, focused and successful community banking organization providing value added to clients and shareholders."



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