



Kenneth C. Klein



George W. Kinne, Jr.

2016 – 2nd Quarter

For the quarter ended June 30, 2016, the Company earned net income of \$1,315,000 or \$0.31 per share compared to \$1,283,000 or \$0.30 per share for the same quarter in 2015. The increase in quarterly net income was primarily due to a decrease in non-interest expense of \$134,000, partially offset by a decrease in net interest income of \$20,000 and an increase in the provision for loan losses of \$50,000.

Year to date net income as of June 30, 2016 was \$2,788,000 or \$0.66 per share compared to \$2,459,000 or \$0.58 per share for the same period in 2015. The increase in year to date net income was primarily due to a non-recurring life insurance benefit of \$247,000 and a decrease in pension expense of \$116,000, partially offset by a decrease in net interest income of \$81,000 and an increase in the provision for loan loss of \$50,000.

The Company continues to perform very well compared to our peers in the nation, the state, and especially against our local competition. While we are doing well, the current operating environment for all financial institutions continues to be challenging. Interest rates stubbornly remain at historic lows and continue to negatively impact the net interest income that is the main source of our revenue. When global events, including Britain's decision to exit the European Union, caused stock markets and interest rates there to respond negatively, the Federal Reserve decided to postpone rate increases that may have offered relief. As threats to stability both here and abroad, such as the terrorist attacks in France and a recent attempted coup in Turkey continue to unfold, an end to the low rate environment remains uncertain for the foreseeable future. While other financial institutions in our market have embarked on aggressive expansion in an effort to outgrow net interest margin compression, their earnings and capital have suffered and the prospects for eventual success from that strategy are unclear. The Company intends to continue on our current path of steady, sustainable growth. We have remained very well capitalized as that term is defined by our regulators. We have maintained a high degree of liquidity that provides us with the flexibility to take advantage of opportunities as they arise or to shrink our balance sheet if that proves to be the better option.

The second quarter was an exciting time for the Company as we opened our first branch outside of Sullivan County in the City of Port Jervis in Orange County, New York. Port Jervis was previously identified by the Company as a potential target for expansion. When the only community bank in the Port Jervis area abruptly announced their departure, we stepped in to fill the void. The departing bank closed its doors on April 29th and the Company opened its thirteenth branch there on May 25th with the same staff that had been in place at the location for several years. A grand opening was held in Port Jervis on June 23rd with Port Jervis Mayor Kelly Decker, New York State Assemblyman Karl Brabanec, and Orange County Legislator Tom Faggione in attendance as well as local business owners, customers, senior management and members of the Company's board of directors.

Also in the second quarter, we relocated our Wal-Mart in-store branch to our newly renovated, state of the art branch at 18 Anawana Lake Road in the Town of Thompson. A preview of the new branch location was held on June 16th with a reception attended and well received by customers, vendors, employees and members of the Company's board of directors. The relocation was finalized with the opening of the new location on June 27th.

Jeff Bank is committed to the communities we serve, making valuable contributions to a host of local organizations and causes throughout our market area, both financially and through the contributions of the talent and time of our dedicated staff members. At Jeff Bank, we appreciate the support we receive from our customers, employees and stockholders who live and work in the communities we serve. With that support, we will strive to provide the exceptional service our customers expect and continue to thrive as the only independent community bank headquartered in Sullivan County.

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

Kenneth C. Klein
Chairman of the Board

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

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

Jeffersonville Bancorp and Subsidiary
Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 64,273	\$ 40,187
Securities available for sale, at fair value	95,245	95,064
Securities held to maturity, estimated fair value of \$25,173 at June 30, 2016 and \$20,148 at December 31, 2015	23,906	19,666
Loans, net of allowance for loan losses of \$4,016 at June 30, 2016 and \$4,075 at December 31, 2015	272,185	270,047
Accrued interest receivable	1,773	1,894
Bank-owned life insurance	16,632	17,401
Foreclosed real estate	1,312	1,381
Premises and equipment, net	8,149	6,908
Restricted investments	559	566
Other assets	4,750	6,552
Total Assets	<u>\$ 488,784</u>	<u>\$ 459,666</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	\$ 107,349	\$ 101,918
NOW and super NOW accounts	78,019	58,938
Savings and insured money market deposits	132,502	125,743
Time deposits	104,191	106,724
Total Deposits	422,061	393,323
Other liabilities	5,628	7,484
Total Liabilities	<u>427,689</u>	<u>400,807</u>
Stockholders' equity		
Series A preferred stock, no par value; 2,000,000 shares authorized, none issued	—	—
Common stock, \$0.50 par value; 11,250,000 shares authorized, 4,767,786 shares issued with 4,234,505 outstanding	2,384	2,384
Paid-in capital	6,483	6,483
Treasury stock, at cost; 533,281 shares	(4,965)	(4,965)
Retained earnings	58,130	56,528
Accumulated other comprehensive loss	(937)	(1,571)
Total Stockholders' Equity	<u>61,095</u>	<u>58,859</u>
Total Liabilities and Stockholders' Equity	<u>\$ 488,784</u>	<u>\$ 459,666</u>

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

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

For the Three Months Ended June 30,	2016	2015
Interest and Dividend Income		
Loan interest and fees	\$ 3,600	\$ 3,689
Securities:		
Taxable	232	259
Tax-exempt	592	554
Other interest and dividend income	71	25
Total Interest and Dividend Income	<u>4,495</u>	<u>4,527</u>
Interest Expense on Deposits		
	<u>235</u>	<u>247</u>
Net interest income	4,260	4,280
Provision for loan losses	50	—
Net Interest Income after Provision for Loan Losses	<u>4,210</u>	<u>4,280</u>
Non-Interest Income		
Service charges	312	333
Fee income	338	327
Earnings on bank-owned life insurance	100	104
Other non-interest income	63	67
Total Non-Interest Income	<u>813</u>	<u>831</u>
Non-Interest Expense		
Salaries and employee benefits	1,954	2,170
Occupancy and equipment expenses	385	451
Foreclosed real estate expense, net	72	34
Other non-interest expenses	920	810
Total Non-Interest Expenses	<u>3,331</u>	<u>3,465</u>
Income before income tax expense	1,692	1,646
Income tax expense	377	363
Net Income	<u>\$ 1,315</u>	<u>\$ 1,283</u>
Basic earnings per common share	<u>\$ 0.31</u>	<u>\$ 0.30</u>
Average common shares outstanding	<u>4,235</u>	<u>4,235</u>
Cash dividends declared per share	<u>\$ 0.14</u>	<u>\$ 0.14</u>

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

For the Six Months Ended June 30,	2016	2015
Interest and Dividend Income		
Loan interest and fees	\$ 7,169	\$ 7,424
Securities:		
Taxable	457	475
Tax-exempt	1,193	1,121
Other interest and dividend income	118	36
Total Interest and Dividend Income	<u>8,937</u>	<u>9,056</u>
Interest Expense on Deposits		
	<u>468</u>	<u>506</u>
Net interest income	8,469	8,550
Provision for loan losses	50	—
Net Interest Income after Provision for Loan Losses	<u>8,419</u>	<u>8,550</u>
Non-Interest Income		
Service charges	621	652
Fee income	649	603
Earnings on bank-owned life insurance	452	208
Net gain on sales of securities	(1)	21
Other non-interest income	95	120
Total Non-Interest Income	<u>1,816</u>	<u>1,604</u>
Non-Interest Expense		
Salaries and employee benefits	3,982	4,284
Occupancy and equipment expenses	829	884
Foreclosed real estate expense, net	170	104
Other non-interest expenses	1,788	1,749
Total Non-Interest Expenses	<u>6,769</u>	<u>7,021</u>
Income before income tax expense	3,466	3,133
Income tax expense	678	674
Net Income	<u>\$ 2,788</u>	<u>\$ 2,459</u>
Basic earnings per common share	<u>\$ 0.66</u>	<u>\$ 0.58</u>
Average common shares outstanding	<u>4,235</u>	<u>4,235</u>
Cash dividends declared per share	<u>\$ 0.28</u>	<u>\$ 0.28</u>

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