



Bancorp. of Southern Indiana

2019 Annual Report

Message To Shareholders

I am delighted to report that 2019 was an extremely productive year for Bancorp. of Southern Indiana (“BSI”) that resulted in exceptional financial performance for the organization and its shareholders.

During the course of 2019, our dedicated team continued to devote meaningful time to the ongoing execution of the strategic plan initiatives approved by the board in late 2018. The results not only positively impacted current year results, but will serve to position BSI for future growth. In the first quarter of 2019, JCB’s loan production offices in Bloomington and North Vernon were converted to full-service locations, where their deposit-taking capabilities aided in the overall deposit growth achieved throughout the year.

In order to remain competitive in the marketplace, ongoing investments were made in our technological offerings. During 2019, upgrades were made to our Business Online Banking platform, along with the implementation of check positive pay, which serves as a fraud mitigant. To further assist our customers and provide additional conveniences, Intuit’s “Web Connect” and “Direct Connect” were made available whereby customers can download bank transaction activity directly into their QuickBooks® or Quicken® software. Another exciting new product offering involved the roll-out of the “Pays”, including Apple Pay®, Google Pay™ and Samsung Pay®. These digital wallet applications are becoming more widely accepted and our customers deserve the conveniences that come along with this technology.

The organization welcomed three new members to its senior leadership team during the year, which included Mr. Chad Key as Senior Vice President, Chief Financial Officer, Mr. Dan Anderson as Senior Vice President, Chief Wealth Management Officer and Mr. Andy Applewhite as Senior Vice President, Chief Mortgage and Consumer Lending Officer. These three individuals, along with the other members of the senior leadership team, bring experience and knowledge to position BSI for future growth and success.

Operational efficiencies also remained top-of-mind, with a number of existing contracts with third-party vendors being reviewed and renegotiated to ensure appropriate pricing. During 2019 such initiatives resulted in significant cost savings to the organization.

The Board of Directors voted in early 2019 to terminate the JCB’s employee pension plan. The plan had been frozen since 2007 with no additional benefits being accrued for its participants, but based on the annual evaluation, it was not cost effective to terminate the plan until 2019. While the termination costs included in the current year’s income statement are significant, the organization will experience an ongoing future costs savings, as certain annual administrative costs are no longer required. A significant recovery on a loss the organization realized in a previous year more than offset the one-time, non-recurring pension plan termination expense. Because BSI shareholders were negatively impacted in the particular year the loss was realized, the board of directors believed it to be appropriate that BSI shareholders share in those funds that were recovered in 2019, and therefore voted to declare a “special” dividend of \$0.20 per share.

The US economy has expanded for a record 126 straight months, which is the longest expansion in American history, even surpassing the economic surge of the 1990’s. The 2019 US economy drew its strength from a total of three interest rate cuts totaling 75 basis points from the Federal Reserve’s Federal Open Market Committee, historically low unemployment, strong labor markets, and improvement in stock market returns. This economic growth occurred despite the backdrop of foreign trade disputes and other national and international uncertainties.

At December 31, 2019, BSI's total assets grew to \$591,510,000, an increase of \$21,837,000, or 3.8% over the prior year. Net income for 2019 totaled \$5,534,000, which represents an increase of \$1,215,000, or 28.1%, over the \$4,319,000 recorded in 2018. I am proud to report this is the first time in the organization's history that net income has eclipsed the five million dollar mark. Return on Average Equity in 2019 was 9.86%, which compared to 8.50% in 2018. Likewise, Return on Average Assets also improved to 0.94% in the current year, which is an improvement of 14 basis points over the 0.80% posted in 2018. In addition, other 2019 highlights include the following:

- Total gross loans outstanding grew \$16,184,000, or 3.8%, to \$437,110,000
- Deposit total escalation of \$19,817,000, or 4.5%, to end the year at \$462,145,000
- Total capital at December 31, 2019 was \$58,334,000, an increase of \$5,615,000, or 10.7%
- Net interest income improvement of \$1,407,000, or 8.5%, over the prior year
- Total noninterest income totaled \$8,014,000, an increase of \$1,914,000, or 31.4%
- Total noninterest expense rose 11.2% for the year to \$19,075,000
- Earnings Per Share for the year was \$4.08 per share, an increase of 28.3% over 2018
- A 25% increase (including the \$0.20 per share "special" dividend) in total cash dividends paid to \$1.25 per share
- Dividend yield increase of 23.2% to 2.02% (includes the \$0.20 per share "special" dividend)
- Continued improvement in asset quality measures
- Combined assets under management of the wealth management areas (brokerage and trust) surpassed the \$500 million mark as of year-end

As previously communicated to BSI shareholders, the role of the BSI and JCB Chairman of the Board transitioned from James T. McCoy to Warren L. Forgey, effective January 1, 2020. Please see page 5 for additional information regarding the chairmanship transition.

As we start a new decade in 2020, we look to build on the momentum gained over the last few years. We maintain an optimistic view and expect healthy loan growth, based on a combination of the interest rate forecast which appears to be relatively unchanged for at least the majority of the year and the customer-focused approach taken by our lending teams. We are also enthusiastic about the opportunities that exist in our growing wealth management area of the organization.



Marvin S. Veatch, President

I would like to thank our customers for their business as well as our stakeholders for their investment and continual confidence in BSI and JCB. As our team members eagerly embrace the community banking model, I pledge to you we remain steadfast in our goal to make JCB your full-service community bank of choice.

A handwritten signature in black ink that reads "Marvin S. Veatch". The signature is written in a cursive, flowing style.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands except per share data)

	2019	2018	Percentage Change
Operating Results:			
Net interest income	\$ 17,985	\$ 16,578	8.49%
Noninterest income	8,014	6,100	31.38%
Noninterest expense	19,075	17,161	11.15%
Net income	5,534	4,319	28.13%
Cash dividends paid	1,696	1,357	24.98%
Return on average equity	9.86%	8.50%	16.00%
Return on average assets	0.94%	0.80%	17.50%
Per Share Data:			
Net income	\$ 4.08	\$ 3.18	28.30%
Dividends	1.25	1.00	25.00%
Book value	42.98	38.85	10.63%
Number of average shares outstanding	1,357,134	1,357,134	0.00%
Number of shares outstanding	1,357,134	1,357,134	0.00%
Number of stockholders	410	411	-0.24%
Year-End Totals:			
Assets	\$ 591,510	\$ 569,673	3.83%
Deposits	462,145	442,328	4.48%
Loans held-for-sale	387	704	-45.03%
Loans, net	433,279	417,217	3.85%
Stockholders' equity	58,334	52,719	10.65%
Averages:			
Assets	\$ 587,913	\$ 542,366	8.40%
Deposits	462,269	431,566	7.11%
Loans held-for-sale	628	524	19.85%
Loans, net	423,369	387,207	9.34%
Stockholders' equity	56,107	50,785	10.48%
Asset Quality:			
Nonperforming assets / Assets	0.52%	0.72%	-27.78%
Nonperforming assets / Capital + Allowance	4.94%	7.24%	-31.77%
Allowance / Nonperforming loans	132.84%	95.31%	39.38%

Additional financial information, including the audited consolidated financial statements, can be accessed at www.jcbank.com/know-jcb-bsi/bsi-investor-relations/financial-information

FIVE YEAR SUMMARY

(Dollar amounts in thousands except per share data)

	2019	2018	2017	2016	2015
Assets:					
Cash and cash equivalents	\$ 28,393	\$ 15,090	\$ 9,636	\$ 18,324	\$ 53,071
Interest-bearing CDs with other financial institutions	8,155	12,070	18,321	21,293	21,270
Investments	87,530	91,773	92,945	98,472	85,955
Loans held-for-sale	387	704	54	797	654
Loans, net	433,279	417,217	364,667	328,993	306,208
Bank premises and equipment, net	7,225	7,448	7,153	5,131	6,319
Other assets	26,541	25,371	20,853	24,203	21,432
Total assets	\$ 591,510	\$ 569,673	\$ 513,629	\$ 497,213	\$ 494,909
Liabilities:					
Noninterest-bearing deposits	\$ 75,657	\$ 73,699	\$ 74,579	\$ 67,278	\$ 71,337
Interest-bearing deposits	386,488	368,629	341,120	305,367	301,750
Total deposits	462,145	442,328	415,699	372,645	373,087
Short-term borrowings	6,105	9,230	4,132	32,164	27,164
Long-term debt	55,000	55,000	39,000	40,000	44,000
Note Payable	2,500	3,500	0	0	0
Other liabilities	7,426	6,896	5,054	5,190	4,036
Total liabilities	533,176	516,954	463,885	449,999	448,287
Stockholders' equity	58,334	52,719	49,744	47,214	46,622
Total liabilities and stockholders' equity	\$ 591,510	\$ 569,673	\$ 513,629	\$ 497,213	\$ 494,909
Summary of Operations:					
Interest income	\$ 22,948	\$ 20,082	\$ 16,753	\$ 14,961	\$ 14,116
Interest expense	4,963	3,504	2,540	2,232	2,294
Net interest income	17,985	16,578	14,213	12,729	11,822
Provision for loans losses	425	500	475	400	100
Net interest income after provision for loan losses	17,560	16,078	13,738	12,329	11,722
Noninterest income	8,014	6,100	5,284	4,872	4,777
Noninterest expense	19,075	17,161	14,297	13,523	12,566
Income before income taxes	6,499	5,017	4,725	3,678	3,933
Provision for income taxes	965	698	1,438	466	673
Net income	\$ 5,534	\$ 4,319	\$ 3,287	\$ 3,212	\$ 3,260
Earnings per share	\$ 4.08	\$ 3.18	\$ 2.42	\$ 2.37	\$ 2.40
Cash dividends per share	\$ 1.25	\$ 1.00	\$ 0.94	\$ 0.93	\$ 0.93
Average shares outstanding	1,357,134	1,357,134	1,357,134	1,357,134	1,357,134

Chairman of the Board Transition

In September of 2019, BSI and JCB officially announced the succession plan for the Chairman of the Board. Mr. James T. McCoy, who will remain an active board member, notified the board of his intent to voluntarily step down from the non-executive chairmanship role after serving as BSI and JCB Chairman of the Board since November, 2005. The board relied on its strong corporate governance history and experience to develop a well-thought-out process to select Mr. McCoy's successor. The BSI and JCB board of directors, after careful consideration, elected Mr. Warren L. Forgey to serve as the 8th chairman in the organization's history.

Currently, Mr. McCoy has been associated with the bank for over 46 years, including serving on the the JCB Board of Directors since February, 1973, and BSI since its inception in October, 1983. McCoy has served as the BSI and JCB board chairman for the last 14 years, succeeding Edward P. Elsner. During his tenure as Chairman, BSI assets have grown from \$348.1 million to \$591.5 million, an increase of \$243.4 million.

Throughout Mr. McCoy's chairmanship, there have been a number of organizational achievements, technological advancements and successful milestones reached. In addition to the asset growth, JCB also constructed a new state-of-the-art banking facility in Columbus, entered into the Bloomington banking market and acquired a wealth management brokerage practice.

Mr. McCoy stated, "It has been an honor and a privilege to serve as Chairman of BSI and JCB. I feel extremely fortunate to have had an opportunity to lead BSI and JCB and its excellent Board of Directors. These very talented and dedicated individuals are committed to the success of this organization. I am pleased to have Warren Forgey succeed me in the Chairman role and am excited and confident in his future leadership of this organization."

Mr. Warren L. Forgey, current President and CEO of Schneck Medical Center, joined the boards of BSI and JCB in July, 2009. Prior to being named chairman, Mr. Forgey served as a member and Chairman of the bank's Human Resources Committee, and as a member of the Loan Committee, Trust Committee and Financial Planning Committee. Mr. Forgey joined Schneck Medical Center in 1992 and has held a variety of progressively responsible financial and operational leadership positions with that organization, including Vice President/Chief Financial Officer, Executive Vice President Fiscal

Services/Business Development, and Executive Vice President and Chief Administrative and Operations Officer until being appointed President and CEO of Schneck Medical Center in April, 2015.

"I am truly honored to be selected by the board to succeed Jim McCoy. During his tenure, Jim's leadership has been instrumental to BSI's growth and success. I look forward to continuing to build upon Jim's community bank-minded philosophy and support the organization's mission to create long-term value for our shareholders, our customers and our communities," said Mr. Forgey.



Immediate Past Chairman Mr. Jim McCoy and Newly Elected Chairman Mr. Warren Forgey

BSI President, Marvin S. Veatch, commented, "The entire BSI and JCB family is extremely grateful to Jim for his leadership during his 14 years as Chairman. Jim has provided key experience and sound counsel that has guided our board and organization. Without his leadership, BSI and JCB would not be the strong community bank it is today. I am pleased to be able to continue my working relationship with Warren in his new role as Chairman of the Board. Warren's diverse business background and experience, along with his leadership and proven track record will be extremely valuable in his role of Chairman of the Board."

Officers of Bancorp. of Southern Indiana

JAMES T. MCCOY Immediate Past Chairman of the Board
WARREN L. FORGEY Newly Elected Chairman of the Board
(Effective January 1, 2020)
MARVIN S. VEATCH President
CHAD A. KEY Vice President/Treasurer
MELODIE K. YARNELL Vice President/Secretary

Senior Leadership of JCB

MARVIN S. VEATCH President, Chief Executive Officer
DAN ANDERSON Senior Vice President, Chief Wealth
Management Officer
ANDY APPLEWHITE Senior Vice President, Chief Mortgage
and Consumer Lending Officer
GARY E. GREEN Senior Vice President, Chief Information
Systems Officer
MARY ELLEN JAYNES Senior Vice President, Chief Credit
Administration Officer
CHAD A. KEY Senior Vice President, Chief Financial Officer
JEFFREY B. NOLTING Senior Vice President, Chief Banking Officer
MELODIE K. YARNELL Senior Vice President, Chief Risk and
Management Services Officer

Board of Directors

JOSEPH M. BLACK JR. Attorney, Standing Trustee, Chapters 12
and 13 for the Southern District of Indiana
MARK A. DENNIS Founder and Principal Owner of Mark Dennis
and Company, CPA Inc.
WARREN L. FORGEY Newly Elected Chairman of the Board,
Bancorp. of Southern Indiana and JCB and CEO, Schneck Medical
Center
DAVID M. GEIS President, Bancorp. of Southern Indiana (Retired),
President and CEO, JCB (Retired)
SUSAN G. JUDD Community Volunteer
JAMES T. MCCOY Immediate Past Chairman of the Board, Bancorp.
of Southern Indiana and JCB and President, JayC Food Stores
(Retired)
MARSHALL E. ROYALTY Owner, Crane Hill Machine & Fabrication
BRIAN P. RUSSELL President and Founder, Russell Development
Company
MARVIN S. VEATCH President, Bancorp. of Southern Indiana
President and CEO, JCB

Directors Emeriti

DAVID L. BOTTORFF Worldwide Distributor Business Unit
Controller, Cummins Inc. (Retired)
JOHN D. BRITTON Seymour Community School Corp.,
Administrator (Retired)
JAMES A. JOHNSON President, Midway Supply Corp. (Retired)
CHARLES A. REBBER Former Chairman, Hoosier Parts
Warehouse (Retired)

Officers of JCB

JIM D. GRAY, JR. VP, Commercial Banker, Treasury Management
JASON E. KNIGHT VP, Retail Banking Officer
MARK J. MALONEY VP, Retail Lending
DAVID B. RICHARDSON VP, Commercial Banker
TIMOTHY G. RISEN VP, Commercial Banker
MICHELLE K. SCHAEFER VP, Commercial Banker
HOLLY A. SIPE VP, Organizational Services
JENNIFER L. AULT AVP, Retail Banking Operations Leader
RICHARD A. BICKNELL AVP, Retail Real Estate Lending Officer
JERI A. BURBRINK AVP, Retail Real Estate Lending Officer
BRIAN G. CHASTAIN AVP, Special Assets
WILLIAM D. CLARK AVP, Lending Administration Leader
ROBIN E. COLLINGSWORTH AVP, Retail Real Estate Lending Officer
KRISTEN N. GOECKER AVP, Marketing Director
JOSEPH T. GREEN AVP, Facilities & Purchasing
BRENDA JO HABENICHT AVP, Retail Real Estate Lending Officer
BRIAN W. HAMP AVP, Investment Management & Trust Services
BRANDON L. HUNSLEY AVP, Investment Management &
Trust Services

MARY ANNE JORDAN AVP, Senior Retail Real Estate Lending Officer
JULIE A. KLOOTE AVP, Senior Commercial Analyst
CHRISTOPHER R. MARKS AVP, Information Security
KIM A. STEIN AVP, Internal Audit & BSA Officer
LESLIE A. UNRUE AVP, Deposit Services
LINDA M. WELZ AVP, Retail Loan Operations Leader
AMANDA M. YOUNG AVP, Retail Real Estate Lending Officer
ASHLEY T. ABNER Officer, Commercial Banker, Treasury Management
PATRICK G. BALLARD Officer, Investment Services Executive
CLIFF W. BROCK Officer, Investment Services Executive
JESSICA D. DICKEN Retail Real Estate Lending Officer
CAMERON J. GLENN Officer, Controller
MEGAN L. GRUNDEN Retail Real Estate Lending Officer
BRET A. KROGER Retail Real Estate Lending Officer
GALEN D. KRUMME Officer, Investment Services Executive
KELLEY R. RICE Officer, Employee Relations
DENISE S. SIEFKER Assistant Trust Officer
MARY B. SPEER Retail Real Estate Lending Officer
PAMELA V. STRINGER Officer, Retail Loan Underwriter

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