



Kenneth C. Klein



George W. Kinne, Jr.

2017 – 2nd Quarter

For the quarter ended June 30, 2017, the Company earned net income of \$1,293,000 or \$0.31 per share compared to \$1,315,000 or \$0.31 per share for the same quarter in 2016. The decrease in quarterly net income was primarily due to an increase in salary and employee benefits expense of \$211,000, an increase in occupancy expense of \$96,000, and a decrease in non-interest income of \$48,000, partially offset by an increase in interest income of \$138,000 and decreases in other non-interest expense of \$58,000, the provision for loan losses of \$50,000, foreclosed real estate expense of \$49,000, and interest expense of \$29,000.

Year to date net income as of June 30, 2017 was \$2,696,000 or \$0.64 per share compared to \$2,788,000 or \$0.66 per share for the same period in 2016. The decrease in year to date net income compared to 2016 was attributable to several factors. Interest income increased by \$436,000 and interest expense decreased by \$55,000. In addition, the Company recorded a negative provision to loan losses of \$300,000 due to a large recovery of a previously charged off loan. Those improvements were offset by an increase in salary and employee benefits expense of \$357,000, occupancy expense of \$144,000, other non-interest expense of \$125,000 and tax expense of \$101,000 compared to the same period in 2016. Also, in the first half of 2016, the Company recognized a non-recurring, tax-free life insurance benefit of \$247,000 and the reversal of \$151,000 in previously accrued director retirement expense.

In June, the Federal Reserve increased the federal funds rate by .25% for the second time this year and the third time in six months. The expected timing of future rate hikes was unchanged, with another one or two more hikes expected this year. The Fed also announced plans to begin reducing the size of its \$4.2 trillion balance sheet “relatively soon” by not reinvesting the proceeds of maturing bonds. While the Fed believes its actions will “normalize” interest rates, so far the increase in short term rates has resulted in an extremely flat yield curve, with the difference between 1-year and 10-year interest rates standing at only 1.07% as of the end of June. A flat yield curve with short term rates rising is a challenging environment for financial institutions, who profit from the spread between short-term deposit rates and long-term rates on loans and securities. Fortunately, the Company’s liquidity position is very strong and well positioned to maintain a low cost of funds into the near future. With a Return on Average Assets (ROA) of over 1%, the Company continues to perform very well compared to our peers in the nation and the state, and continues to outperform our local competition. We have accomplished this performance while remaining very well capitalized as that term is defined by our regulators and we intend to continue on the path of steady but sustainable growth.

In May, we celebrated the first full year of our branch in the City of Port Jervis in Orange County, New York. This branch was our first outside of Sullivan County. As the only community bank in the area, we have been warmly received, our employees are actively involved in the community and the results in the branch are meeting our expectations thus far. In April, we closed our branch office located in Bloomingburg, NY. As we anticipated, the transfer of accounts to our Wurtsboro office less than 5 miles away and the availability of online and mobile banking services has enabled us to retain the majority of customer relationships from Bloomingburg.

Jeff Bank has strong ties to the communities we serve, making valuable contributions to a host of local organizations and causes throughout our market area, both financially and through the contributions of the talent and time of our dedicated staff members. At Jeff Bank, we appreciate the support we receive from our customers, employees and stockholders. With that support, we will strive to provide the exceptional service our customers expect and continue to thrive as an independent community bank.

A handwritten signature in orange ink that reads "K.C. Klein".

Kenneth C. Klein
Chairman of the Board

A handwritten signature in orange ink that reads "George W. Kinne, Jr.".

George W. Kinne, Jr.
President/Chief Executive Officer

Jeffersonville Bancorp and Subsidiary
Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 76,794	\$ 45,684
Securities available for sale, at fair value	84,204	90,073
Securities held to maturity, fair value of \$30,074 at June 30, 2017 and \$28,492 at December 31, 2016	29,717	28,730
Loans, net of allowance for loan losses of \$3,561 at June 30, 2017 and \$3,692 at December 31, 2016	276,599	286,165
Accrued interest receivable	1,542	1,800
Bank-owned life insurance	17,327	16,817
Foreclosed real estate	604	988
Premises and equipment, net	7,787	7,898
Restricted investments	566	559
Other assets	4,972	5,057
Total Assets	<u>\$ 500,112</u>	<u>\$ 483,771</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	\$ 115,756	\$ 108,392
NOW and super NOW accounts	74,019	74,327
Savings and insured money market deposits	143,367	136,070
Time deposits	98,898	98,638
Total Deposits	432,040	417,427
Other liabilities	5,709	5,795
Total Liabilities	<u>437,749</u>	<u>423,222</u>
Stockholders' equity		
Series A preferred stock, no par value; 2,000,000 shares authorized, none issued	—	—
Common stock, \$0.50 par value; 11,250,000 shares authorized, 4,767,786 shares issued with 4,234,505 outstanding	2,384	2,384
Paid-in capital	6,483	6,483
Treasury stock, at cost; 533,281 shares	(4,965)	(4,965)
Retained earnings	60,783	59,275
Accumulated other comprehensive loss	(2,322)	(2,628)
Total Stockholders' Equity	<u>62,363</u>	<u>60,549</u>
Total Liabilities and Stockholders' Equity	<u>\$ 500,112</u>	<u>\$ 483,771</u>

This does not represent complete financial statements. Complete financial statements may be found at www.jeffbank.com

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Income
(In thousands, except per share data)

For the Three Months Ended June 30,	2017	2016
Interest and Dividend Income		
Loan interest and fees	\$ 3,680	\$ 3,600
Securities:		
Taxable	271	232
Tax-exempt	578	592
Other interest and dividend income	104	71
Total Interest and Dividend Income	4,633	4,495
Interest Expense on Deposits		
	206	235
Net interest income	4,427	4,260
Provision (credit) for loan losses	—	50
Net Interest Income after Provision for Loan Losses	4,427	4,210
Non-Interest Income		
Service charges	289	312
Fee income	348	338
Earnings on bank-owned life insurance	89	100
Net gain (loss) on sales of securities	1	—
Other non-interest income	38	63
Total Non-Interest Income	765	813
Non-Interest Expense		
Salaries and employee benefits	2,165	1,954
Occupancy and equipment expenses	481	385
Foreclosed real estate expense, net	23	72
Other non-interest expenses	862	920
Total Non-Interest Expenses	3,531	3,331
Income before income tax expense	1,660	1,692
Income tax expense	367	377
Net Income	\$ 1,293	\$ 1,315
Basic earnings per common share	\$ 0.31	\$ 0.31
Average common shares outstanding	4,235	4,235
Cash dividends declared per share	\$ 0.14	\$ 0.14

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Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Income
(In thousands, except per share data)

For the Six Months Ended June 30,	2017	2016
Interest and Dividend Income		
Loan interest and fees	\$ 7,493	\$ 7,169
Securities:		
Taxable	507	457
Tax-exempt	1,186	1,193
Other interest and dividend income	187	118
Total Interest and Dividend Income	<u>9,373</u>	<u>8,937</u>
Interest Expense on Deposits		
	<u>413</u>	<u>468</u>
Net interest income	8,960	8,469
Provision (credit) for loan losses	(300)	50
Net Interest Income after Provision for Loan Losses	<u>9,260</u>	<u>8,419</u>
Non-Interest Income		
Service charges	560	621
Fee income	664	649
Earnings on bank-owned life insurance	177	452
Net gain (loss) on sales of securities	1	(1)
Other non-interest income	106	95
Total Non-Interest Income	<u>1,508</u>	<u>1,816</u>
Non-Interest Expense		
Salaries and employee benefits	4,339	3,982
Occupancy and equipment expenses	973	829
Foreclosed real estate expense, net	68	170
Other non-interest expenses	1,913	1,788
Total Non-Interest Expenses	<u>7,293</u>	<u>6,769</u>
Income before income tax expense	3,475	3,466
Income tax expense	779	678
Net Income	<u>\$ 2,696</u>	<u>\$ 2,788</u>
Basic earnings per common share	<u>\$ 0.64</u>	<u>\$ 0.66</u>
Average common shares outstanding	<u>4,235</u>	<u>4,235</u>
Cash dividends declared per share	<u>\$ 0.28</u>	<u>\$ 0.28</u>

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