



Kenneth C. Klein



George W. Kinne, Jr.

2016 – 4th Quarter

For the quarter ended December 31, 2016, the Company earned net income of \$1,026,000 or \$0.24 per share compared to \$1,171,000 or \$0.28 per share for the same quarter in 2015. The decrease in quarterly net income was primarily due to an increase in occupancy expense of \$167,000 and an increase in other non-interest expense of \$52,000 partially offset by an increase in net interest income of \$65,000.

For the year ended December 31, 2016, the Company earned net income of \$5,118,000 or \$1.21 per share compared to \$4,708,000 or \$1.11 per share for the same period in 2015. The increase in net income was primarily due to a one-time life insurance benefit of \$248,000, an increase in net interest income of \$104,000, a decrease in salary expense of \$359,000 and a decrease in foreclosed real estate expense of \$132,000, partially offset by a decrease in service charge income of \$93,000 and an increase in income taxes of \$96,000.

While the fourth quarter of 2016 was similar to 2015 in that the Federal Reserve raised the federal funds rate by .25% in December, the economic and political climates in the country and the world have changed dramatically. With the surprise election of controversial businessman Donald J. Trump as President of the United States in November, corporations and institutional investors reacted with euphoria at the possibility of lower tax rates, decreased government regulation and increased infrastructure spending. As a result, US stock market indexes rallied to all-time highs. Financial institution stocks rallied on the prospect of higher rates and the prospect of significant regulatory relief. While global markets have risen in general, President Trump's unconventional and unpredictable comments regarding foreign trade agreements and government relations have muted the impact overseas. Bond markets also initially responded with higher rates, but the Federal Reserve Bank's cautious tone about the pace of future rate hikes has eroded most of those increases and bonds have returned to the trading range typical for the past year or more. The realization of the expected benefits of governmental change will likely be slow to develop as Congress weighs how to balance promised tax cuts with increased spending while dealing with an already large budgetary deficit. At Jeff Bank, we believe our strong liquidity position, solid capital base and above average profitability make us well positioned to take advantage of opportunities that may arise in a variety of economic scenarios.

Locally, unemployment continues to improve and is down by more than fifty percent from 2013. Construction of the Montreign Resort Casino in the Town of Thompson near Monticello, New York is well under way and economic and employment growth from that project should continue to provide benefits to our local economy. We are excited about our prospects for growth in Sullivan County, where the most recent FDIC Summary of Deposits showed Jeff Bank maintaining its dominant position with a 32.8% share of the market. Our relocated branch at 18 Anawana Lake Road in the Town of Thompson and our new branch in Port Jervis in neighboring Orange County should assist us in achieving additional growth in the coming year.

Jeff Bank's conservative approach to business has served us well in challenging operating climates, returning steady growth and profitability that have helped us to consistently outperform our local peers. With the support of our customers, shareholders, directors and employees, we will continue to provide the personalized, local banking service that has made Jeff Bank a trusted, community bank 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)

	December 31, 2016	December 31, 2015
	(Unaudited)	(Unaudited)
Cash and cash equivalents	\$ 45,684	\$ 40,187
Securities available for sale, at fair value	90,073	95,064
Securities held to maturity, estimated fair value of \$28,492 at December 31, 2016 and \$20,148 at December 31, 2015	28,730	19,666
Loans, net of allowance for loan losses of \$3,692 at December 31, 2016 and \$4,075 at December 31, 2015	286,165	270,047
Accrued interest receivable	1,800	1,894
Bank-owned life insurance	16,817	17,401
Foreclosed real estate	988	1,381
Premises and equipment, net	7,898	6,908
Restricted investments	559	566
Other assets	5,057	6,552
Total Assets	<u>\$ 483,771</u>	<u>\$ 459,666</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	\$ 108,392	\$ 101,918
NOW and super NOW accounts	74,327	58,938
Savings and insured money market deposits	136,070	125,743
Time deposits	98,638	106,724
Total Deposits	417,427	393,323
Other liabilities	5,795	7,484
Total Liabilities	<u>423,222</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	59,275	56,528
Accumulated other comprehensive loss	(2,628)	(1,571)
Total Stockholders' Equity	<u>60,549</u>	<u>58,859</u>
Total Liabilities and Stockholders' Equity	<u>\$ 483,771</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 Years Ended December 31,	2016	2015
	(Unaudited)	(Unaudited)
INTEREST AND DIVIDEND INCOME		
Loan interest and fees	\$ 14,487	\$ 14,438
Securities:		
Taxable	971	876
Tax-exempt	2,431	2,377
Other interest and dividend income	220	84
Total Interest and Dividend Income	<u>18,109</u>	<u>18,075</u>
INTEREST EXPENSE		
Deposits	<u>922</u>	<u>992</u>
Net interest income	17,187	17,083
Provision for loan losses	<u>100</u>	<u>100</u>
Net Interest Income after Provision for Loan Losses	<u>17,087</u>	<u>16,983</u>
NON-INTEREST INCOME		
Service charges	1,216	1,309
Fee income	1,321	1,273
Earnings on bank-owned life insurance	389	405
Life insurance benefit	248	—
Net gain on sales of securities	—	23
Other non-interest income	<u>193</u>	<u>208</u>
Total Non-Interest Income	<u>3,367</u>	<u>3,218</u>
NON-INTEREST EXPENSES		
Salaries and employee benefits	8,368	8,727
Occupancy and equipment expenses	1,978	2,035
Advertising expense	141	126
Foreclosed real estate expense, net	189	321
Other non-interest expenses	<u>3,419</u>	<u>3,139</u>
Total Non-Interest Expenses	<u>14,095</u>	<u>14,348</u>
Income before income tax expense	6,359	5,853
Income tax expense	<u>1,241</u>	<u>1,145</u>
Net Income	<u>\$ 5,118</u>	<u>\$ 4,708</u>
Basic earnings per common share	<u>\$ 1.21</u>	<u>\$ 1.11</u>
Average common shares outstanding	<u>4,235</u>	<u>4,235</u>
Cash dividends declared per share	<u>\$ 0.56</u>	<u>\$ 0.56</u>

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