



Kenneth C. Klein



George W. Kinne, Jr.

## 2016 – 3<sup>rd</sup> Quarter

For the quarter ended September 30, 2016, the Company earned net income of \$1,304,000 or \$0.31 per share compared to \$1,078,000 or \$0.25 per share for the same quarter in 2015. The increase in quarterly net income was primarily due to a decrease in foreclosed real estate expense of \$217,000 and an increase in interest income of \$106,000, partially offset by an increase in income tax expense of \$115,000.

Year to date net income as of September 30, 2016 was \$4,092,000 or \$0.97 per share compared to \$3,537,000 or \$0.84 per share for the same quarter in 2015. The increase in year to date net income was primarily due to a non-recurring life insurance benefit of \$247,000, a decrease in occupancy expense of \$224,000, a decrease of \$151,000 in foreclosed real estate expense and a decrease in pension expense of \$116,000, partially offset by an increase of \$244,000 in other non-interest expense and an increase in income tax expense of \$119,000.

Despite weak economic growth and under-employment, the Federal Reserve recently signaled that it is prepared to increase rates by 25 basis points in December, barring any surprises from the European Union, China or additional terrorist attacks. Global interest rates that are negative in many cases will likely keep the pace of rate increases in the United States on a slow track. Still, any rate increases should benefit all financial institutions, whose net interest margins have been on a steady descent for several years. The Company's net interest income is nearly identical to this period last year and most of our gains in net income have come from reductions in expenses. On the positive side, credit quality in the Company's loan portfolio continues to improve, reducing the likelihood of any significant loan loss provision in the near future. Also, foreclosed real estate expenses have declined and recent state legislation to streamline the foreclosure process may allow for additional improvement in that area. We continue to outperform our peers in profitability metrics such as return on assets, return on equity, net interest margin and overhead efficiency. As we stated last quarter, the Company intends to continue to operate conservatively and maintain a high degree of liquidity, which provides flexibility to adapt to ever changing economic and regulatory conditions. We are also committed to maintaining a strong capital position, which remains very well capitalized as that term is defined by our regulators.

Our new branch in the City of Port Jervis in Orange County, New York has been well received and has exceeded the goals we established for new deposits in its first quarter of operations. Our newly renovated, state of the art branch at 18 Anawana Lake Road in the Town of Thompson has also been well received, with deposits and transactions increasing by 10% since its relocation from the nearby Wal\*Mart store. While our new endeavors are doing well, we continuously evaluate the performance and strategic position of our branch network.

The recently released FDIC Summary of Deposits showed that as of June 30, 2016, Jeff Bank continues to maintain a market share in excess of 32% in Sullivan County. We are deeply appreciative of the support we receive from our customers, employees and stockholders that makes this level of success possible. Jeff Bank is committed to the communities we serve. We demonstrate our commitment both through financial contributions to local organizations and causes as well as the valuable contributions of talent and time from our dedicated staff members to civic and charitable organizations throughout our market area. As we move forward, Jeff Bank will strive to provide the exceptional service our customers expect and continue to thrive as an independent community bank as we have for over 100 years.

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)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 57,241	\$ 40,187
Securities available for sale, at fair value	94,125	95,064
Securities held to maturity, estimated fair value of \$27,530 at September 30, 2016 and \$20,148 at December 31, 2015	26,565	19,666
Loans, net of allowance for loan losses of \$4,013 at September 30, 2016 and \$4,075 at December 31, 2015	276,690	270,047
Accrued interest receivable	1,951	1,894
Bank-owned life insurance	16,722	17,401
Foreclosed real estate	1,267	1,381
Premises and equipment, net	8,139	6,908
Restricted investments	559	566
Other assets	5,096	6,552
Total Assets	<u>\$ 488,355</u>	<u>\$ 459,666</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	\$ 114,325	\$ 101,918
NOW and super NOW accounts	71,585	58,938
Savings and insured money market deposits	133,969	125,743
Time deposits	101,028	106,724
Total Deposits	420,907	393,323
Other liabilities	5,879	7,484
Total Liabilities	<u>426,786</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	58,841	56,528
Accumulated other comprehensive loss	(1,174)	(1,571)
Total Stockholders' Equity	<u>61,569</u>	<u>58,859</u>
Total Liabilities and Stockholders' Equity	<u>\$ 488,355</u>	<u>\$ 459,666</u>

This does not represent complete financial statements. Complete financial statements may be found at [www.jeffbank.com](http://www.jeffbank.com)

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

<b>For the Three Months Ended September 30,</b>	<b>2016</b>	<b>2015</b>
<b>Interest and Dividend Income</b>		
Loan interest and fees	\$ 3,658	\$ 3,651
Securities:		
Taxable	245	191
Tax-exempt	625	608
Other interest and dividend income	51	23
Total Interest and Dividend Income	<u>4,579</u>	<u>4,473</u>
<b>Interest Expense on Deposits</b>		
	<u>233</u>	<u>247</u>
Net interest income	4,346	4,226
Provision for loan losses	<u>—</u>	<u>—</u>
Net Interest Income after Provision for Loan Losses	<u>4,346</u>	<u>4,226</u>
<b>Non-Interest Income</b>		
Service charges	311	324
Fee income	344	337
Earnings on bank-owned life insurance	90	94
Net gain on sales of securities	1	—
Other non-interest income	62	60
Total Non-Interest Income	<u>808</u>	<u>815</u>
<b>Non-Interest Expense</b>		
Salaries and employee benefits	2,111	2,158
Occupancy and equipment expenses	475	516
Foreclosed real estate expense, net	62	279
Other non-interest expenses	867	790
Total Non-Interest Expenses	<u>3,515</u>	<u>3,743</u>
Income before income tax expense	1,639	1,298
Income tax expense	335	220
Net Income	<u>\$ 1,304</u>	<u>\$ 1,078</u>
Basic earnings per common share	<u>\$ 0.31</u>	<u>\$ 0.25</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)

<b>For the Nine Months Ended September 30,</b>	<b>2016</b>	<b>2015</b>
<b>Interest and Dividend Income</b>		
Loan interest and fees	\$ 10,827	\$ 11,075
Securities:		
Taxable	702	666
Tax-exempt	1,818	1,729
Other interest and dividend income	169	59
Total Interest and Dividend Income	<u>13,516</u>	<u>13,529</u>
<b>Interest Expense on Deposits</b>		
	<u>701</u>	<u>753</u>
Net interest income	12,815	12,776
Provision for loan losses	50	—
Net Interest Income after Provision for Loan Losses	<u>12,765</u>	<u>12,776</u>
<b>Non-Interest Income</b>		
Service charges	932	976
Fee income	993	940
Earnings on bank-owned life insurance	542	302
Net gain on sales of securities	—	21
Other non-interest income	157	180
Total Non-Interest Income	<u>2,624</u>	<u>2,419</u>
<b>Non-Interest Expense</b>		
Salaries and employee benefits	6,093	6,442
Occupancy and equipment expenses	1,304	1,528
Foreclosed real estate expense, net	232	383
Other non-interest expenses	2,655	2,411
Total Non-Interest Expenses	<u>10,284</u>	<u>10,764</u>
Income before income tax expense	5,105	4,431
Income tax expense	1,013	894
Net Income	<u>\$ 4,092</u>	<u>\$ 3,537</u>
Basic earnings per common share	<u>\$ 0.97</u>	<u>\$ 0.84</u>
Average common shares outstanding	<u>4,235</u>	<u>4,235</u>
Cash dividends declared per share	<u>\$ 0.42</u>	<u>\$ 0.42</u>

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