Jeffersonville Bancorp


Kenneth C. Klein


George W. Kinne, Jr.

2017 – 1st Quarter

For the quarter ended March 31, 2017, the Company earned net income of $1,401,000 or $0.33 per share compared to of $1,473,000 or $0.35 per share for the same quarter in 2016. The decrease in quarterly net income compared to 2016 was attributable to several factors. Interest income increased by $298,000 and interest expense decreased by $27,000. In addition, the Company recorded a negative provision to loan losses of $300,000 due to a large recovery of a previously charged off loan. Those improvements were offset by an increase in other non-interest expense of $187,000, salary and employee benefits expense of $146,000, tax expense of $111,000 and occupancy expense of $48,000 compared to the same period in 2016. Also, in the first quarter of 2016, the Company recognized a non-recurring, tax-free life insurance benefit of $247,000.

In March, the Federal Reserve increased the federal funds rate by .25% for the second time in three months. In addition, they indicated that rates may be increased by that amount two or three more times in 2017. While increased interest rates are generally considered to be positive for financial institutions, most have not seen a dramatic improvement in earnings thus far. Moves in the fed funds rate are felt mostly in short term interest rates. However, financial institution assets such as loans and securities are longer term assets and long term rates decreased following the rate hike. This creates a flatter yield curve, with the difference between 1-year and 10-year interest rates standing at only about 1.25%. Many economists believe this trend will continue into the foreseeable future. If the rise in short term rates results in competition for deposits, interest expense may increase and negatively impact the net interest income of financial institutions. As net interest income is the banking industry's main source of revenue, the Company and most other financial institutions will continue to be challenged to maintain or increase profitability levels. Fortunately, the Company's strong liquidity position and financial strength provides us with flexibility to respond to challenging economic conditions.

In January, we announced our intention to close our branch office located in Bloomingburg, NY effective April 14, 2017. The decision to close the branch was a difficult one, but after examining branch profitability, we decided that closing the branch would enhance our efficiency, reduce operating expenses and provide a better return on earning assets and shareholder equity in the long term. Through the transfer of accounts to our Wurtsboro office less than 5 miles away and with the availability of online and mobile banking services, we believe we will retain many customer relationships from Bloomingburg.

In March, we held our ninth annual bank-wide meeting. In response to feedback received from prior bank-wide meetings, the program featured motivational speaker Regina Clark. Ms. Clark's presentation focused on the qualities necessary to be a high performer, both personally and professionally. The presentation was well received by the more than 120 employees in attendance. The meeting was also well attended by the Board of Directors who enjoyed the opportunity to interact with employees on a personal level. Years of Service Awards, in the form of shares of Jeff Bank stock, were presented to 9 employees with years of service ranging from 5 to 25 years. We believe stock awards reinforce the employee's commitment to the Bank's profitability while recognizing their past contributions and loyalty.

We intend to continue to execute our strategy of controlled, profitable growth and a conservative approach to business that has helped us to outperform our local peers as well as the average of all banks of our size in New York State. With the support of our shareholders, employees and directors we look forward to continued success that will ensure we remain an independent, community bank and a valued member of the communities we serve.

K. C. K.

Kenneth C. Klein
Chairman of the Board

George W. Kinne Jr.

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

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

	March 31, 2017	December 31, 2016
Cash and cash equivalents	$ 60,635	$ 45,684
Securities available for sale, at fair value	90,517	90,073
Securities held to maturity, fair value of $29,874 at March 31, 2017 and $28,492 at December 31, 2016	29,987	28,730
Loans, net of allowance for loan losses of $3,645 at March 31, 2017 and $3,692 at December 31, 2016	285,178	286,165
Accrued interest receivable	1,927	1,800
Bank-owned life insurance	16,905	16,817
Foreclosed real estate	693	988
Premises and equipment, net	7,879	7,898
Restricted investments	559	559
Other assets	4,919	5,057
Total Assets	$ 499,199	$ 483,771
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	$ 109,033	$ 108,392
NOW and super NOW accounts	83,144	74,327
Savings and insured money market deposits	137,662	136,070
Time deposits	101,734	98,638
Total Deposits	431,573	417,427
Other liabilities	6,032	5,795
Total Liabilities	437,605	423,222
Stockholders' equity		
Series A preferred stock, no par value; 2,000,000 shares authorized, none issued	—	—
Common stock, $0.50 par value; 11,250,000 shares authorized, 4,767,786 shares issued with 4,234,505 outstanding	2,384	2,384
Paid-in capital	6,483	6,483
Treasury stock, at cost; 533,281 shares	(4,965)	(4,965)
Retained earnings	60,080	59,275
Accumulated other comprehensive loss	(2,388)	(2,628)
Total Stockholders' Equity	61,594	60,549
Total Liabilities and Stockholders' Equity	$ 499,199	$ 483,771

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

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

For the Three Months Ended March 31,	2017	2016
Interest and Dividend Income		
Loan interest and fees	$ 3,813	$ 3,569
Securities:		
Taxable	236	225
Tax-exempt	608	601
Other interest and dividend income	83	47
Total Interest and Dividend Income	4,740	4,442
Interest Expense on Deposits	207	234
Net interest income	4,533	4,208
Provision (credit) for loan losses	(300)	—
Net Interest Income after Provision for Loan Losses	4,833	4,208
Non-Interest Income		
Service charges	271	310
Fee income	316	311
Earnings on bank-owned life insurance	89	352
Net gain (loss) on sales of securities	—	(1)
Other non-interest income	69	31
Total Non-Interest Income	745	1,003
Non-Interest Expense		
Salaries and employee benefits	2,174	2,028
Occupancy and equipment expenses	492	444
Foreclosed real estate expense, net	45	98
Other non-interest expenses	1,054	867
Total Non-Interest Expenses	3,765	3,437
Income before income tax expense	1,813	1,774
Income tax expense	412	301
Net Income	$ 1,401	$ 1,473
Basic earnings per common share	$ 0.33	$ 0.35
Average common shares outstanding	4,235	4,235
Cash dividends declared per share	$ 0.14	$ 0.14