Bancorp. of Southern Indiana

2015 Annual Report

Message To Shareholders

BSI's wholly owned subsidiary, Jackson County Bank, completed 115 years of business during 2015. This is a significant milestone in JCB's history and worthy of reflection. A small group of people came together in May, 1900, and with great resolve, marshalled what was then the required amount of capital, $25,000, to charter a state bank. Those original stockholders, the board of directors they elected, the employees that were hired and the very first customers they served deserve our gratitude and praise. They are the legacy of what has today become a leading independent state banking organization, now serving customers and communities throughout south central Indiana. We are thankful for all of those constituents who have followed and who have upheld the principles and core values set forth by those original founders. We resolve to continue that legacy of ownership, independence and service.

BSI's 2015 financial results were respectable and produced achievements and initiatives that are believed to benefit shareholders in the future; however, 2015 consolidated net income fell short of the net income amounts posted over the past three years.

Consolidated net income for 2015 amounted to $3,260,000, a decrease of $491,000, or 13.1%, from last year's consolidated net income of $3,751,000. As I wrote in the "Update From The President" in each of 2015's Quarterly Performance Profiles, the decrease in earnings can be attributed to continuing net interest income compression. This was contributed to by the sustained low interest rate environment, continuing excess liquidity that earned nominal rates of return and a lower-than-expected amount of outstanding loans on BSI's balance sheet throughout the year to absorb more of the company's substantial liquidity. The result was that Net Interest Income decreased year-over-year by $199,000. Although net loan losses during 2015 were quite nominal, amounting to $11,000, management recorded $100,000 in Provision for Loan Losses in connection with the year-over-year loan growth, most of which occurred in the last quarter of the year. This level of provision expense resulted in a year-over-year earnings decrease of $250,000. Additionally, a $472,000 non-recurring source of noninterest income which was recognized during 2014 further contributed to the year-over-year consolidated net income decrease. Partially offsetting these decreases to net income was continued containment of non interest expenses, which declined a total of $127,000 from the prior year, along with a reduction of $318,000 in provision for income tax. The year-over-year decrease in consolidated net income also led to lower consolidated net income per share - $7.21 per share in 2015 compared with $8.29 per share in 2014. Similarly, return on average stockholders' equity was 7.14% and 8.78% for 2015 and 2014, respectively.

Notwithstanding the lower earnings posted for the year, BSI's board of directors was pleased to maintain a **healthy cash dividend** for our stockholders of $2.80 per share. The resulting 2015 dividend yield was 3.29% compared with 3.73% in 2014. The dividend yield was somewhat lower for the current year due to a higher beginning of year market price of $85.00 per share. BSI's dividend yield compared quite favorably to the S&P 500's 2015 average dividend yield of 2.11%. BSI's dividend yield is also favorable to other current investment options with similar lower risk characteristics.

The **market price for BSI stock** (for trades of which management is aware) rose consistently and significantly throughout 2015. The stock price began the year at $85.00 per share and ended the year at $98.00 per share, an increase of

$13.00 per share or 15.3%. This is the largest year-over-year increase in recent history and certainly since the Great Recession. It is reflective of BSI's consistent earnings performance, strong dividend and a standing list of interested investors.

BSI's **balance sheet experienced growth** in total assets to $494,909,000 at year-end 2015, an increase of $40,028,000, or 8.8%, from the prior year ending assets total of $454,881,000. Net loans outstanding at year-end 2015 totaled $306,208,000, an increase of $13,522,000, or 4.6%, compared with $292,686,000 at year-end 2014. Funding sources, including deposits and borrowed funds, amounted to $444,251,000 at year-end 2015, compared with $406,348,000 at year-end 2014, an increase of $37,903,000, or 9.3%.

BSI's **asset quality is stable** although work continues to further reduce problem assets. Non-performing Assets to Assets ended 2015 at a respectable 2.15% compared with 1.83% at the prior year-end. At December 31, 2015 and 2014, the ratio of Nonperforming Assets to Capital plus Allowance was 21.61% and 17.86%, respectively. As stated previously, the $11,000 in net charged-off loans along with the $100,000 in Provision for Loan Loss expense led to an $89,000 increase in the Allowance for Loan Losses to primarily support loan growth to assure an appropriate level of reserves.

BSI's **consolidated capital remains a strong aspect** of its balance sheet at $46,622,000 at year-end 2015, resulting in a leverage ratio of 9.4%. All of JCB's capital ratios exceed Regulatory minimum levels and are considered to be "Well-Capitalized."

BSI formed a **new subsidiary, JCB Risk Management, Inc.** in August, 2015, to insure and thereby protect from loss a wide variety of risks not typically insured through traditional commercial insurance policies for financial institutions. The insurance premiums paid by JCB and other wholly owned subsidiaries to JCB Risk Management, Inc. represent self-insurance for potential losses. This structure also involves a loss-sharing arrangement with other like-kind financial institutions for catastrophic losses. The premiums for this self-insurance provide a federal tax benefit, thereby significantly reducing consolidated federal income tax for 2015 and beyond.

Two new board members were elected to the BSI and JCB board of directors in October, 2015. Brian Russell, of Columbus, Indiana, and Marshall Royalty, of Seymour, Indiana, were elected to ultimately fill two vacancies that will be created by the retirements of long-term directors Jim Johnson and John Britton in January, 2017. It has been the long-held belief and practice of our board of directors to provide appropriate lead time for new directors to become oriented and informed as to all aspects of BSI and JCB and the extensive regulatory nature of the banking industry. Messrs. Russell and Royalty bring extensive experience and strong business acumen from their respective businesses and business ventures that will provide guidance and counsel to BSI and JCB's management team.

JCB has spent months in a search for an appropriate site for a **new banking center in Columbus, Indiana,** to replace our Clover Center site with expanded and updated services. This search and negotiations culminated in the purchase of two parcels of land located on Central Avenue immediately adjacent to the new Kroger Marketplace currently under construction. Plans are under way to complete a new, state-of-the-art banking center at this site by late 2016 or early 2017. The banking center will feature traditional and modern customer banking conveniences and include drive-thru lanes, ATM and convenient on-site parking.

An improving national and regional economy, in conjunction with gradual gains in consumer and business confidence and BSI initiatives either already put in place or planned lead your BSI board of directors and leadership team to be encouraged about the future of the organization.

I want to take this opportunity to praise and thank each and every team member within our organization. Their **hard work and dedication** to JCB, its customers and the communities we serve, are the ingredients to our continued successful growth and profitability.

Finally, I want to thank BSI's stockholders for their confidence and investment in BSI. As always, I and any of our senior leadership members and board members welcome your questions and comments about BSI's results and ongoing performance.

Sincerely,

David M. Geis

David M. Geis
President

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands except per share data)

	2015	2014	Percentage Change
Operating Results:			
Net interest income	$ 11,822	$ 12,021	-1.66%
Noninterest income	4,777	5,264	-9.25%
Noninterest expense	12,566	12,693	-1.00%
Net income	3,260	3,751	-13.09%
Cash dividends paid	1,266	1,268	-0.16%
Return on average equity	7.14%	8.78%	-18.68%
Return on average assets	0.67%	0.84%	-20.24%
Per Share Data:			
Net income	$ 7.21	$ 8.29	-13.03%
Dividends	2.80	2.80	0.00%
Book value	103.06	97.57	5.63%
Number of average shares outstanding	452,378	452,452	-0.02%
Number of shares outstanding	452,378	452,378	0.00%
Number of stockholders	401	405	-0.99%
Year-End Totals:			
Assets	$ 494,909	$ 454,881	8.80%
Deposits	373,087	355,000	5.09%
Loans held-for-sale	654	978	-33.13%
Loans, net	306,208	292,686	4.62%
Stockholders' equity	46,622	44,137	5.63%
Averages:			
Assets	$ 485,177	$ 445,489	8.91%
Deposits	361,347	339,343	6.48%
Loans held-for-sale	459	476	-3.57%
Loans, net	296,212	287,991	2.85%
Stockholders' equity	45,646	42,734	6.81%
Asset Quality:			
Nonperforming assets / Assets	2.15%	1.83%	17.49%
Nonperforming assets / Capital + Allowance	21.61%	17.86%	21.00%
Allowance / Nonperforming loans	38.90%	62.02%	-37.28%

Additional financial information, including the audited consolidated financial statements, can be accessed at jcbank.com under "BSI Investor Relations."

FIVE YEAR SUMMARY

(Dollar amounts in thousands except per share data)

	2015	2014	2013	2012	2011
Assets:					
Cash and cash equivalents	$ 53,071	$ 47,646	$ 28,463	$ 29,039	$ 25,223
Interest-bearing CDs with other financial institutions	21,270	11,960	6,360	6,355	2,925
Investments	85,955	74,947	86,397	105,160	60,947
Loans held-for-sale	654	978	530	1,462	1,795
Loans, net	306,208	292,686	289,421	277,946	271,430
Bank premises and equipment, net	6,319	4,284	4,314	4,568	4,877
Other assets	21,432	22,380	25,365	23,066	22,775
Total assets	**$ 494,909**	**$ 454,881**	**$ 440,850**	**$ 447,596**	**$ 389,972**
Liabilities:					
Noninterest-bearing deposits	$ 71,337	$ 64,946	$ 61,400	$ 61,177	$ 50,906
Interest-bearing deposits	301,750	290,054	277,227	296,992	253,258
Total deposits	373,087	355,000	338,627	358,169	304,164
Short-term borrowings	27,164	8,348	12,435	22,435	15,039
Long-term debt	44,000	43,000	45,000	20,286	23,841
Other liabilities	4,036	4,396	5,127	6,245	8,764
Total liabilities	448,287	410,744	401,189	407,135	351,808
Stockholders’ equity	46,622	44,137	39,661	40,461	38,164
Total liabilities and stockholders’ equity	**$ 494,909**	**$ 454,881**	**$ 440,850**	**$ 447,596**	**$ 389,972**
Summary of Operations:					
Interest income	$ 14,116	$ 14,378	$ 15,063	$ 15,904	$ 16,803
Interest expense	2,294	2,357	2,435	2,908	3,765
Net interest income	11,822	12,021	12,628	12,996	13,038
Provision for loans losses	100	(150)	925	550	1,300
Net interest income after provision for loan losses	11,722	12,171	11,703	12,446	11,738
Noninterest income	4,777	5,264	4,953	5,068	4,702
Noninterest expense	12,566	12,693	12,324	12,637	12,276
Income before income taxes	3,933	4,742	4,332	4,877	4,164
Provision for income taxes	673	991	820	1,124	913
Net income	**$ 3,260**	**$ 3,751**	**$ 3,512**	**$ 3,753**	**$ 3,251**
Earnings per share	**$ 7.21**	**$ 8.29**	**$ 7.74**	**$ 8.17**	**$ 6.89**
Cash dividends per share	**$ 2.80**	**$ 2.80**	**$ 2.50**	**$ 2.45**	**$ 1.90**
Average shares outstanding	**452,378**	**452,452**	**453,888**	**459,393**	**472,148**

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