Jeffersonville Bancorp

2018 Annual Report

A letter from the President & Chairman of the Board

We are proud to present the financial results contained in this annual report which include the highest level of earnings for Jeffersonville Bancorp (the "Company") in its 105-year history. The Company performed very well in 2018, with net income of $6,203,000, representing a 44.5% increase over 2017 net income of $4,292,000. Net interest income exceeded 2017 levels by $1,886,000, led by growth in the loan portfolio, which was funded through low-cost core deposits. We were fortunate to exceed the internal growth and earnings projections set by management and the board of directors in our 2018 budget.

As did most financial institutions in 2018, Jeffersonville Bancorp benefitted from a decrease in income tax expense related to the 2017 Tax Cuts and Jobs Act which reduced the federal statutory tax rates for corporations. We are pleased to report that the Company continues to outperform our local and regional peers in most major financial metrics. The board of directors was delighted to reward our loyal shareholders with a special cash dividend of ten cents ($0.10) per share in December 2018, which was in addition to total dividend payments of sixty cents ($0.60) per share for the year. Total cash dividends paid for the year represented 47.8% of earnings, with the remaining 52.2% accretive to capital. This risk-adjusted approach to capital retention remains the conservative strategy of the board of directors and provides a solid return to our shareholders. Jeff Bank maintained regulatory capital ratios in 2018 which continue to exceed levels classified as well-capitalized.

2018 was a year of exciting opportunities and challenges on the local, regional and national levels. The yield curve remains exceedingly flat, with little difference between short and long-term interest rates. This continues to make investing excess liquidity a challenge without assuming increased interest rate risk. Fortunately, the local and regional economy is benefitting from a renaissance, driving an increase in local loan demand. The Company's loan portfolio grew by $25,016,000 or 8.7%, which is a strong year for loan growth. Growth primarily occurred in the commercial loan portfolio, where rates are typically shorter-term, therefore not significantly increasing interest rate risk in the portfolio. Year over year, the Company benefitted considerably from increased interest income on excess reserves at the Federal Reserve Bank as rates gradually rose throughout the year. The Company's liquidity position remains a core strength benefitting financial performance in 2018 and providing ample funding for likely future liquidity needs in 2019.

The Company's ability to obtain and retain the core deposits that are vital to our financial success is due in large part to our dedicated staff continuing to cultivate long-term customer relationships and providing the highest level of service possible. In 2018, we utilized a third-party consultant to test our customer service through secret shopper surveys. We did well in most categories and are pleased with our results. While we did well in the surveys, we continually strive to do better. We know the true measure of our performance is determined by the trust placed in us by our loyal customers, which is reflected in our deposit base. We are very pleased that Jeff Bank continues to dominate the market for deposits locally, with a 31.6% deposit market share position in Sullivan County according to the FDIC's June 30, 2018 Summary of Deposits report.

During 2018, we made a significant change in the way we manage the bank's core software system which powers our critical banking processes. This project culminated in the migration of the core software system to a hosted platform rather than through storage of data and item processing in-house. This significant change for the Company had little noticeable impact to the customer but provides a more secure information technology infrastructure for our future with superior business continuity capability. Through this migrated solution, the bank also has a more stable and predictable technology expense. It also provides improved access and functionality for our customer base, allowing our staff to allocate resources to future product/service offerings. This information technology project demonstrates the adaptability of our Company and offers a progressive approach to our future as a growing community bank.

At the end of 2018, director and Vice Chairman Wayne V. Zanetti announced his retirement from the board of directors of the Company and its wholly owned subsidiary, Jeff Bank. Mr. Zanetti began his career with the Company in 1999 and was named director, President, and Chief Executive Officer in 2009. Mr. Zanetti made many significant contributions to the Company during his 20 years of service which will have a lasting, positive impact on our employees, customers and shareholders.

Sullivan County's economy is experiencing growth the likes of which we haven't seen in decades. Numerous tourism-based projects are driving job growth, reducing unemployment levels to historic lows. Small businesses are benefiting from new visitors to our region who are shopping on our Main Streets and staying in the numerous new and existing options for lodging. This economic growth is benefiting the Company in various ways: increased loan demand, improving credit quality in the loan portfolio, higher consumer discretionary income, and increased deposits, among other benefits. We are poised to continue to benefit from this growth with deep roots in our communities and the most convenient branch network in our market area.

We are very proud of the financial results achieved during 2018 and look forward to a financially prosperous 2019. Based upon the results achieved in 2018, we have set the bar very high. Thank you for your continued confidence as shareholders. Should you have any questions about this report, please don't hesitate to contact us.

George W. Kinne, Jr.

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

Kenneth C. Klein,
Chairman of the Board

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Jeffersonville Bancorp
Jeffersonville, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jeffersonville Bancorp and its subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2018; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2018, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

Other Matter

The financial statements of the Company, as of and for the year ended December 31, 2017, were audited by other auditors, whose report, dated March 22, 2018, expressed an unmodified opinion on those statements.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 21, 2019

Jeffersonville Bancorp and Subsidiary
Consolidated Balance Sheets
(In thousands, except share and per share data)

As of December 31,	2018	2017
ASSETS		
Cash and cash equivalents	$ 60,554	$ 73,437
Securities available for sale, at fair value	68,815	80,018
Equity securities held at fair value	906	—
Securities held to maturity, fair value of $31,923 at December 31, 2018 and $30,909 at December 31, 2017	31,874	30,450
Loans, net of allowance for loan losses of $3,311 at December 31, 2018 and $3,526 at December 31, 2017	311,816	286,800
Accrued interest receivable	1,704	1,682
Bank-owned life insurance	18,341	17,506
Foreclosed real estate	1,351	948
Premises and equipment, net	6,707	7,079
Restricted investments	519	507
Other assets	4,082	3,630
Total Assets	$ 506,669	$ 502,057
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	$ 116,260	$ 114,755
NOW and super NOW accounts	82,746	79,091
Savings and insured money market deposits	160,513	148,758
Time deposits	76,166	91,058
Total Deposits	435,685	433,662
Other liabilities	5,762	6,016
Total Liabilities	441,447	439,678
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	65,070	61,563
Accumulated other comprehensive loss	(3,750)	(3,086)
Total Stockholders' Equity	65,222	62,379
Total Liabilities and Stockholders' Equity	$ 506,669	$ 502,057

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31,	2018	2017
INTEREST AND DIVIDEND INCOME		
Loan interest and fees	$ 15,992	$ 14,811
Securities:		
Taxable	1,111	1,090
Tax-exempt	2,010	2,232
Other interest and dividend income	1,443	580
Total Interest and Dividend Income	20,556	18,713
INTEREST EXPENSE		
Deposits	775	818
Net interest income	19,781	17,895
Provision (credit) for loan losses	350	(300)
Net Interest Income after Provision for Loan Losses	19,431	18,195
NON-INTEREST INCOME		
Service charges	1,166	1,144
Fee income	1,483	1,368
Earnings on bank-owned life insurance	335	356
Net (loss) gain on equity securities sold	(135)	19
Loss on equity securities change in fair value, net	(52)	—
Other non-interest income	203	180
Total Non-Interest Income	3,000	3,067
NON-INTEREST EXPENSES		
Salaries and employee benefits	8,963	8,592
Occupancy and equipment expenses	1,766	1,821
Advertising expense	119	95
Foreclosed real estate expense, net	165	176
Other non-interest expenses	4,059	3,971
Total Non-Interest Expenses	15,072	14,655
Income before income tax expense	7,360	6,607
Income tax expense	1,156	2,315
Net Income	$ 6,203	$ 4,292
Basic earnings per common share	$ 1.46	$ 1.01
Average common shares outstanding	4,235	4,235
Cash dividends declared per share	$ 0.70	$ 0.57

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
(In thousands)

For the Years Ended December 31,	2018	2017
Net Income	$ 6,203	$ 4,292
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding losses	(919)	(21)
Income tax benefit	240	7
Net unrealized holding losses, net of tax	(679)	(14)
Reclassification adjustment for net realized losses (gains) included in income(1) (3)	—	(19)
Income tax benefit	—	7
Reclassification adjustment for net realized losses (gains) included in income, net of tax	—	(12)
Change in pension and post retirement liabilities (2)	384	(32)
Income tax (expense) benefit (3)	(100)	12
Amortization of pension and post retirement liabilities' gains (losses), net of tax	284	(20)
Other comprehensive loss, net of tax	(395)	(46)
Comprehensive income	$ 5,808	$ 4,246

(1) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income as a separate element in total non-interest income.

(2) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits as a separate element within total non-interest expense on the Consolidated Statements of Income.

(3) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except per share data)

For the Years Ended December 31, 2018 and 2017	Common stock	Paid-in capital	Treasury stock	Retained earnings	Accumulated other compre-hensive loss	Total stockholders' equity	Common shares issued and outstanding
Balance at January 1, 2016	$ 2,384	$ 6,483	$ (4,965)	$ 59,275	$ (2,628)	$ 60,549	4,235
Net income	—	—	—	4,292	—	4,292	—
Other comprehensive loss	—	—	—	—	(46)	(46)	—
Change in enacted income tax rate	—	—	—	412	(412)	—	—
Cash dividends ($0.57 per share)	—	—	—	(2,416)	—	(2,416)	—
Balance at December 31, 2017	2,384	6,483	(4,965)	61,563	(3,086)	62,379	4,235
Net income	—	—	—	6,203	—	6,203	—
Other comprehensive loss	—	—	—	—	(395)	(395)	—
Cumulative adjustment for change in accounting principal for adoption of ASU 2016-01	—	—	—	269	(269)	—	—
Cash dividends ($0.70 per share)	—	—	—	(2,965)	—	(2,965)	—
Balance at December 31, 2018	$ 2,384	$ 6,483	$ (4,965)	$ 65,070	$ (3,750)	$ 65,222	4,235

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Cash Flows
(In thousands)

For the Years Ended December 31,	2018	2017
OPERATING ACTIVITIES:		
Net income	$ 6,203	$ 4,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	350	(300)
Depreciation and amortization	575	620
Amortization of bond premium, net	587	787
Net (gain) loss on sale of premise and equipment	8	(15)
Net (gain) loss on revaluation and sale of foreclosed real estate	(3)	29
Earnings on bank-owned life insurance and life insurance benefit	(335)	(356)
Net (gain) loss on securities	135	(19)
Loss on equity securities due to the change in fair value	52	—
Deferred income tax expense	15	1,949
(Increase) decrease in accrued interest receivable	(22)	118
Increase in other assets	(345)	(528)
Increase in other liabilities	130	192
Net Cash Provided by Operating Activities	7,350	6,769
INVESTING ACTIVITIES:		
Proceeds from maturities and calls:		
Securities available for sale	17,154	21,270
Securities held to maturity	3,118	1,897
Proceeds from sales of equity securities	1,602	386
Purchases:		
Securities available for sale	(9,583)	(12,342)
Securities held to maturity	(4,939)	(3,686)
Equity securities	(172)	—
Net increase in loans	(26,159)	(791)
Purchase of bank-owned life insurance	(500)	(333)
Net change in restricted investments	(12)	52
Purchases of premises and equipment	(211)	(295)
Proceeds from sale of premise and equipment	—	509
Proceeds from sales of foreclosed real estate	411	498
Net Cash (Used in) Provided by Investing Activities	(19,291)	7,165
FINANCING ACTIVITIES:		
Net increase in deposits	2,023	16,235
Cash dividends paid	(2,965)	(2,416)
Net Cash (Used in) Provided by Financing Activities	(942)	13,819
Net (Decrease) Increase in Cash and Cash Equivalents	(12,883)	27,753
Cash and Cash Equivalents at Beginning of Year	73,437	45,684
Cash and Cash Equivalents at End of Year	$ 60,554	$ 73,437
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 782	$ 822
Cash paid for income taxes	423	1,150
Transfer of loans to foreclosed real estate	793	456

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Jeffersonville Bancorp (the Parent Company) include its wholly owned subsidiary, Jeff Bank (the Bank). Collectively, Jeffersonville Bancorp and its subsidiary are referred to herein as the "Company" with all significant intercompany transactions having been eliminated.

The Parent Company is a bank holding company whose principal activity is the ownership of all outstanding shares of the Bank's stock. The Bank is a commercial bank providing community banking services to individuals, small businesses, and local municipal governments primarily in Sullivan County, New York. Management makes operating decisions and assesses performance based on an ongoing review of the Bank's community banking operations, which constitute the Company's only operating segment for financial reporting purposes.

The consolidated financial statements have been prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Material estimates that are particularly susceptible to near-term change include the allowance for loan losses, the evaluation of other than temporary impairment of investment securities and the assets, liabilities and expenses associated with benefit plans which are described below. Actual results could differ from these estimates.

For purposes of the consolidated statements of cash flows, the Company considers cash, due from banks, and federal funds sold, if any, to be cash equivalents.

Reclassifications have been made to prior year's consolidated financial statements whenever necessary to conform to the current year's presentation. These reclassifications, if any, had no impact on net income or stockholders equity.

The Company has evaluated subsequent events and transactions occurring through March 21, 2019; the date these consolidated financial statements were available for issuance.

Investment Securities

In January 2016, the FASB issued new accounting guidance on recognition and measurement of financial instruments. The new guidance makes targeted changes to existing GAAP including, among other provisions, requiring certain equity investments to be measured at fair value with changes in fair value reported in earnings. The Company adopted the provisions on January 1, 2018 on a prospective basis, with the impact of the reclassification of the net unrealized gain on equity investments from accumulated other comprehensive income to retained earnings in the amount of $364,000 net of the related deferred taxes of $95,000. The financial statement for 2017 was not subject to restatement under this new accounting guidance.

Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold debt securities to maturity, they are classified as securities held to maturity and are stated at amortized cost. All other debt and marketable are classified as securities available for sale. Both available for sale and equity securities are reported at fair value. Net unrealized gains or losses on securities available for sale are reported (net of income taxes) in stockholders' equity as a component of accumulated other comprehensive income (loss). Both changes in fair value and gains or losses on disposal of equity securities are recognized through profit or loss and included under Non-Interest Income. Restricted investments, which are nonmarketable equity securities, are carried at cost.

Gains and losses on sales of securities are based on the net proceeds and the amortized cost of the securities sold, using the specific identification method. The amortization of premium and accretion of discount on debt securities is calculated using the level-yield interest method to the earlier of the call date or maturity date.

A security is considered impaired when its amortized cost basis exceeds its fair value at the consolidated balance sheet date. All securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether the impairment is other-than-temporary. To determine whether an impairment is other-than-temporary, management utilizes criteria such as the reasons underlying the impairment, and the magnitude and duration of the impairment. The Company follows accounting guidance related to recognition and presentation of other-than-temporary impairment. This guidance specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the security. In addition, the total impairment for debt securities is separated into the amount of the impairment related to (a) credit loss and (b) the amount of the impairment related to all other factors, such as interest rate changes. The amount of credit loss, if any, is calculated as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of a security. Once an impairment is determined to be other-than-temporary, the impairment related to credit loss, if any, is charged to income and the amount of the impairment related to all other factors is recognized in other comprehensive income (loss). No impairment charge was recognized during the years ended December 31, 2018 or 2017. For further discussion see Note 3.

Loans

Loans are stated at unpaid principal balances, less deferred loan fees and costs, and the allowance for loan losses. Deferred loan fees and costs are accreted into income using a level-yield interest method. Interest income is recognized on the accrual basis of accounting. When, in the opinion of management, the collection of interest or principal is in doubt, the loan is classified as nonaccrual. Loans past due more than 90 days are classified as nonaccrual except for residential mortgages that are well secured (loan to value 60% or less) and in the process of collection. Thereafter, no interest is recognized as income until it is received in cash, and the loan's collateral is adequate to support both the interest recognized and the loan balance, or until the borrower demonstrates the ability to make scheduled payments of interest and principal, and the loan has remained current for a period of at least six months. For further discussion see Note 5.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance when management believes that the collectability of all or a portion of the principal is unlikely. Recoveries of loans previously charged off are credited to the allowance when realized.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest contractually due. Impaired loan disclosures and classification apply to loans that are individually evaluated for collectability in accordance with the Company's ongoing loan review procedures, principally commercial mortgage loans and commercial loans. Smaller balance, homogeneous loans, which are collectively evaluated, such as consumer and residential mortgage loans, are specifically excluded from the classification of impaired loans. Impaired loans are measured based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent. Impairment for a majority of the Company's impaired loans is based on the value of the underlying collateral. If the approach used results in a measurement that is less than an impaired loan's recorded investment, an impairment loss is recognized as part of the allowance for loan losses.

The allowance for loan losses is maintained at a level deemed adequate by management based on an evaluation of such factors as economic conditions in the Company's market area, past loan loss experience, the financial condition of individual borrowers, and underlying collateral values based on independent appraisals. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions, particularly in Sullivan County. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. For further discussion see Note 5.

Bank-Owned Life Insurance

The investment in bank-owned life insurance, which covers certain officers of the Bank, is carried at the policies' cash surrender value. Additional investments are initially recorded at cost. Increases in the cash surrender value of bank-owned life insurance, net of premiums paid, are included in non-interest income. Liabilities and related compensation costs for employees that are not limited to the employee's active service period are recognized according to ASC Topic 715 *Compensation-Retirement Benefits.*

The Company follows accounting guidance for deferred compensation and postretirement aspects of endorsement and split dollar life insurance arrangements. This guidance applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain bank-owned life insurance policies, and requires an employer to recognize a liability and related compensation costs for future benefits that extend to postretirement periods.

Foreclosed Real Estate

Foreclosed real estate consists of properties acquired through foreclosure or voluntary forfeiture and is stated on an individual-asset basis at fair value less estimated costs to sell at initial foreclosure, establishing a new cost basis. When a property is acquired, any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses. If necessary, subsequent write downs to reflect further declines in fair value are included in non-interest expense. Fair value estimates are based on independent appraisals and other available information. While management estimates losses on foreclosed real estate using the best available information, such as independent appraisals, future write downs may be necessary based on changes in real estate market conditions and the results of regulatory examinations. Operating costs associated with the properties are charged to expense as incurred and any rental income received from these properties is recognized as foreclosed real estate income in the period collected.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided over the estimated useful lives of the assets using straight-line or accelerated methods. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms. For further discussion see Note 6.

Restricted Investments

As a member institution of the Federal Home Loan Bank of New York ("FHLB"), Federal Reserve Bank and other institutions, the Bank is required to hold a certain amount of these equity stocks. For further discussion see Note 4.

Advertising Costs

Advertising costs are expensed as incurred and are included in non-interest expenses.

Revenue Recognition

The Bank adopted ASU 2014-09 *Revenue from contracts with customers - Topic 606* and all subsequent ASUs that modified ASC 606 on a full retrospective basis. The implementation of the standard had no material impact to the measurement or recognition of revenue of prior periods.

Management determined that the primary sources of revenue from interest and dividend income on loans and investments along with non-interest revenue from security gains, loan fees, bank owned life insurance income are not within the scope of ASC 606. As a result, no changes were made to these sources of revenue.

Service charges on deposit accounts:

The Bank has Term and Condition Agreements with its deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. These agreements can be modified with at least 30 days written notice to the customer. Revenue from these transactions is recognized on a monthly basis as the Bank has an unconditional right to the fee consideration. The Bank also has transaction fees that include overdraft fees, wire transfer fees, stop payment fees and other transactional fees. These fees are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time and at the completion of the requested service or transaction.

Interchange fees:
The Bank has contracts with third party affiliates which manage the Bank's debit cards. Revenues are generated by the interchange charged by the card networks on point-of-sale transactions and debit transactions. Income is recognized upon completion of the transaction.

The following table shows the disaggregation of revenue derived from contracts with customers by nature, amount and timing as of 12/31/18.

Revenue Streams	**2018**
Service charges on deposit accounts:	
Overdraft fees	$ 915
Service charges	236
Other customer service charges	15
Total Service charges on deposit accounts	$ 1,166
Fee Income:	
Interchange income, net:	
Interchange fees	1,534
Interchange expenses	(87)
Other fee income	36
Net Interchange Income	$ 1,483

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities reported in the consolidated financial statements and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the benefit of an uncertain tax position in the financial statements only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. For these analyses, the Company may engage attorneys to provide opinions related to the positions. The Company applies this policy to all tax positions for which the statute of limitations remains open. There are no uncertain tax positions that materially impact the Company's consolidated balance sheet or statement of operations. The Company records any interest and penalties related to uncertain tax positions in income tax (benefit) expense in the consolidated statement of operations in the year assessed. For further discussion see Note 10.

The Tax Cuts and Jobs Act enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 34% to 21% effective January 1, 2018. While subsequent guidance allowed for any adjustments for up to one year from the enactment date to complete the accounting, no change to the provisional net tax was recorded.

Certain Income Tax Effects within Accumulated Other Comprehensive Income
The Company has elected to reclassify the income tax effect of the Tax Cuts and Jobs Act enacted in 2017 from accumulated other comprehensive loss to retained earnings. The amount of this reclassification was $412,000.

Earnings Per Common Share
The Company has a simple capital structure. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period.

Compensation – Retirement Benefits
In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715)*. The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The Company adopted the standard on January 1, 2018, which resulted in a reclassification of $ and $ for the years ended December 31, 2018 and 2017, respectively, from Salaries and employee benefits into Other non-interest expense on the Consolidated Statements of Income. See Note 15 for additional information on the presentation of these pension cost components.

Recent Accounting Pronouncements
In February 2016, the FASB ASU 2016-02, *Leases (Topic 842),* for both lessees and lessors and thereafter amended by ASU 2018-01 and ASU 2018-20 both issued during 2018. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. GAAP. The new standard takes effect for public entities with fiscal years beginning after December 15, 2018 with early adoption permitted. Specific transition requirements apply. The Company, in evaluating the impact of the adoption of this guidance, has determined that the impacts on its consolidated balance sheets and consolidated income statement are immaterial.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses - Measurement of Credit Losses on Financial Instruments Subtopic (326*), and amended by ASU 2018-19 issued in November 2018, and as clarified in ASU 2017-03, this ASU requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting

for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. Certain incremental disclosures are required.

The new standard is effective for fiscal years beginning after December 15, 2020 with early adoption for fiscal years beginning after December 15, 2018 and interim periods within those periods for public entities that are not SEC registrants. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits (Topic 715-20)*. This Update amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The Update eliminates the requirement to disclose the amounts in accumulated other

requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. This Update is effective for public business entities for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. For all other entities, this Update is effective for fiscal years ending after December 15, 2021. This Update is not expected to have a significant impact on the Company's financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

(2) Cash and Cash Equivalents

The Bank is required to maintain certain reserves in the form of vault cash and/or deposits with the Federal Reserve Bank (FRB). There was no reserve requirement by the FRB at December 31, 2018 or 2017. Cash and due from banks includes interest earning deposits at the FRB. The interest earning balance at the FRB was $49.2 million and $56.3 million at December 31, 2018 and December 31, 2017, respectively. As of December 31, 2018 and 2017, the Bank has deposits with correspondent banks in excess of federally insured limits in the amount of $1.2 million and $4.7 million respectively.

(3) Investment Securities

The amortized cost and fair value of available for sale and held to maturity securities at December 31 are as follows (in thousands):

Investment Securities	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
December 31, 2018				
Securities Available for Sale:				
Government Sponsored Enterprises (GSE)	$ 4,192	$ —	$ (138)	$ 4,054
Obligations of states and political subdivisions	36,385	395	(42)	36,738
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	13,841	46	(265)	13,622
Corporate debt – financial services industry	14,796	21	(416)	14,401
Total securities available for sale	$ 69,214	$ 462	$ (861)	$ 68,815
Securities Held to Maturity – Obligations of states and political subdivisions	$ 31,874	$ 284	$ (235)	$ 31,923

Investment Securities, Continued:	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2017				
Securities Available for Sale:				
Government Sponsored Enterprises (GSE)	$ 5,065	$ —	$ (125)	$ 4,940
Obligations of states and political subdivisions – New York State	40,523	756	(5)	41,274
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	15,638	106	(179)	15,565
Corporate debt – financial services industry	15,749	84	(117)	15,716
	76,975	946	(426)	77,495
Equity securities – financial services industry	2,159	364	—	2,523
Total securities available for sale	$ 79,134	$ 1,310	$ (426)	$ 80,018
Securities Held to Maturity – Obligations of states and political subdivisions	$ 30,450	$ 593	$ (134)	$ 30,909

Included in securities available for sale are Government Sponsored Enterprises (GSE) including securities of the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"), Government National Mortgage Association (GNMA or "Ginnie Mae"), and Federal National Mortgage Association (FNMA or "Fannie Mae"). FHLB, FHLMC, and FNMA securities are not backed by the full faith of the U.S. government. Also included are agency bonds issued by Federal Government agencies such as the Small Business Administration (SBA). Because of different structures, liquidity and possible call risk SBA's may provide a slightly higher rate of interest than Treasury bonds. Substantially all mortgage-backed securities and collateralized mortgage obligations consist of residential mortgage securities and are securities guaranteed by Ginnie Mae, Freddie Mac, or Fannie Mae. Obligations of state and political subdivisions are primarily general obligation and revenue bonds of New York State municipalities, agencies, and authorities. General obligation bonds must have a nationally recognized statistical rating organization (NRSRO) investment grade rating in the top four categories (S&P "BBB-" or higher). Revenue bonds must have an NRSRO rating in the top three categories (S&P "A" or higher). Corporate debt securities are comprised of bonds with an NRSRO rating in the top four investment grades (S&P "BBB-" or higher).

The contractual terms of the government sponsored enterprise securities and the obligations of state and political subdivisions require the issuer to settle the securities at par upon maturity of the investment. The contractual cash flows of the mortgage-backed securities and collateralized mortgage obligations are guaranteed by various government agencies or government sponsored enterprises such as FHLMC, FNMA, and GNMA.

Securities held to maturity consist of obligations of state and political subdivisions which are primarily general obligation bonds of municipalities local to the Company and are typically not rated by the NRSRO. In accordance with federal regulations, the Company performs an analysis of the finances of the municipalities to determine that the bonds are the credit equivalent of investment grade bonds.

There were no sales of securities held to maturity during the years ended December 31, 2018 or 2017. Proceeds from sale, gross gains and gross losses realized on sales of securities were as follows for the years ended December 31 (in thousands).

Net Security Gains	2018	2017
Gross proceeds	$ 1,602	$ 386
Gross realized gains	$ —	$ 19
Gross realized losses	(135)	—
Net gain on sale of securities	$ (135)	$ 19

The amortized cost and estimated fair value of debt securities available for sale and held to maturity at December 31, 2018, by remaining period to contractual maturity, are shown in the following table (in thousands). Actual maturities will differ from contractual maturities because of security prepayments and the right of certain issuers to call or prepay their obligations.

Available for Sale Securities	Amortized cost	Fair value
Within one year	$ 20,858	$ 20,890
One to five years	26,823	26,703
Five to ten years	7,692	7,600
Over ten years	—	—
	55,373	55,193
Mortgage-backed securities	13,841	13,622
	$ 69,214	$ 68,815

Held to Maturity Securities	Amortized cost	Fair value
Within one year	$ 6,943	$ 6,960
One to five years	8,416	8,501
Five to ten years	16,288	16,235
Over ten years	227	227
	$ 31,874	$ 31,923

Securities available for sale with an estimated fair value of $42,521,000, and $37,668,000 at December 31, 2018 and 2017 respectively, were pledged to secure public funds on deposit and for other purposes.

Investment securities in a continuous unrealized loss position are reflected in the following table which groups individual securities by length of time that they have been in a continuous unrealized loss position and then details by investment category the number of instruments aggregated with their gross unrealized losses and fair values at December 31, 2018 and 2017 (dollars in thousands):

	Less than 12 months			12 months or more			Total		
Investment Securities	No.	Fair value	Unrealized losses	No.	Fair value	Unrealized losses	No.	Fair value	Unrealized losses
December 31, 2018									
Securities Available for Sale:									
Debt Securities:									
Government Sponsored Enterprises (GSE)	—	$ —	$ —	9	$ 4,054	$ 138	9	$ 4,054	$ 138
Obligations of states and political subdivisions	16	2,401	40	6	839	2	22	3,240	42
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	10	3,353	35	14	7,318	230	24	10,671	265
Corporate debt – financial services industry	34	9,188	247	13	3,068	169	47	12,256	416
Total securities available for sale	60	$ 14,942	$ 322	42	$ 15,279	$ 539	102	$ 30,221	$ 861
Held to Maturity securities - Obligations of states and political subdivisions	15	$ 3,736	$ 49	34	$ 6,124	$ 186	49	$ 9,860	$ 235
December 31, 2017									
Securities Available for Sale:									
Debt Securities:									
Government Sponsored Enterprises (GSE)	2	$ 1,428	$ 24	7	$ 3,512	$ 101	9	$ 4,940	$ 125
Obligations of states and political sub-divisions - New York State	10	1,78	4	1	137	1	11	1,919	5
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	6	5,073	49	8	3,569	130	14	8,642	179
Corporate debt – financial services industry	16	3,740	59	4	1,128	58	20	4,868	117
Total securities available for sale	34	$ 12,023	$ 136	20	$ 8,346	$ 290	54	$ 20,369	$ 426
Held to Maturity securities - Obligations of states and political subdivisions	15	$ 2,940	$ 16	23	$ 4,374	$ 118	38	$ 7,314	$ 134

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. Based on the amount of the unrealized loss on an individual security basis, certain of the Company's investment securities classified as available for sale or held to maturity are evaluated for OTTI. The Company's equity securities are primarily debt instruments. Securities identified as other-than-temporarily impaired are written down to their current fair market value. For debt and equity securities that are intended to be sold, or that management believes will more-likely-than-not be required to be sold prior to recovery, the full impairment is recognized immediately in earnings. An impairment charge will also be recorded if there is credit related loss regardless of whether or not there is the intent to sell the securities. There are numerous factors to be considered when estimating whether a credit loss exists and the period over which the debt security is expected to recover. Indicators of a possible credit loss include, but are not limited to: the failure of the issuer of the security to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency; additional declines in fair value after the balance sheet date. In determining whether a credit loss exists, the Company uses its best estimate of the present value of cash flows expected to be collected from the debt security by discounting the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. The deficiencies between the present value of the cash flows expected to be collected and the amortized cost basis of a security is considered to be the credit loss. Once an impairment is determined to be other-than-temporary, the impairment related to credit loss, if any, is charged to income and the amount of the impairment related to all other factors is recognized in other comprehensive loss.

Management believes that none of the unrealized losses on debt or equity securities at December 31, 2018 are due to the underlying credit quality of the issuers of the securities, but instead are primarily related to market interest rates, and the full value of the securities will be realized. Additionally, the Company does not intend to sell the securities and it is more-likely-than-not that the Company will not be required to sell the securities before recovery of their amortized cost. Therefore, no other-than-temporary impairment charge was recognized for the years ended December 31, 2018 or, 2017.

(4) Restricted Investments

Restricted investments include stock held in correspondent banks, the Federal Home Loan Bank of New York (FHLB) and the Federal Reserve Bank. As a member of the FHLB, the Company is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution and all sales of FHLB stock must be at par value. As a result of these restrictions, FHLB stock is unlike the Company's other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules, not by market participants. As of December 31, 2018 and 2017, FHLB stock totaled $308,000 and $297,000, respectively, and is included as a part of restricted investments on the consolidated balance sheets.

(5) Loans and Allowance for Loan Losses

The major classifications of loans are as follows at December 31 (in thousands):

Loans, Net	2018	2017
Commercial		
Commercial real estate loans:		
Commercial mortgage	$ 130,302	$ 117,886
Farm land	7,024	6,789
Construction	18,189	10,039
Total commercial real estate loans	155,515	134,714
Other commercial loans:		
Commercial loans	33,509	31,786
Agricultural loans	1,092	620
Total other commercial loans	34,601	32,406
Total commercial loans	190,116	167,120
Consumer		
Consumer real estate loans:		
Residential mortgage	101,138	97,117
Home equity	18,351	20,265
Construction	1,455	1,476
Total residential real estate loans	120,944	118,858
Other consumer loans:		
Consumer installment loans	2,617	2,942
Other consumer loans	1,450	1,406
Total other loans	4,067	4,348
Total consumer loans	125,011	123,206
Total gross loans	315,127	290,326
Allowance for loan losses	(3,311)	(3,526)
Total loans, net	$ 311,816	$ 286,800

Included in the above loan amounts are deferred loan fees and origination costs of $738,000 and $581,000 as of December 31, 2018 and 2017, respectively.

The Company originates consumer and commercial loans primarily to borrowers in Sullivan County, New York and surrounding areas. A substantial portion of the loan portfolio is secured by real estate properties located in that area. The ability of the Company's borrowers to make principal and interest payments is dependent upon, among other things, the level of overall economic activity and the real estate market conditions prevailing within the Company's concentrated lending area.

Nonperforming Loans

Nonperforming loans are loans where the collection of interest or principal is in doubt, or loans that are past due more than 90 days and still considered an accruing loan with the exception of residential mortgages that are well secured and in the process of collection. Impaired loan disclosures and classification apply to loans that are individually evaluated for collectability. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans restructured under the guidelines of *ASC 310-40 Receivables Troubled Debt Restructures by Creditors* are classified as impaired.

Information on nonperforming loans is summarized as follows at December 31 (in thousands):

Nonperforming Loans	Total Loans	Commercial Real Estate	Commercial Other	Residential Real Estate
December 31, 2018				
Nonaccrual loans	$ 5,017	$ 3,181	$ 31	$ 1,805
Troubled debt restructures	758	652	—	106
Total nonaccrual loans	5,775	3,833	31	1,911
Loans past due 90 days or more and still accruing interest	175	—	—	175
Total nonperforming loans	$ 5,950	$ 3,833	$ 31	$ 2,086
December 31, 2017				
Nonaccrual loans	$ 6,578	$ 4,246	$ 89	$ 2,243
Troubled debt restructures	680	461	—	219
Total nonaccrual loans	7,258	4,707	89	2,462
Loans past due 90 days or more and still accruing interest	534	131	—	403
Total nonperforming loans	$ 7,792	$ 4,838	$ 89	$ 2,865

There were no nonperforming loans in the other consumer loans classes at December 31, 2018 or 2017.

The nonaccrual loan income recognition policy of the Bank is that interest is not recognized as income until it is received in cash and the loan's collateral is adequate to support both the interest recognized plus the loan balance, or until the borrower demonstrates the ability to make scheduled payments of interest and principal and the loan has remained current for a period of at least six months. Until such time, these cash payments are applied to the principal balance of the loan. The amount of nonaccrual loan interest forgone for the year ended December 31, 2018 and 2017 was $386,000 and $338,000 respectively.

The recorded investment in consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures are in-process at December 31, 2018 and December 31, 2017 was $1,557,000 and $1,019,000, respectively. The recorded investment in consumer mortgage loans secured by residential real estate properties included in foreclosed real estate at December 31, 2018 and December 31, 2017 was $497,000 and $414,000 respectively.

Impaired loans are also included in nonperforming loans in the table above. The table below presents impaired loans, including troubled debt restructurings, as of December 31, 2018 and December 31, 2017 and their effect on interest income for the periods then ended (in thousands).

Impaired Loans	Total Loans	Commercial Real Estate	Commercial Other	Residential Real Estate
December 31, 2018				
Unpaid principal balance	$ 5,667	$ 4,966	$ 31	$ 670
Recorded investment	$ 4,330	$ 3,833	$ 31	$ 466
Average balance	$ 5,334	$ 4,654	$ 89	$ 591
Interest income:				
Interest contractually due at original rates	$ 394	$ 354	$ 7	$ 33
Interest income recognized	$ 147	$ 104	$ —	$ 43
Impaired loans:				
With no allowance	$ 4,130	$ 3,633	$ 31	$ 466
With an allowance recorded	$ 200	$ 200	$ —	$ —
Related specific allowance	$ 71	$ 71	$ —	$ —
December 31, 2017				
Unpaid principal balance	$ 6,489	$ 5,581	$ 89	$ 819
Recorded investment	$ 5,411	$ 4,723	$ 89	$ 599
Average balance	$ 6,124	$ 5,362	$ 93	$ 669
Interest income:				
Interest contractually due at original rates	$ 441	$ 395	$ 7	$ 39
Interest income recognized	$ 250	$ 189	$ 12	$ 49
Impaired loans:				
With no allowance	$ 3,806	$ 3,207	$ —	$ 599
With an allowance recorded	$ 1,605	$ 1,516	$ 89	$ —
Related specific allowance	$ 378	$ 335	$ 43	$ —

Loans restructured under the guidelines of *ASC 310-40 Receivables Troubled Debt Restructures by Creditors* are disclosed below as of and for the years ended December 31, 2018 and 2017 (in thousands):

Troubled Debt Restructuring	**No.**	**Pre-Modification Recorded investment**	**Post-Modification recorded investment**	**Current recorded investment**
December 31, 2018				
Real Estate:				
Commercial	4	$ 763	$ 770	$ 652
Consumer	5	704	757	466
December 31, 2017				
Real Estate:				
Commercial	3	$ 560	$ 567	$ 460
Consumer	6	839	897	599
For the year ended December 31, 2018				
Commercial				
Real estate	1	$ 203	$ 203	$ 203

A loan is classified as a troubled debt restructuring ("TDR") when a concession that the Bank would not otherwise have considered is granted to a borrower experiencing financial difficulty. Most of the Bank's TDRs involve the restructuring of loan terms to reduce the total payment amount in order to assist those borrowers who are experiencing temporary financial difficulty. In a TDR, the Bank may also increase loan balances for unpaid interest and fees or acquire additional collateral to secure its position.

During the year ending December 31, 2017 the Bank had one commercial and one consumer loan that qualified as a TDR pay off. During the year ended December 31, 2018 the Bank had one new commercial loan that qualified as a TDR and one consumer loan pay off. As of December 31, 2017 and 2018 the Bank had total charge offs of $217,000 and $201,000, respectively, for borrowers whose loan terms have been modified as TDRs. There were no additional charge offs during 2017 or 2018. At December 31, 2017 and 2018, the Bank had a total of $1,060,000 and $1,118,000, respectively, in TDRs which did not require a specific reserve. The Bank has not committed to lend any additional funds to customers whose loans are classified as a TDR as of December 31, 2018. The Bank evaluates TDRs that are over 60 days past due to determine whether or not they are in default. However, all TDRs over 90 days past due are reported as "in default". For the year ended December 31, 2018, one commercial real estate loan with a recorded investment of $91,000 was considered to be in default. For the year ended December 31, 2017 there were no TDRs considered to be in default for loans restructured in the preceding twelve months.

Loan Credit Quality Information

The Bank's management and board of directors are actively engaged in the underwriting and monitoring of loans. Loans are underwritten and reviewed in conjunction with a board of directors' approved loan credit policy with the balanced goal of maintaining underwriting, documentation, and review standards with satisfactory interest income and minimal credit losses. Loans are reviewed and approved at various levels depending upon the amount of credit exposure including: board of directors, board loan committee, senior loan committee, and individual loan officer level. At underwriting, consumer loan approval is based upon an independent analysis of the applicant's financial strength. Commercial loans are underwritten and reviewed consistent with the Bank's loan credit policy. The Bank monitors the commercial loan portfolio based upon a board of directors approved loan review and risk identification policy. The policy dictates the process for internal loan risk identification, periodic annual review of larger commercial loan relationships, and external loan review.

The credit policy of the Bank ensures conformity in loan pricing, sets forth standards for distribution of loans by class, types of credit, limitations on concentrations of credit, maximum maturities by types of credit, legal documentation requirements, commercial loan underwriting standards, acceptable forms of collateral, use of financial covenants for commercial loans, financial statement requirements, loan participations, and appraisal standards, among many other items.

At underwriting, all unsecured commercial loans in excess of $10,000 and secured commercial loans in excess of $25,000 are assigned a risk rating in conformity with the loan review and risk identification policy. All commercial loans with aggregate relationship exposure of $100,000 or more are required to be reviewed annually. The analysis is compared to any financial covenants to ensure conformity with the loan agreement. If the analysis reveals non-conformity, the applicable lending officer or loan committee may recommend corrective action including a revised loan risk rating, non-renewal of lines of credit, reduction in lines of credit, or collection action. Once a loan is underwritten, the risk rating is updated if the lending officer notes either positive or negative characteristics in the loan.

The Bank has a loan rating system that ranges from "Pass" to "Loss" based upon the commensurate severity of credit risk. "Pass" rated loans are generally loans to un-leveraged borrowers with strong liquidity, available cash flow to service debt obligations, and the ability to make payments as agreed. "Pass watch" loans are stronger than loans in the special mention category, as discussed below, but would not fall in the "Pass" category for reasons such as the following: the loans are to financially strong individuals not meeting agreed upon repayment programs, are unseasoned smaller loans, or have excessive vulnerability to competition or other dependencies. "Special mention" loans currently have a protected credit position but are potentially weak. These loans have relatively minor credit risk; however, in light of circumstances, they constitute undue and unwarranted risks, but not to the point of justifying a classification of substandard. The loan may have potential weaknesses which may, if not checked or corrected, weaken the loan or inadequately protect the Bank's credit position at some future date. "Substandard" loans have a well-defined weakness that jeopardizes the liquidity of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a loan classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the assets, the loan's classification as a loss is deferred until its more exact status may be determined. Loans which become "Loss" rated are fully charged off as they are considered uncollectible. Their continuance as bankable assets is no longer warranted and are therefore excluded below. Loans that are non-reviewed on an ongoing basis are consumer loans and small balance commercial loans which pose less of a credit risk.

Management reviews risk ratings on a monthly basis and the following illustrates total loans by credit risk profiles based on internally assigned grades and category as of December 31 (in thousands):

		Commercial				Consumer
Loans by Risk Ratings	**Total**	**Real Estate**	**Other**	**Real Estate**	**Installment**	**Other**
December 31, 2018						
Pass	$ 84,164	$ 71,820	$ 12,344			
Pass watch	90,323	69,531	20,792			
Special mention	9,108	8,360	748			
Substandard	4,471	4,033	438			
Doubtful	71	71	—			
Non-reviewed	126,990	1,700	279	$ 120,944	$ 2,617	$ 1,450
Total	$ 315,127	$ 155,515	$ 34,601	$ 120,944	$ 2,617	$ 1,450
December 31, 2017						
Pass	$ 64,399	$ 51,050	$ 13,349			
Pass watch	92,130	74,666	17,464			
Special mention	859	241	618			
Substandard	6,334	5,955	379			
Doubtful	378	335	43			
Non-reviewed	126,226	2,467	553	$ 118,858	$ 2,942	$ 1,406
Total	$ 290,326	$ 134,714	$ 32,406	$ 118,858	$ 2,942	$ 1,406

The following table illustrates the aging of past due loans by category as of December 31 (in thousands):

Category of loans	30-59 Days past due	60-89 Days past due	Greater than 90 Days	Total past due	Current	Total loans	Over 90 and accruing
2018							
Commercial real estate	$ 1,408	$ 12	$ 3,305	$ 4,725	$ 150,790	$ 155,515	$ —
Residential real estate	1,352	1,705	2,018	5,075	115,869	120,944	175
Commercial other	217	128	31	376	34,225	34,601	—
Consumer installment	16	—	—	16	2,601	2,617	—
Other consumer	—	—	—	—	1,450	1,450	—
Total	$ 2,993	$ 1,845	$ 5,354	$ 10,192	$ 304,935	$ 315,127	$ 175
2017							
Commercial real estate	$ 241	$ 680	$ 3,924	$ 4,845	$ 129,869	$ 134,714	$ 131
Residential real estate	1,808	1,548	2,335	5,691	113,167	118,858	403
Commercial other	183	1	89	273	32,133	32,406	—
Consumer installment	35	6	—	41	2,901	2,942	—
Other consumer	3	—	—	3	1,403	1,406	—
Total	$ 2,270	$ 2,235	$ 6,348	$ 10,853	$ 279,473	$ 290,326	$ 534

As of December 31, 2018 and 2017, nonaccrual loans included $1.0 million and $1.4 million of loans, respectively, which are paying currently but have not met the specific criteria to be placed on accrual status.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance that management has determined to be necessary to absorb probable incurred credit losses inherent in the loan portfolio. The allowance is established through provisions for losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management evaluates the allowance quarterly using past loan loss experience to establish base allowance pool rates for commercial real estate, other commercial loans, residential real estate loans, consumer installment, and other consumer loans. Reviewed and pass-rated commercial mortgage/loan pool rates are determined based on adjusted pool rates, which include weighted three-year average loss percentages adjusted for the eight risk factors as discussed below.

Special mention and substandard pool rates are determined by the greater of the Bank's weighted three-year average loss percentages or historical loss rolling average of the prior eight quarters. The method used in this calculation collects all commercial loans and mortgages from one year ago, observes their status and rating at the current time, and computes the historical loss rolling average for these rating categories by using the losses experienced by those particular loans over the past year. These allowance pool rates are then adjusted based on management's current assessment of eight risk factors. These risk factors are:

1. Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. Changes in national, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Changes in the nature and volume of the portfolio and terms of loans.
4. Changes in the experience, ability, and depth of lending management and staff.
5. Changes in volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Changes in the quality of the Bank's loan review system and the degree of oversight by the Bank's board of directors.
7. The existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. The effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation. Several specific factors are believed to have more impact on a loan's risk rating, such as those related to national and local economic trends, lending management and staff, volume of past dues and nonaccruals, and concentrations of credit. Therefore, due to the increased risk inherent in criticized and classified loans, the values of these specific factors are increased proportionally. Management believes these increased factors provide adequate coverage for the additional perceived risk. Doubtful loans by definition have inherent losses in which the precise amounts are dependent on likely future events. These particular loans are reserved at higher pool rates (25%) unless specifically reviewed and deemed impaired as described below. An unallocated component of the allowance for loan losses has been established to reflect the inherent imprecision involved in calculating the allowance for loan losses.

The commercial portfolio segment is comprised of commercial real estate and other commercial loans. This segment is subject to all of the risk factors considered in management's assessment of the allowance. Examples of specific risks applicable to the entire segment include changes in economic conditions that reduce business and consumer spending leading to a loss of revenue, concentrations of credit in business categories that are disproportionately impacted by current economic conditions, the quality of the Bank's loan review system and its ability to identify potential problem loans, and the availability of acceptable new loans to replace maturing, amortizing, and refinanced loans. In addition, risks specific to commercial mortgages and secured commercial loans would include economic conditions that lead to declines in property and other collateral values. Prior to applying the allowance pool rate, commercial real estate and other commercial loans in nonaccrual status or those with a minimum substandard rating and loan relationships of $500,000 or more and all trouble debt restructures ("TDR") are individually considered for impairment. Loans that are considered individually for impairment and not determined to be impaired are returned to their original pools for allowance purposes. If a loan is determined to be impaired, it is evaluated under guidance which dictates that a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. If the measure of the impaired loan, such as the collateral value, is less than the recorded investment in the loan, a specific reserve is established in the allowance for loan losses. An uncollectible loan is charged off after all reasonable means of collection are exhausted and the recovery of the principal through the disposal of the collateral is not reasonably expected to cover the costs. Commercial real estate and other commercial loans with an original principal balance under $10,000 for unsecured loans or under $25,000 for secured loans are also not individually considered for impairment. Instead, the appropriate allowance pool rate is applied to the aggregate balance of these pools.

The consumer portfolio segment is comprised of consumer real estate, consumer installment, and other consumer loans. This segment is also subject to all of the risk factors considered in management's assessment of the allowance. Examples of specific risks applicable to the entire segment include changes in economic conditions that increase unemployment which reduces a consumer's ability to repay their debt, changes in legal and regulatory requirements that make it more difficult to originate new loans and collect on existing loans, and competition from non-local lenders who originate loans in the Bank's market area at lower rates than the Bank can profitably offer. In addition, risks specific to residential mortgages and secured consumer loans would include economic conditions that lead to declines in property and other collateral values. Residential real estate, consumer installment, and other consumer loans are considered homogenous pools and are generally not individually considered for impairment. Instead, the appropriate allowance pool rate is applied to the aggregate balance of these pools. The other portfolio segment is comprised primarily of check-loans and loans in-process. These loans are considered homogenous pools and are not individually considered for impairment. A pool rating is applied to the aggregate balance of these pools. Loans restructured under a trouble debt restructuring are individually evaluated for impairment.

The amount of the allowance is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or as later events occur or circumstances change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Modifications to the methodology used in the allowance for loan losses evaluation may be necessary in the future based on economic and real estate market conditions, new information obtained regarding known problem loans, regulatory guidelines and examinations, the identification of additional problem loans, changes in generally accepted accounting principles or other factors.

Changes in the allowance for loan losses and the related loans evaluated for impairment are summarized as follows as of and for the years ended December 31 (in thousands):

		Commercial		Consumer			
Allowance for Loan Losses	**Total**	**Real Estate**	**Other**	**Real Estate**	**Installment**	**Other**	**Unallocated**
December 31, 2018:							
Beginning balance January 1	$ 3,526	$ 1,724	$ 377	$ 1,159	$ —	$ 25	$ 241
Charge-offs	(993)	(624)	(29)	(271)	(6)	(63)	—
Recoveries	428	73	265	56	14	20	—
Provision (Credit)	350	490	(372)	261	(2)	55	(82)
Ending balance December 31	$ 3,311	$ 1,663	$ 241	$ 1,205	$ 6	$ 37	$ 159
Ending balance as related to allowance:							
Evaluated collectively [general reserve]	$ 3,240	$ 1,592	$ 241	$ 1,205	$ 6	$ 37	$ 159
Evaluated individually [specific reserve]	71	71	—	—	—	—	—
Total Allowance for Loan Losses	$ 3,311	$ 1,663	$ 241	$ 1,205	$ 6	$ 37	$ 159
Ending balance as related to loans:							
Loans evaluated collectively	$ 310,797	$ 151,682	$ 34,570	$ 120,478	$ 2,617	$ 1,450	
Loans evaluated individually	4,330	3,833	31	466	—	—	
Total Loans	$ 315,127	$ 155,515	$ 34,601	$ 120,944	$ 2,617	$ 1,450	
December 31, 2017:							
Beginning balance January 1	$ 3,692	$ 2,046	$ 365	$ 1,143	$ —	$ 25	$ 113
Charge-offs	(607)	(351)	(9)	(206)	(3)	(38)	—
Recoveries	741	650	26	30	2	33	—
Provision (Credit)	(300)	(621)	(5)	192	1	5	128
Ending balance December 31	$ 3,526	$ 1,724	$ 377	$ 1,159	$ —	$ 25	$ 241
Ending balance as related to allowance:							
Evaluated collectively [general reserve]	$ 3,148	$ 1,389	$ 334	$ 1,159	$ —	$ 25	$ 241
Evaluated individually [specific reserve]	378	335	43	—	—	—	—
Total Allowance for Loan Losses	$ 3,526	$ 1,724	$ 377	$ 1,159	$ —	$ 25	$ 241
Ending balance as related to loans:							
Loans evaluated collectively	$ 284,915	$ 129,991	$ 32,317	$ 118,259	$ 2,942	$ 1,406	
Loans evaluated individually	5,411	4,723	89	599	—	—	
Total Loans	$ 290,326	$ 134,714	$ 32,406	$ 118,858	$ 2,942	$ 1,406	

The commercial real estate allowance for loan loss decreased $61,000 from prior year, despite commercial real estate loans increasing $22 million due to a combination of new pass rated loan originations and write-downs of substandard loans during the year ended December 31, 2018 improving the overall average rating of the commercial real estate portfolio.

There are no commitments to lend additional funds on the above noted non-performing loans. Management has determined that the majority of these non-performing loans remain well collateralized. Based on its comprehensive analysis of the loan portfolio, and since the Company has no exposure to subprime loans, management believes the current level of the allowance for loan losses is adequate. However, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

(6) Premises and Equipment

The major classifications of premises and equipment were as follows at December 31 (in thousands):

Premise and Equipment, Net	2018	2017
Land	$ 2,065	$ 2,065
Buildings and improvements	9,103	9,064
Furniture and fixtures	468	465
Equipment	3,794	4,048
Total premises and equipment	15,430	15,642
and amortization	(8,723)	(8,563)
Premises and equipment, net	$ 6,707	$ 7,079

Depreciation and amortization expense was $575,000 and $620,000 in 2018 and 2017, respectively.

The Company has three leases for branches located in Callicoon, Wurtsboro and Port Jervis which expire in 2022, 2020 and 2021, respectively. Total rent expense for the years ended December 31, 2018 and 2017 was $84,000 and $79,000, respectively. The Company's contractual obligation on future minimum non-cancellable lease payments as of December 31, 2018, is as follows (in thousands):

Future Minimum Lease Payments, for the years ending:	
2019	$ 79
2020	60
2021	35
2022	9
2023	—
2024 and thereafter	—
	$ 183

(7) Time Deposits

The following is a summary of time deposits at December 31, 2018 by remaining period to contractual maturity (in thousands):

Within one year	$ 52,195
One to two years	14,756
Two to three years	4,256
Three to four years	3,318
Four to five years	1,641
Over five years	—
Total time deposits	$ 76,166

Time deposits of $250,000 or more totaled $6,985,000 and $10,906,000 at December 31, 2018 and 2017, respectively.

(8) Short-Term Borrowings

There were no short-term borrowings as of December 31, 2018 or 2017. At December 31, 2018, the Bank maintained unsecured lines of credit with Atlantic Community Bank for $7.0 million and First Tennessee Bank for $5.0 million. The Bank has access to a primary credit line with the Federal Reserve Discount Window (Discount Window) which would be available upon collateralization by securities held in trust. At December 31, 2018 there is no available credit. The Bank, as a member of the FHLB, has access to a line of credit program with a maximum borrowing capacity of $52.2 million as of December 31, 2018 which is collateralized by mortgage loans and FHLB stock. During 2018 and 2017, there were no borrowings at any month-end. During the year ended 2018, the Bank borrowed an average balance of $548 with an average interest rate of 2.7%. During 2017, the Bank borrowed an average balance of $1,100 with an average interest rate of .02%.

(9) Federal Home Loan Bank Borrowings

As of December 31, 2018 and December 31, 2017, the Bank had no Federal Home Loan Bank Borrowings. The Bank has a blanket security agreement with FHLB to secure borrowings with FHLB stock (see Note 4) and by maintaining as collateral, certain qualifying assets (principally residential mortgage loans) not otherwise pledged.

(10) Income Taxes

Income taxes for the years ended December 31 consisted of the following (in thousands):

Income Tax Expense	2018	2017
Current:		
Federal	$ 1,006	$ 338
State	135	28
Deferred tax expense	15	1,949
	$ 1,156	$ 2,315

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are presented below (in thousands):

Deferred Tax Asset, Net	2018	2017
Deferred tax assets:		
Allowance for loan losses in excess of tax bad debt reserve	$ 708	$ 695
Depreciation	350	344
Foreclosed real estate	51	52
Other comprehensive income (retirement benefits)	1,222	1,323
Other	37	(111)
Total deferred tax assets	2,368	2,070
Deferred tax liabilities:		
Prepaid expenses	(265)	(211)
Other comprehensive income:		
Retirement benefits	(287)	(233)
Security Loss	(73)	—
Unrealized gain on securities available for sale	(104)	(231)
Total deferred tax liabilities	(729)	(442)
Net deferred tax asset (included in other assets)	$ 1,639	$ 1,628

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) elimination of the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; and (3) changing rules related to usage and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company has recorded a decrease related to its net deferred tax assets of $706,000 with a corresponding net adjustment to deferred income tax expense of $706,000 for the year ended December 31, 2017.

The tax provision differs from the expense that would result from applying the statutory Federal rate to income before taxes due to graduated tax rates, state income taxes, permanent tax differences and the effect of the re-measurement of deferred tax assets and liabilities at the 21 percent rate enacted on December 22, 2017.

In assessing the ability to realize the Company's total deferred tax assets, management considers whether it is more likely than not that some portion or all those assets will not be realized. Based upon management's consideration of historical and anticipated future pre-tax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance for deferred tax assets was not considered necessary at December 31, 2018 and 2017.

No unrecognized tax benefits are expected to arise within the next twelve months. The Company files income tax returns in both the US Federal and New York State tax jurisdictions. The Company is no longer subject to examination by the US Federal for years before 2015 and NYS taxing authorities for years before 2015.

(11) Regulatory Capital Requirements

State-chartered, nonmember banks are required to maintain minimum levels of regulatory capital in accordance with regulations of the Federal Deposit Insurance Corporation ("FDIC") as amended January 1, 2015. FDIC regulations require a minimum leverage ratio of Tier I capital to total adjusted assets of 4.0%, and minimum ratios of Common equity Tier I (CET1) capital, Tier 1 capital and Total capital to risk-weighted assets of 4.5%, 6.0% and 8.0%, respectively.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized bank. Such actions could have a direct material effect on banks' financial statements. The regulations establish a framework for the classification of banks into four categories: well capitalized, adequately capitalized, undercapitalized, and significantly undercapitalized. Generally, a bank is considered well capitalized if it has a leverage capital of at least 5% and a CET1 capital ratio of at least 6.5%, a Tier I risk-based capital ratio of at least 8.0%, and a total risk-based capital ratio of at least 10.0%.

The Basel III rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The new capital conservation buffer requirements began phase in effective January 2016 at 0.625% of risk-weighted assets and increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses to executive officers if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The foregoing capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about capital components, risk weightings and other factors.

Management believes that, as of December 31, 2018 and 2017, the Bank met all capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized bank under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

The following is a summary of the actual capital amounts and ratios as of December 31, 2018 and 2017 for the Bank compared to the required ratios for minimum capital adequacy and for classification as well-capitalized (dollars in thousands):

Regulatory Capital	Actual Amount	Actual Ratio	Required Ratios Buffer	Required Ratios Minimum capital adequacy	Required Ratios Well capitalized
December 31, 2018:					
Leverage (Tier I) capital	$56,370	11.1%		4.0%	N/A
Risk-based capital:					
CET1	56,370	17.1	6.5%	4.5	6.5
Tier I	56,370	17.1	8.0	6.0	8.0
Total	59,682	18.1	10.0	8.0	10.0
December 31, 2017:					
Leverage (Tier I) capital	$55,176	11.6%		4.0%	N/A
Risk-based capital:					
CET1	55,176	18.0	5.8%	4.5	6.5
Tier I	55,176	18.0	7.3	6.0	8.0
Total	58,712	19.2	9.3	8.0	10.0

Jeffersonville Bancorp is a small bank holding company, and is exempt from regulatory capital requirements administered by the Federal banking agencies.

(12) Stockholders' Equity

Dividend Restrictions

Dividends paid by the Bank are the primary source of funds available to the Parent Company for payment of dividends to its stockholders and for working capital needs. Applicable Federal and state statutes, regulations and guidelines impose restrictions on the amount of dividends that may be declared by the Bank. Under these restrictions, the dividends declared and paid by the Bank to the Parent Company may not exceed the total amount of the Bank's net profit retained in the current year plus its retained net profits, as defined, from the two preceding years. The Bank's retained net profits available for dividends at December 31, 2018 totaled $2,900,000.

(13) Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income (loss) which are reported directly in stockholders' equity, such as the net unrealized gain or loss on securities available for sale and changes in liabilities associated with the Company's defined benefit pension plan and the supplemental retirement plans. These items are reflected in the consolidated statements of comprehensive income, net of income taxes.

At December 31, 2018 and 2017, the components of accumulated other comprehensive income (loss) reflected on the consolidated balance sheets are as follows (in thousands):

Accumulated Other Comprehensive Loss, Net of Tax	2018	2017
Supplemental executive retirement plan	$ (329)	$ (413)
Defined benefit pension liability	(4,349)	(4,649)
Net unrealized holding (losses) gains on securities available for sale	(399)	884
Accumulated other comprehensive loss, before income tax	(5,077)	(4,178)
Income tax related to accumulated other comprehensive loss	1,327	1,092
Accumulated other comprehensive loss, net of tax	$ (3,750)	$ (3,086)

(14) Related Party Transactions

Certain directors and executive officers of the Company, as well as certain affiliates of these directors and officers, have engaged in loan transactions with the Company.

Outstanding loans to these related parties are summarized as follows at December 31 (in thousands):

Related Party Transactions	2018	2017
Directors	$ 1,288	$ 1,563
Executive officers (non-directors)	289	392
	$ 1,577	$ 1,955

During 2018, total advances to these directors and officers were $9,000, and total loan payments was $387,000. Directors and officers had unused lines of credit with the Company of $391,000 and $348,000 at December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the amount of deposits of related parties was $3,346,000 and $2,134,000 respectively.

(15) Employee Benefit Plans

Pension Benefits

The Company has a noncontributory defined benefit pension plan. The plan is closed to new participants hired after September 30, 2010. The Company's funding policy is to contribute annually an amount sufficient to satisfy the minimum funding requirements of the Employee Retirement Income Security Act, but not greater than the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for benefits expected to be earned in the future.

The Company has no minimum required pension contribution for 2019, however the Company expects to contribute $500,000 to its pension plan in 2019. Benefits, which reflect estimated future employee service, are expected to be paid as follows (in thousands):

Estimated Future Benefits	
2019	$ 791
2020	797
2021	815
2022	823
2023	843
Years 2024-2028	4,444

The following is a summary of changes in the benefit obligations and plan assets for the pension plan for the December 31, 2018 and 2017 measurement dates, together with a reconciliation of the plan's funded status to the amounts recognized in the consolidated balance sheets (in thousands).

Changes in Benefit Obligations, Plan Assets and Funded Status As of the Measurement Date, December 31,	2018	2017
Change in benefit obligation:		
Beginning of year	$ 16,362	$ 14,806
Service cost	432	394
Interest cost	625	633
Actuarial (gain) loss	(1,493)	1,360
Benefits paid and expected expenses	(849)	(831)
End of year	15,077	16,362
Changes in fair value of plan assets:		
Beginning of year	15,475	13,857
Actual return on plan assets	(391)	1,954
Employer contributions	1,500	500
Benefits paid and actual expenses	(849)	(836)
End of year	15,735	15,475
Funded status at end of year, recognized in other asset (liabilities) on the balance sheet	$ 658	$ (887)
Amounts recognized in accumulated other comprehensive loss consists of:		
Unrecognized actuarial loss	$ (4,349)	$ (4,649)
Net amount recognized	$ (4,349)	$ (4,649)

The projected benefit obligation for the pension plan was $15,077,000 and $16,362,000 at December 31, 2018 and 2017, respectively. The accumulated benefit obligation for the pension plan was $14,486,000 and $15,660,000 at December 31, 2018 and 2017, respectively.

The components of the net periodic benefit cost for the years ended December 31, the plan was as follows (in thousands):

Net Periodic Benefit Cost For the year ended December 31,	2018	2017
Net periodic benefit cost:		
Service cost	$ 432	$ 394
Interest cost	625	633
Expected return on plan assets	(1,072)	(905)
Recognized net actuarial loss	270	262
Total net periodic benefit cost	$ 255	$ 384

Net Periodic Benefit Cost (continued) For the year ended December 31,	2018	2017
Net (gain) loss	$ (30)	$ 316
Amortization of net loss	(270)	(262)
Total recognized in other comprehensive income (loss)	$ (300)	$ 54
cost (income) and other comprehensive (loss)	$ (45)	$ 438

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2019 is $256,000. The components of net periodic benefit cost other than the service cost component are included in the line item "Other non-interest expense" in the *Consolidated Statements of Income*.

The Company changed how it measures its pension obligation from using the RP-2000 with generational projection Scale BB mortality table for its pension plan in 2017 to the RP-2014 Mortality Tables with Projection Scale MP-2018. Assumptions used to determine benefit obligations for the pension plan and for the other postretirement benefits plan as of the December 31 measurement date were as follows:

Benefit Obligation Assumptions	2018	2017
Discount rate	4.51%	3.93%
Rate of compensation increase	3.00	3.00

As of December 31, 2018, the pension plan discount rate decreased to 3.93% compared to 4.41% as of December 31, 2017 due to observations of estimates inherent in market data. Assumptions used to determine net periodic benefit cost were as follows:

Net Periodic Benefit	2018	2017
Discount rate	3.93%	4.41%
Expected long-term rate of return on plan assets	6.75	6.75
Rate of compensation increase	3.00	3.00

The Company's expected long-term rate of return on plan assets reflects long-term earnings expectations and was determined based on historical returns earned by existing plan assets adjusted to reflect expectations of future returns as applied to the plan's targeted allocation of assets.

The Company's pension plan asset allocation at December 31, by asset category is as follows:

Pension Plan Asset Allocation	2018	2017
Asset category:		
Equity securities	36%	40%
U.S. Government securities	8	6
Debt securities	7	9
Mutual funds	47	43
Other	2	2

The following table presents pension plan assets measured at fair value on a recurring basis by their level within the fair value hierarchy as of December 31, 2018 and 2017, dollars in thousands. Financial assets are classified based on the lowest level of input that is significant to their fair value measurement.

Fair Value Hierarchy For Pension Plan Assets	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Asset category as of December 31, 2018:				
Cash and cash equivalents	$ 314	$ 314	$ —	$ —
Bonds:				
U.S. government agency	1,282	—	1,282	—
Municipal	204	—	204	—
U.S. corporate	794	—	794	—
Foreign corporate	102	—	102	—
Equity securities:				
U.S. companies	5,594	5,594	—	—
International companies	112	112	—	—
Mutual funds:				
U.S. companies	1,173	1,173	—	—
International companies	1,802	1,802	—	—
U.S. companies – fixed income	4,088	4,088	—	—
International companies - fixed income	270	270	—	—
	$ 15,735	$ 13,353	$ 2,382	$ —
Asset category as of December 31, 2017:				
Cash and cash equivalents	$ 231	$ 231	$ —	$ —
Bonds:				
U.S. government agency	1,000	—	1,000	—
Municipal	513	—	513	—
U.S. corporate	812	—	812	—
Foreign corporate	106	—	106	—
Equity securities:				
U.S. companies	5,805	5,805	—	—
International companies	320	320	—	—
Mutual funds:				
U.S. companies	892	892	—	—
International companies	1,665	1,665	—	—
U.S. companies – fixed income	3,956	3,956	—	—
International companies - fixed income	175	175	—	—
	$ 15,475	$ 13,044	$ 2,431	$ —

The Company has a Funding Agreement with Citizens Bank, NA (Citizens) to act as the Funding Agent of the assets of the Plan. Citizens has been given discretion by the Company to determine the appropriate strategic asset allocation as governed by the Company's Investment Policy Statement and Guidelines which provides specific targeted asset allocations for each investment category as follows:

Asset Allocation Targets	Allocation Range
Large Cap Domestic Equity	30% - 40%
Mid Cap Domestic Equity	5% - 15%
Small Cap Domestic Equity	0% - 10%
International Equity	5% - 20%
Real Estate	0% - 10%
Core Investment Grade Bonds	15% - 30%
Mortgages	0% - 15%
Money Market	0% - 10%

Directors Survival Insurance
The Company maintains a separate insurance program for Directors. The benefits accrued under this plan totaled $150,000 at December 31, 2017 which was paid out in 2018. There was no expense in 2018 or 2017 as the plan had reached its maximum accrual limit.

Profit Incentive Program
The Company maintains a profit incentive program for all employees. There were no accrued benefits at December 31, 2018 or 2017 as benefits are paid in the year earned. The Company recorded an expense of $604,000, and $470,000 relating to this plan during the years ended December 31, 2018 and 2017, respectively.

Tax-Deferred Savings Plan
The Company maintains a qualified 401(k) plan for all full-time employees, which permits tax-deferred employee contributions up to the greater of 75% of salary or the maximum allowed by law and provides for matching contributions by the Company. The Company matches 100% of employee contributions up to 4% of the employee's salary and 25% of the next 2% of the employee's salary. The Company incurred annual expenses of $248,000 and $227,000 in 2018 and 2017, respectively.

Supplemental Executive Retirement Plan
The Company maintains a Supplemental Executive Retirement Plan for certain executive officers primarily to restore benefit reductions in certain employee benefit plans due to Internal Revenue Service regulations. The benefits accrued under this plan totaled $3,205,000 at December 31, 2018 and $3,207,000 at December 31, 2017 and are unfunded. The Company recorded an expense of $309,000 and $347,000 relating to this plan during the years ended December 31, 2018 and 2017, respectively. The components of net periodic benefit cost other than the service cost component are included in the line item "Other non-interest expense" in the *Consolidated Statements of Income*.

Director Retirement Plan
The Company maintains a Director Retirement Plan in order to provide certain retirement benefits to participating directors. Generally, each participating director receives an annual retirement benefit of eighty percent of their average annual cash compensation during the three highest calendar years, as defined in the plan. This annual retirement benefit is payable until death and may not exceed $40,000 per year. The benefits accrued under this plan totaled $706,000 and $634,000 at December 31, 2018 and 2017, respectively, and are unfunded. The Company recorded an expense of $153,000 and $137,000, relating to this plan during the year ended December 31, 2018 and 2017 respectively.

(16) Commitments and Contingent Liabilities

Legal Proceedings
The Company and the Bank are, from time to time, defendants in routine legal proceedings relating to the ordinary conduct of their business. In the best judgment of management, the consolidated financial position and results of operations of the Company will not be affected materially by the outcome of any pending legal proceedings.

Off-Balance-Sheet Financial Instruments
The Company is a party to certain financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These are limited to commitments to extend credit and standby letters of credit which involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's maximum exposure to credit loss, in the event of nonperformance by the other party to these instruments, would be the contract amount, assuming that they are fully funded at a later date and any collateral proves to be worthless. The Company uses the same credit policies in making commitments as it does for on-balance-sheet extensions of credit.

Contractual amounts of financial instruments that represent agreements to extend credit are as follows at December 31 (in thousands):

Off-Balance Sheet Financial Instruments	**2018**	**2017**
Loan origination commitments and unused lines of credit:		
Commercial and residential mortgages	$ 2,681	$ 4,144
Commercial loans	40,417	36,126
Home equity lines	4,145	5,554
	47,243	45,824
Standby letters of credit	119	411
	$ 47,362	$ 46,235

These agreements to extend credit have been granted to customers within the Company's lending area described in Note 5 and relate primarily to fixed and variable rate loans.

Loan origination commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since commitments and lines of credit may expire without being fully drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Company evaluates each customer's creditworthiness on a case-by-case basis. Mortgage commitments are secured by liens on real estate. Collateral on extensions of credit for commercial loans vary but may include accounts receivable, equipment, inventory, livestock, and income-producing commercial property.

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. The Company has issued unconditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled $119,000 and $411,000 at December 31, 2018 and 2017, respectively, and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance-sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at December 31, 2018 and 2017 was not significant.

(17) Fair Values of Financial Instruments

The Company follows ASC Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820"), which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC 820 requires disclosures about the fair value of assets and liabilities recognized in the consolidated balance whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, an asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring and non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2018 and 2017, respectively are as follows (in thousands):

Fair Value Hierarchy For Assets Valued on a Recurring and Non-recurring Basis	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2018:				
Recurring:				
Available for sale securities				
Government sponsored enterprises (GSE)	$ 4,054	$ —	$ 4,054	$ —
Obligations of state and political subdivisions [(a)]	36,738	—	36,738	—
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	13,622	—	13,622	—
Corporate debt – financial services industry	14,401	—	14,401	—
Equity securities held at fair value – financial services industry	906	906	—	—
	$ 69,721	$ 906	$ 68,815	$ —
Non-recurring:				
Impaired loans	$ 2,218	$ —	$ —	$ 2,218
December 31, 2017:				
Recurring:				
Available for sale securities				
Government sponsored enterprises (GSE)	$ 4,940	$ —	$ 4,940	$ —
Obligations of state and political subdivisions – New York state [(a)]	41,274	—	41,274	—
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	15,565	—	15,565	—
Corporate debt – financial services industry	15,716	—	15,716	—
Equity securities – financial services industry	2,523	2,523	—	—
	$ 80,018	$ 2,523	$ 77,495	$ —
Non-recurring:				
Foreclosed real estate	$ 492	$ —	$ —	$ 492
Impaired loans	2,923	—	—	2,923
	$ 3,415	$ —	$ —	$ 3,415

(a) *Based on its analysis of the nature and risks of these investments, the Company has determined that presenting them as a single class is appropriate.*

There were no transfers of assets into or out of Level III.

Foreclosed assets consist primarily of commercial real estate and are not revalued on a recurring basis. At the time of foreclosure, foreclosed real estate assets are adjusted to fair value less estimated costs to sell upon transfer of the loans, establishing a new cost basis. Occasionally, additional valuation adjustments are made based on updated appraisals and other factors and are recorded as recognized. At that time, they are reported in the Company's fair value disclosures in the non-recurring table above.

ASC Topic 825 *Financial Instruments* ("ASC 825") requires disclosure of fair value information about financial instruments whether or not recognized on the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under ASC 825, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of the assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts of existing financing instruments do not represent the underlying value of those instruments on the books of the Company.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2018 and December 31, 2017.

Cash and Cash Equivalents

The carrying amounts reported in the consolidated balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of equity securities are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1). The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The carrying values for securities maturing within 90 days approximate fair values because there is little interest rate or credit risk associated with these instruments.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, consumer, real estate and other loans. Each loan category is further segregated into fixed and adjustable rate interest terms and by performing and nonperforming categories. The fair values of performing loans are calculated by discounting scheduled cash flows through estimated maturity using estimated market discount rates that reflect the credit and interest rate risks inherent in the loans. Estimated maturities are based on contractual terms and repricing opportunities.

Impaired Loans

Impaired loans, which are predominately commercial real estate loans where it is probable that the Bank will be unable to collect all amounts due per the contractual terms of the loan agreement, are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, liquidation value or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. Impaired loans are transferred out of the Level 3 fair value hierarchy when payments reduce the outstanding loan balance below the fair value of the loan's collateral or the loan is foreclosed upon. If the financial condition of the borrower improves such that collectability of all contractual amounts due is probable, and payments are current for six months, the loan is transferred out of impaired status. As of December 31, 2018 the fair values of collateral-dependent impaired loans were calculated using an outstanding balance of $2,289,000 net of charge-offs and a specific valuation allowance of $71,000. At December 31, 2017, the fair values of collateral-dependent impaired loans were calculated using an outstanding balance of $3,301,000, net of charge-offs and a specific valuation allowance of $378,000. Impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Restricted Investments

The carrying amount of restricted investments approximates fair value and considers the limited marketability of such securities.

Deposit Liabilities

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Debt

The carrying amounts of short-term debt approximate their fair values.

Federal Home Loan Bank Borrowings

Fair values of FHLB borrowings are estimated using discounted cash flow analysis, based on quoted prices for new FHLB borrowings with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance-Sheet Financial Instruments

Fair values for the Bank's off-balance-sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. For fixed rate loan commitments, fair value estimates also consider the difference between current market interest rates and the committed rates. At December 31, 2018 and December 31, 2017, the fair values of these financial instruments approximated the related carrying values which were not significant.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company has computed fair value based on Level 3 values:

Nonrecurring Assets	Fair value estimate As of December 31, 2018	2017	Valuation techniques	Unobservable input	Range	Combined Weighted Average
Foreclosed real estate	$ —	$ 492	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -10%	-8%
				Liquidation expenses (2)	0% to -10%	
Impaired loans	$ 2,218	$ 2,923	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -10%	-8%
				Liquidation expenses (2)	0% to -10%	

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and desired turn-over rate. Liquidation expenses are determined on an asset by asset basis and include expenses such as realtor fees, legal fees, transfer tax and other costs.

The following table presents financial assets and financial liabilities that were measured or disclosed at carrying and fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as of December 31, 2018 and 2017.

Financial Assets and Liabilities (in thousands)	Carrying Value	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2018					
Financial assets:					
Cash and cash equivalents(2)	$ 60,554	$ 60,554	$ 60,554	$ —	$ —
Securities available for sale(1)	68,815	68,815	—	68,815	—
Equity securities held at fair value(3)	906	906	906	—	—
Securities held to maturity	31,874	31,923	—	31,923	—
Loans, net	311,816	308,358	—	—	308,358
Accrued interest receivable(2)	1,704	1,704	1,704	—	—
Restricted investments(2)	519	519	—	519	—
Financial liabilities:					
Savings, money market and checking accounts(2)	359,519	359,519	359,519	—	—
Time deposits	76,166	76,198	—	76,198	—
Accrued interest payable(2)	55	55	55	—	—
December 31, 2017					
Financial assets:					
Cash and cash equivalents	$ 73,437	$ 73,437	$ 73,437	$ —	$ —
Securities available for sale	80,018	80,018	2,523	77,495	—
Securities held to maturity	30,450	30,909	—	30,909	—
Loans, net	286,800	286,420	—	—	286,420
Accrued interest receivable	1,682	1,682	—	1,682	—
Restricted investments	507	507	—	507	—
Financial liabilities:					
Savings, money market and checking accounts	342,604	342,604	342,604	—	—
Time deposits	91,058	91,114	—	91,114	—
Accrued interest payable	62	62	—	62	—

(1) The financial instruments are carried at fair value through accumulated other comprehensive income at December 31, 2018.
(2) The financial instrument is carried at cost at December 31, 2018 which approximated the fair value of the instrument.
(3) The financial instruments are carried at fair value through non-interest income at December 31, 2018.

Directors

David W. Bodenstein
President
Mike Preis, Inc.

Phil Coombe, III
Owner
Coombe Financial Services, Inc.
Partner
Coombe Bender & Company, LLC

Karen Fisher
President & Co-Owner
Fisher Mears Associates

John W. Galligan, Surveyor
John W. Galligan Company

Kenneth C. Klein, Esquire
Kenneth C. Klein, Esq.

George W. Kinne, Jr.
President
Chief Executive Officer
Jeffersonville Bancorp

Donald L. Knack, CPA
Retired
Knack, Pavloff & Co., LLP

Fred W. Stabbert, III
President
Catskill Delaware Publications
Publisher
Sullivan County Democrat

Edward T. Sykes
President
Callicoon Co-op Insurance
Supervisor
Town of Delaware

Officers

George W. Kinne, Jr
President
Chief Executive Officer

John A. Russell
Executive Vice President
Chief Financial Officer

Tatiana C. Hahn
Executive Vice President
Chief Lending Officer

Rhonda L. Decker
Senior Vice President
Retail Banking Administrator
Security Officer

Jill Atkins
Accountant Specialist III

Amber Benson
Vice President
Compliance/Audit Officer

Jillian Bertot
Branch Manager
Eldred

Margaret Blaut
Assistant Vice President
Branch Manager
Anawana Lake

Michelle Brockner
Training Officer

Krista Brink
Branch Manager
Loch Sheldrake

Linda Browne
Branch Manager
White Lake

Joseph Coleman
Vice President
Commercial Loan Officer

Melinda Conklin
Assistant Branch Manager
Livingston Manor

Coriann Decker
Float Assistant Branch Manager

Melanie Karkos
Deposit Operations Manager

Bertha Donohue
Assistant Vice President
Branch Manager
Liberty

Linda Fisk
Vice President
Regional Branch Manager
Livingston Manor

Taylor Fisk
Assistant Branch Manager
Jeffersonville

Bryan Flynn
Assistant Vice President
Commercial Loan Officer
Portfolio Manager

Marisa Heisler
Vice President
Information Technology Director

Florence Horecky
Vice President
Operations Officer

Patricia Korth
Branch Manager
Port Jervis

Kristin Lockwood
Branch Manager
Narrowsburg

Diane McGrath
Assistant Vice President
Loan Servicing Manager

Tanja McKerrell
Vice President
Senior Loan Officer

Sherry McNutt
Float Assistant Branch Manager/Retail Trainer

Anna Milucky
Vice President
Business Banker

Deborah Muzuruk
Assistant Vice President
Executive Assistant
Facility Manager

Amber Novikov
Branch Manager
Jeffersonville

Patricia Olsen
Assistant Vice President
Commercial Loan Administrator

Abigail Opper
Assistant Vice President
Assistant Controller

Valerie Panich
Assistant Vice President
Loan Origination Manager

Lale Perez
Universal Banker II

LeighAnne Pfriender
Assistant Vice President
Credit Administrator

Jaclene Poley
Marketing Coordinator

Sandra Ross
Branch Manager
Callicoon

Virginia Sanborn
Vice President
Controller
Assistant Cashier

Brandy Smith
Loan Officer II

Lisa Stewart
Assistant Branch Manager
Liberty

Melinda Stratton
Branch Manager
Monticello

Heinrich Strauch
Vice President
Commercial Loan Officer

Leanne Stuhlmiller
Assistant Vice President
BSA Officer

Claire Taggart
Vice President
Human Resources

Kimberly White
Branch Manager
Wurtsboro

Staff

Adham AboHussien
Donna Abplanalp
Amanda Aguila
Jennifer Alleman
Sarah Barila
Juliet Barrett
Marie Baxter
Tim Bernhardt
Victoria Berson
Paul Brockner
Jason Brooks
Katarina Carleo
Jordan Cohen
Mailin Concepcion
Dina Conklin
Jennifer Court
Rebecca Critelli
Ursula Curry
Rebeckah Decker
Heather DeGori
Stephanie Drongoski
Cassandra Duffy
Kelsey Erlwein
Dawn Feinman
Ashley Freestone
Marissa Fuller
Linda Giese
Terriesa Giglio
Jill Goodall
Gary Grund
Emily Hoffman
Cathy Horan
Audra Hubert
Dawn Kaplan
Jenna Keesler
Jessica Kenyon
Pamela Knapp
Jenna Lee
Stephanie Lee
Brandy Leonardo
Robert Lohr
Michele Lupardo
Kerry Madison
Lisa Malaspina
Kristan Mapes
Jessica Martin
Diamond Matos
Carla Meigel
Tiffany Menendez
Cathy Mickelson
Edwin Neumann
Thomas O'Connor
Kayla Olsen
Rosemarie Paty
Bruce Pecsi, Jr.
Melissa Perilla-Oliveira
Victoria Peterman
Barbara Pietrucha
Sheryl Pinder
Margaret Porter
Brooke Procak
Cheree Reyes
Cassandra Rhodes
Sherri Rhyne
Kelsey Ritz
Ezekiel Romero
John Rudy
Alicia Ryder
Morgan Sandlas
Michaela Schaefer
Therese Schanil
Hannah Schoch
Denise Smestad
Kristina Snedeker
McKenzie Stoddard
Diana Sunnekalb
Matthew Sush
Laresa Sutton
Jackie Thomaz
Kayla Thompson
Sara Werlau-Marks
Everett Williams
Linda Vetere
Kayla Yager
Jenna Yearwood

Shareholder Information

The Company's common stock is traded on the OTC Markets Group OTCQB Marketplace under the symbol JFBC. The following companies are known to make a market in our stock: Stifel, Nicolaus & Company, Incorporated, Monroe Financial Partners, Inc., Canaccord Genuity, Inc., Citadel Securities. The following table shows the range of high and low sales for the Company's stock and cash dividends paid for the quarters indicated.

For the Quarter Ended:	Sales Low	Sales High	Cash Dividends Paid
December 31, 2018	$18.05	$21.00	$ 0.25
September 30, 2018	$17.46	$22.00	$ 0.15
June 30, 2018	$16.50	$18.25	$ 0.15
March 31, 2018	$16.00	$18.99	$ 0.15
December 31, 2017	$15.10	$17.20	$ 0.15
September 30, 2017	$15.00	$15.53	$ 0.14
June 30, 2017	$15.05	$16.77	$ 0.14
March 31, 2017	$14.82	$16.25	$ 0.14

JEFF BANK BRANCHES

Callicoon Office
4499 State Route 17B, Callicoon, New York 12723 (845) 887-4866

Eldred Office
561 State Route 55, Eldred, New York 12732 (845) 557-8513

Jeffersonville Office
4864 State Route 52, Jeffersonville, New York 12748 (845) 482-4000

Liberty Office
19 Church Street, Liberty, New York 12754 (845) 292-6300

Livingston Manor Office
33 Main Street, Livingston Manor, New York, 12758 (845) 439-8123

Loch Sheldrake Office
1278 State Route 52, Loch Sheldrake, New York 12759 (845) 434-1180

Monticello - Anawana Lake Office
18 Anawana Lake Road, Monticello, New York 12701 (845) 794-3988

Monticello - Forestburgh Office
19 Forestburgh Road, Monticello, New York 12701 (845) 791-4000

Narrowsburg Office
155 Kirk Road, Narrowsburg, New York 12764 (845) 252-6570

Port Jervis Office
20-22 Fowler Street, Port Jervis, New York 12771 (845) 858-5333

White Lake Office
1460 State Route 17B, White Lake, New York 12786 (845) 583-4074

Wurtsboro Office
230 State Route 209, Wurtsboro, New York 12790 (845) 888-5890

4866 State Route 52 - P.O. Box 398
Jeffersonville, NY 12748