



Bancorp. of Southern Indiana

2014 Annual Report

Message To Shareholders

You have likely noticed that BSI's **Annual Report** has been revamped into a **new format** that is solely focused on your company's financial results and other company related information. We believe we are at the forefront of a trend to right-size the styling and content of the traditional annual report. Doing so allows us to redirect valuable marketing dollars into other important advertising campaigns targeted to inform customers and prospects about our products and services and which advocate our value proposition in earning new and important long-term banking relationships. We hope you like the look and content of our report to you.

BSI's 2014 **consolidated net income** amounted to \$3,751,000, an increase of \$239,000, or 6.8%, over last year's consolidated net income of \$3,512,000. Consolidated net income per share amounted to \$8.29 compared with \$7.74, respectively, an increase of \$0.55 per share or 7.1%. Return on average stockholders' equity was 8.78% for 2014 versus 8.86% for 2013. Although down slightly from the prior year, BSI's 2014 return on average stockholders' equity of 8.78% compared favorably to the average of all Indiana commercial banks of 8.59%.



BSI's board of directors was pleased to be positioned to again **increase cash dividends** for stockholders. The 2014 cash dividends totaled \$2.80 per share, a \$0.30 per share increase over the \$2.50 per share paid in 2013. This represented an annual dividend yield of 3.73%, an increase over the 2013 dividend yield of 3.38%, and compared favorably to the S&P 500's 2014 average dividend yield of 1.92%. BSI's measures are favorable to other current investment options with similar lower risk characteristics.

BSI's book value per share at year-end 2014 amounted to \$97.57 and the market price of BSI stock at year-end was \$85.00 per share, an increase of \$10.00 per share over the 2013 year-end price of \$75.00 per share. BSI's **market price has improved** from a recession period low of \$62.00 at year-end 2010, up \$23.00 per share, or 37.1%, during that period.

BSI's **balance sheet experienced growth** in total assets to \$454,881,000 at year-end 2014, an increase of \$14,031,000, or 3.2%, from 2013's ending assets of \$440,850,000. Net loans outstanding at year-end 2014 totaled \$292,686,000, an increase of \$3,265,000, or 1.1%, compared with \$289,421,000 at year-end 2013. Funding sources, including deposits and borrowed funds, amounted to \$406,348,000 at year-end 2014, compared with \$396,062,000 at year-end 2013, an increase of \$10,286,000, or 2.6%.

BSI's consolidated **capital remains a strong element** of its balance sheet at \$44,137,000 at year-end 2014, resulting in a leverage ratio of 9.7%, even higher than last year-end's measure of 9.0%. All of JCB's capital ratios exceed Regulatory minimum levels and are considered to be "Well-Capitalized."

BSI's **asset quality was stable** to slightly improved at year-end 2014 when compared with year-end 2013. The ratio of Nonperforming Assets to Assets stood at a respectable 1.83% at year-end 2014 compared with 1.74% at last year-end. The ratio of Nonperforming Assets to Capital plus Allowance was 17.86% in 2014 compared with 18.06% in 2013. Because of this asset-quality stability, and with a limited amount of net charged-off loans, the allowance for loan loss was deemed adequate which permitted a \$150,000 reversal of provision expense to be realized. This, along with other items, was a contributing factor in 2014's improved consolidated earnings.

An improving national and regional economy and gradual gains in consumer and business confidence led to a modest increase in loans outstanding during 2014. However, lower asset yields, due to the sustained low interest rate environment, coupled with an inability to lower funding costs, led to **compression on net interest margin**. Net interest income decreased \$607,000, or 4.8%, year-over-year. Countering this condition, BSI increased earnings during 2014 from Trust and Investment Management and Brokerage services. Combined, these gross revenues amounted to \$1,193,000, compared with \$987,000, an increase of \$206,000 or 20.9%. In addition, an unusual and non-recurring source of noninterest income recognized during the year consisted of a recovery of prior years' expense from a vendor's overbilling in the amount of \$472,000.

Sustained **containment of noninterest expense** was again achieved during 2014, with total noninterest expense of \$12,693,000 compared to \$12,324,000, an increase of \$369,000 or 3.0%. Included in this \$369,000 year-over-year increase was \$143,000 in expense recognition in connection with a strategy to

begin the wind-down of the JCB Employee Pension Plan which has been frozen since 2007. The board of directors has determined to evaluate and take appropriate steps to terminate this defined benefit plan at an appropriate time and under defined circumstances.

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. We hope you share in our collective assessment and conclude that BSI's 2014 performance is favorable to our stockholders.

I would be remiss by not complimenting and thanking each and every team member within our organization. Their **hard work and dedication** to JCB, its customers and the communities we serve, are what leads to our successful growth and profitability.

Banking is a business of **risk-taking and rewards**. The defining difference in results is how those risks are managed and controlled and the level of risk appetite that each individual organization is willing to accept. You know by now that BSI's board of directors has purposely determined to remain on the conservative side of that risk pendulum. Accordingly, what you can expect is that when difficult economic times present themselves, we have a lower risk of severe financial results and you can expect consistent and favorable performance, continuation of dividends, growth in stock value and security of your investment over the long-term. It is a choice and decision we have carefully and thoughtfully made. We have been guided by this principle over decades and our stockholders have greatly benefited throughout our 114 years of existence.

Thank you for your investment, confidence and business.

Sincerely,



David M. Geis, President

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands except per share data)

	2014	2013	Percentage Change
Operating Results:			
Net interest income	\$ 12,021	\$ 12,628	-4.81%
Noninterest income	5,264	4,953	6.28%
Noninterest expense	12,693	12,324	2.99%
Net income	3,751	3,512	6.81%
Cash dividends paid	1,268	1,133	11.92%
Return on average equity	8.78%	8.86%	-0.90%
Return on average assets	0.84%	0.81%	3.70%
Per Share Data:			
Net income	\$ 8.29	\$ 7.74	7.11%
Dividends	2.80	2.50	12.00%
Book value	97.57	87.53	11.47%
Number of average shares outstanding	452,452	453,888	-0.32%
Number of shares outstanding	452,378	453,126	-0.17%
Number of stockholders	405	403	0.50%
Year-End Totals:			
Assets	\$ 454,881	\$ 440,850	3.18%
Deposits	355,000	338,627	4.84%
Loans held-for-sale	978	530	84.53%
Loans, net	292,686	289,421	1.13%
Stockholders' equity	44,137	39,661	11.29%
Averages:			
Assets	\$ 445,489	\$ 436,245	2.12%
Deposits	339,343	340,577	-0.36%
Loans held-for-sale	476	750	-36.53%
Loans, net	287,991	281,893	2.16%
Stockholders' equity	42,734	39,619	7.86%
Asset Quality:			
Nonperforming assets / Assets	1.83%	1.74%	5.17%
Nonperforming assets / Capital + Allowance	17.86%	18.06%	-1.11%
Allowance / Nonperforming loans	62.02%	81.45%	-23.86%

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)

	2014	2013	2012	2011	2010
Assets:					
Cash and cash equivalents	\$ 47,646	\$ 28,463	\$ 29,039	\$ 25,223	\$ 16,013
Investments	74,947	86,397	105,160	60,947	50,656
Loans held-for-sale	978	530	1,462	1,795	3,225
Loans, net	292,686	289,421	277,946	271,430	276,095
Bank premises and equipment, net	4,284	4,314	4,568	4,877	4,993
Other assets	34,340	31,725	29,421	25,700	21,413
Total assets	\$ 454,881	\$ 440,850	\$ 447,596	\$ 389,972	\$ 372,395
Liabilities:					
Noninterest-bearing deposits	\$ 64,946	\$ 61,400	\$ 61,177	\$ 50,906	\$ 54,749
Interest-bearing deposits	290,054	277,227	296,992	253,258	234,109
Total deposits	355,000	338,627	358,169	304,164	288,858
Short-term borrowings	8,348	12,435	22,435	15,039	13,397
Long-term debt	43,000	45,000	20,286	23,841	27,385
Other liabilities	4,396	5,127	6,245	8,764	6,211
Total liabilities	410,744	401,189	407,135	351,808	335,851
Stockholders' equity	44,137	39,661	40,461	38,164	36,544
Total liabilities and stockholders' equity	\$ 454,881	\$ 440,850	\$ 447,596	\$ 389,972	\$ 372,395
Summary of Operations:					
Interest income	\$ 14,378	\$ 15,063	\$ 15,904	\$ 16,803	\$ 17,604
Interest expense	2,357	2,435	2,908	3,765	5,264
Net interest income	12,021	12,628	12,996	13,038	12,340
Provision for loans losses	(150)	925	550	1,300	2,250
Net interest income after provision for loan losses	12,171	11,703	12,446	11,738	10,090
Noninterest income	5,264	4,953	5,068	4,702	4,863
Noninterest expense	12,693	12,324	12,637	12,276	12,098
Income before income taxes	4,742	4,332	4,877	4,164	2,855
Provision for income taxes	991	820	1,124	913	430
Net income	\$ 3,751	\$ 3,512	\$ 3,753	\$ 3,251	\$ 2,425
Earnings per share	\$ 8.29	\$ 7.74	\$ 8.17	\$ 6.89	\$ 5.02
Cash dividends per share	\$ 2.80	\$ 2.50	\$ 2.45	\$ 1.90	\$ 1.55
Average shares outstanding	452,452	453,888	459,393	472,148	482,795

Seymour

125 South Chestnut Street
Seymour, Indiana 47274
(812) 522-3607

1200 East Tipton Street
Seymour, Indiana 47274
(812) 522-3607

1181 West Tipton Street
Seymour, Indiana 47274
(812) 522-3607

Brownstown

108 West Commerce Street
Brownstown, Indiana 47220
(812) 358-2520

Bedford

2635 16th Street
Bedford, Indiana 47421
(812) 275-1120

Columbus

400 Washington Street
Columbus, Indiana 47201
(812) 379-1991

3880 West Jonathan Moore Pike
Columbus, Indiana 47201
(812) 342-3633

3019 East 25th Street
Columbus, Indiana 47203
(812) 378-0850

North Vernon

611 A North State Street
North Vernon, Indiana 47265
(812) 346-8014



jcbank.com

