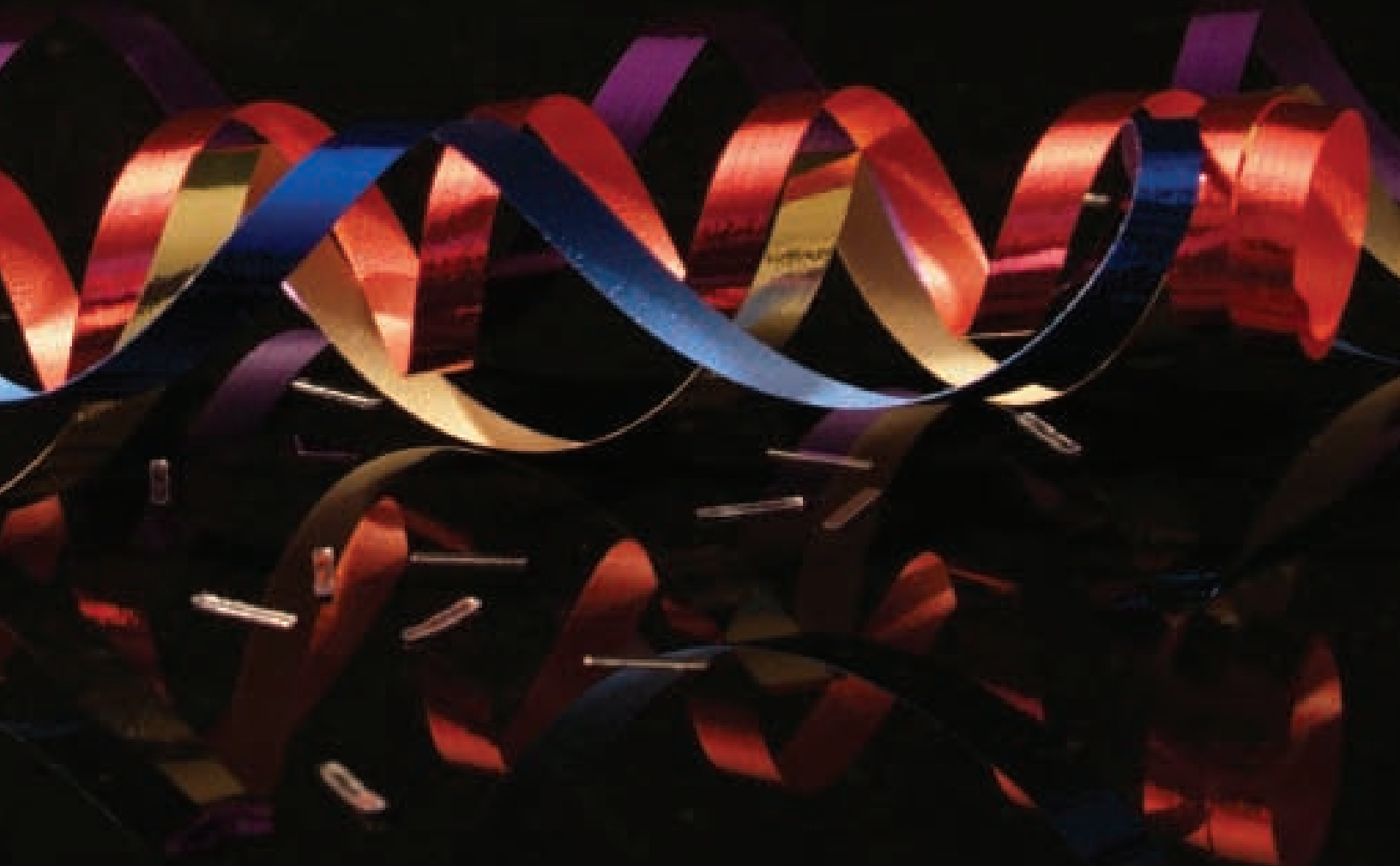
Jeffersonville Bancorp



2013 Annual Report





A Letter from the President & Chairman of the Board

The year 2013 was a stimulating one for Jeff Bank. We not only celebrated 100 years of providing financial services to our customers and the communities we serve, but also demonstrated financial strength and perseverance by concluding our first century with a strong finish.

Jeff Bank is one of the few banks headquartered in New York State that has maintained a return on assets (ROA) of over 1%. ROA is the basic yardstick for the measurement of bank profitability. Not only was 2013 a profitable year for Jeff Bank, earnings increased 10% before taxes and there was a 6% gain in net earnings over the previous year, but there was also growth in other critical areas of the company's operations. We had a growth in loans and deposits, and maintained our 31% of deposit market share in Sullivan County. Core deposit balances, those deposits that are either low or non-interest bearing, grew by over 13%. The Bank has increased its core deposits as a percentage of total deposits to 67% and 58% of our loan portfolio is now in variable or adjustable rate products, or have short term maturities.

The Bank was also able to scale back the amount of funds placed in its provision for loan losses due to reductions in the amount of substandard and special mention loans. For the third straight year, other non-interest expenses and total non-interest expenses were reduced from the previous year. The reduction in monies placed in the provision for loan losses and non-interest expenses helped offset lower net interest income caused by the current low rate environment.

Our credit quality is improving as evidenced by the reduction in the amount of funds needed in the provision for loan losses. The Bank has been and will continue to be aggressive and proactive in dealing with delinquencies, foreclosures and related foreclosed real estate. We were able to take advantage of the slight improvement in the real estate market during 2013 to dispose of some of our foreclosed properties. Additionally, there has been an improvement in income trends and stability for borrowers. This up-tick in the local economy and our personal approach to working with our borrowers has added to our improved credit quality.

New compliance issues still remain as one of the toughest challenges for community banks. A recent article in *American Banker* stated "Community banks endured a tough regulatory year in 2013," and added "…small banks are likely to face more scrutiny in terms of consumer products, anti-money laundering measures and compliance management." These new compliance regulations, as established by the Consumer Financial Protection Bureau (CFPB), are meant to protect the consumer, and were the result of the inappropriate actions of the very largest financial institutions. Ironically, they are hurting the community banks by costing resources, time and money. Community banks were not responsible for the financial crisis, yet now they are burdened with the expense of implementing these new rules, taking time away from servicing customers and creating a negative impact on earnings.

Another challenge for community banks is interest rate compression. Currently, Jeff Bank has one of the highest net interest margins in the state at over 4.0%. We have been able to maintain this high interest margin by concentrating on growing our low and non-interest bearings products, investing in higher yield tax free securities, and growing our variable rate loan portfolio. However, as this low interest rate environment continues, new loans and securities are being added to the balance sheet at lower rates than existing ones. The effect is that the average rate of return for all interest earning assets is decreasing. Unfortunately, there is not a crystal ball telling us where rates will settle or what the new norm will be. When interest rates begin to rise, rates paid on deposits, except for certificates of deposit, will rise more rapidly than loan and securities rates. The rates on loans and securities are locked in for the term of the asset and this timing difference will have a negative effect on the net interest margin of most community banks.

Sullivan County remains one the poorest counties and its population is one of the oldest in New York State. In 2012 over 54% of the local school students qualified for either a free or reduced priced lunch. This past November, the statewide referendum for casino gambling was passed and Sullivan County has a very good chance of being selected as a future casino site. In December, the former Kutcher's Country Club was sold and will be transformed into a Veria Living spa/hotel. Veria Living is the leading media company devoted to showcasing wellness programs in the United States and beyond. As a result of these events and pending projects, as well as others, the demographics of the county should see a huge change in the coming years. The number of full and part-time jobs created within the county should increase dramatically. This projected population increase should be younger, have a higher household income and be more tech savvy.

Jeff Bank eagerly awaits the future opportunities and challenges coming to Sullivan County and the surrounding area. The bank will be proactive in its planning to take full advantage of these projections and the growth opportunities they present. Over the next year, we will be analyzing the new potential customer base to better understand their profile and needs. At the same time, we will develop and expand our use of technology and electronic media, upgrade our website, and introduce mobile banking. However, the Bank will remain true to our Vision Statement by ensuring that "...our growth will be controlled and profitable."

The Bank's Board of Directors and Management thanks and greatly appreciates the ongoing support, loyalty and commitment of our stockholders, customers and staff. We look forward to what we think will be a revitalization of Sullivan County and another successful and profitable year in 2014.

Wayne V. Zanetti,
President & Chief Executive Officer

Kenneth C. Klein,
Chairman of the Board

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Independent Auditor's Report

To the Board of Directors and
Stockholders of Jeffersonville Bancorp
Jeffersonville, New York

Report on the Consolidated 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, 2013, and 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 Consolidated 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 audit. We conducted our audit 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 from 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.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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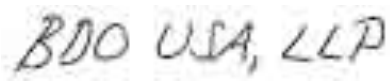
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jeffersonville Bancorp and its subsidiary as of December 31, 2013, 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.

Other Matter

The 2012 financial statements of Jeffersonville Bancorp and its subsidiary were audited by other auditors, whose report dated March 29, 2013 expressed an unmodified opinion on those statements.



March 20, 2014

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

As of December 31,	2013	2012
ASSETS		
Cash and cash equivalents	$ 19,895	$ 21,859
Securities available for sale, at fair value	108,957	105,121
Securities held to maturity, estimated fair value of $3,780 at December 31, 2013 and $4,891 at December 31, 2012	3,612	4,528
Loans, net of allowance for loan losses of $4,671 at December 31, 2013 and $5,035 at December 31, 2012	269,131	264,228
Accrued interest receivable	1,911	2,058
Bank-owned life insurance	16,581	16,128
Foreclosed real estate	1,098	1,339
Premises and equipment, net	4,557	5,072
Restricted investments	674	2,159
Other assets	6,063	6,596
Total Assets	$ 432,479	$ 429,088
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	$ 84,305	$ 76,285
NOW and super NOW accounts	53,229	41,291
Savings and insured money market deposits	111,732	103,709
Time deposits	123,375	137,488
Total Deposits	372,641	358,773
Federal Home Loan Bank borrowings	—	10,000
Other liabilities	6,807	9,124
Total Liabilities	379,448	377,897
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	49,440	47,022
Accumulated other comprehensive income (loss)	(311)	267
Total Stockholders' Equity	53,031	51,191
Total Liabilities and Stockholders' Equity	$ 432,479	$ 429,088

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,	2013	2012
INTEREST AND DIVIDEND INCOME		
Loan interest and fees	$ 15,175	$ 16,425
Securities:		
Taxable	944	1,224
Tax-exempt	2,347	2,522
Other interest and dividend income	69	49
Total Interest and Dividend Income	18,535	20,220
INTEREST EXPENSE		
Deposits	1,269	1,714
Federal Home Loan Bank borrowings	179	483
Total Interest Expense	1,448	2,197
Net interest income	17,087	18,023
Provision for loan losses	700	1,895
Net Interest Income after Provision for Loan Losses	16,387	16,128
NON-INTEREST INCOME		
Service charges	1,331	1,391
Fee income	1,062	1,023
Earnings on bank-owned life insurance	453	436
Life insurance benefit	—	93
Net gain on sales of securities	23	63
Other non-interest income	166	242
Total Non-Interest Income	3,035	3,248
NON-INTEREST EXPENSES		
Salaries and employee benefits	8,234	7,995
Occupancy and equipment expenses	1,944	1,999
Advertising expense	199	218
Foreclosed real estate expense, net	152	698
Other non-interest expenses	3,216	3,298
Total Non-Interest Expenses	13,745	14,208
Income before income tax expense	5,677	5,168
Income tax expense	1,057	807
Net Income	$ 4,620	$ 4,361
Basic earnings per common share	$ 1.09	$ 1.03
Average common shares outstanding	4,235	4,235
Cash dividends declared per share	$ 0.52	$ 0.52

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31,	2013	2012
Net Income	$ 4,620	$ 4,361
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized holding gains (losses)	(3,399)	104
Income tax (expense) benefit	1,224	(46)
Net unrealized holding gains (losses), net of tax	(2,175)	58
Reclassification adjustment for net realized gains included in income[1] [3]	(23)	(63)
Income tax expense	8	27
Reclassification adjustment for net realized gains included in income, net of tax	(15)	(36)
Amortization of pension and post retirement liabilities' gains (losses)[2] [3]	2,518	(707)
Income tax (expense) benefit	(906)	301
Amortization of pension and post retirement liabilities' gains (losses), net of tax	1,612	(406)
Other comprehensive loss, net of tax	(578)	(384)
Comprehensive income	$ 4,042	$ 3,977

See accompanying notes to consolidated financial statements.

(1) Amounts are included in net gain on sale 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.

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

For the Years Ended December 31, 2013 and 2012	Common stock	Paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity	Common shares issued and outstanding
Balance at January 1, 2012	$ 2,384	$ 6,483	$ (4,965)	$ 44,862	$ 651	$ 49,415	4,235
Net income	—	—	—	4,361	—	4,361	—
Other comprehensive loss	—	—	—	—	(384)	(384)	—
Cash dividends ($0.52 per share)	—	—	—	(2,201)	—	(2,201)	—
Balance at December 31, 2012	2,384	6,483	(4,965)	47,022	267	51,191	4,235
Net income	—	—	—	4,620	—	4,620	—
Other comprehensive loss	—	—	—	—	(578)	(578)	—
Cash dividends ($0.52 per share)	—	—	—	(2,202)	—	(2,202)	—
Balance at December 31, 2013	$ 2,384	$ 6,483	$ (4,965)	$ 49,440	$ (311)	$ 53,031	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,	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 4,620	$ 4,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700	1,895
Depreciation and amortization	620	734
Net loss on sale of premise and equipment	(4)	2
Net (gain) loss on revaluation and sale of foreclosed real estate	(323)	443
Earnings on bank-owned life insurance	(453)	(436)
Life insurance benefit	—	(93)
Net gain on sales of securities	(23)	(63)
Deferred income tax expense	97	5
(Increase) decrease in accrued interest receivable	147	(261)
Decrease in other assets	761	1,373
Increase (decrease) in other liabilities	202	(971)
Net Cash Provided by Operating Activities	6,344	6,989
INVESTING ACTIVITIES:		
Proceeds from maturities and calls:		
Securities available for sale	19,780	35,198
Securities held to maturity	1,536	3,139
Proceeds from sales of securities available for sale	25	2,659
Purchases:		
Securities available for sale	(27,040)	(35,446)
Securities held to maturity	(620)	(1,054)
Principal collections, net of (disbursement for loan originations)	(7,045)	4,776
Proceeds from cash surrender value of bank owned life insurance	—	1,078
Purchase of bank owned life insurance	—	(1,335)
Net redemption of restricted investments	1,485	261
Purchases of premises and equipment	(101)	(308)
Proceeds from sales of foreclosed real estate	2,006	2,263
Net Cash Provided by (Used in) Investing Activities	(9,974)	11,231
FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	13,868	(936)
Repayments of Federal Home Loan Bank borrowings	(10,000)	(5,000)
Cash dividends paid	(2,202)	(2,201)
Net Cash Provided by (Used in) Financing Activities	1,666	(8,137)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,964)	10,083
Cash and Cash Equivalents at Beginning of Year	21,859	11,776
Cash and Cash Equivalents at End of Year	$ 19,895	$ 21,859
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 1,510	$ 2,264
Cash paid for income taxes	811	1,090
Transfer of loans to foreclosed real estate	1,442	1,027

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 years' 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 20, 2014; the date these consolidated financial statements were available for issuance.

Investment Securities
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 equity securities are classified as securities available for sale and 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). 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, 2013 or 2012. 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. Except for residential mortgages that are well secured (loan to value 60% or less) and in the process of collection, loans past due more than 90 days are classified as nonaccrual. 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, particularly in Sullivan County, 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
Included in restricted investments are nonmarketable trust preferred stock and equity securities carried at cost. 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.

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.

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.

Recent Accounting Pronouncements

The Emerging Issues Task Force reached a final consensus on the following issue and a final ASU is expected to be issued in 2014. Issue 13-E, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,* states that a creditor will be considered to have physical possession of residential real estate property that is collateral for a residential mortgage loan and therefore should reclassify the loan to other real estate owned when it obtains legal title to the collateral or it completes a deed in lieu of foreclosure or similar legal agreement. The amendments are effective for all entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted.

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 (FED). The amount of this reserve requirement, which is included in cash and due from banks, was $366,000 at December 31, 2013 and $203,000 at December 31, 2012. Cash and due from banks includes interest earning deposits at the FED. The interest earning balance at the FED was $6.8 million and $10.0 million at December 31, 2013 and December 31, 2012, respectively.

(3) Investment Securities

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

December 31, 2013 Investment Securities	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities Available for Sale:				
Obligations of states and political subdivisions – New York State	$ 72,281	$ 1,458	$ (1,214)	$ 72,525
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	21,057	414	(530)	20,941
Corporate debt – financial services industry	12,993	194	(37)	13,150
Certificates of deposit – financial services industry	98	—	—	98
	106,429	2,066	(1,781)	106,714
Equity securities – financial services industry	2,312	15	(84)	2,243
Total securities available for sale	$ 108,741	$ 2,081	$ (1,865)	$ 108,957
Securities Held to Maturity – Obligations of states and political subdivisions	$ 3,612	$ 168	$ —	$ 3,780

December 31, 2012 Investment Securities	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities Available for Sale:				
Government Sponsored Enterprises (GSE)	$ 1,201	$ 4	$ —	$ 1,205
Obligations of states and political subdivisions – New York State	68,257	2,806	(51)	71,012
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	18,693	640	(10)	19,323
Corporate debt – financial services industry	12,571	249	(12)	12,808
Certificates of deposit – financial services industry	98	—	—	98
	100,820	3,699	(73)	104,446
Equity securities – financial services industry	663	13	(1)	675
Total securities available for sale	$ 101,483	$ 3,712	$ (74)	$ 105,121
Securities Held to Maturity – Obligations of states and political subdivisions	$ 4,528	$ 363	$ —	$ 4,891

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. 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 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 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, 2013 or 2012. Proceeds from sale, gross gains and gross losses realized on sales of securities available for sale were as follows for the years ended December 31 (in thousands).

Net Security Gains	2013	2012
Gross proceeds	$ 25	$ 2,659
Gross realized gains	$ 23	$ 83
Gross realized losses	—	(20)
Net gain on sale of securities	$ 23	$ 63

The amortized cost and estimated fair value of securities available for sale and held to maturity at December 31, 2013, 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	Estimated fair value
Within one year	$ 14,292	$ 14,390
One to five years	47,875	48,605
Five to ten years	22,075	21,632
Over ten years	1,130	1,146
	85,372	85,773
Mortgage-backed securities	21,057	20,941
Equity securities	2,312	2,243
	$ 108,741	$ 108,957

Held to Maturity Securities	Amortized cost	Estimated fair value
Within one year	$ 1,462	$ 1,494
One to five years	1,483	1,576
Five to ten years	638	681
Over ten years	29	29
	$ 3,612	$ 3,780

Securities available for sale with an estimated fair value of $75,999,000, and $72,380,000 at December 31, 2013 and 2012 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, 2013 and 2012 (dollars in thousands):

	Less than 12 months			12 months or more			Total		
		Estimated	Unrealized		Estimated	Unrealized		Estimated	Unrealized
Investment Securities	**No.**	**fair value**	**losses**	**No.**	**fair value**	**losses**	**No.**	**fair value**	**losses**
December 31, 2013									
Securities Available for Sale:									
Debt Securities:									
Obligations of states and political sub-divisions - New York State	154	$ 26,500	$ 1,058	18	$ 2,245	$ 156	172	$ 28,745	$ 1,214
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	14	11,995	$ 530	—	—	—	14	11,995	530
Corporate debt – financial services industry	9	1,994	37	—	—	—	9	1,994	37
Total debt securities	177	40,489	1,625	18	2,245	156	195	42,734	1,781
Equity securities – financial services industry	4	1,024	81	1	197	3	5	1,221	84
Total securities available for sale	181	$ 41,513	$ 1,706	19	$ 2,442	$ 159	200	$ 43,955	$ 1,865
December 31, 2012									
Securities Available for Sale:									
Debt Securities:									
Obligations of states and political sub–divisions - New York State	30	$ 4,093	$ 51	—	$ —	—	30	$ 4,093	$ 51
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	1	715	$ 9	1	146	1	2	861	10
Corporate debt – financial services industry	3	1,817	12	—	—	—	3	1,817	12
Total debt securities	34	6,625	72	1	146	1	35	6,771	73
Equity securities – financial services industry	2	229	1	—	—	—	2	229	1
Total securities available for sale	36	$ 6,854	$ 73	1	$ 146	$ 1	37	$ 7,000	$ 74

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 income (loss).

As of December 31, 2013, management believes that none of the unrealized losses on debt or equity securities at December 31, 2013 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 upon maturity. 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 on these securities. As there was no credit loss, no impairment charge was recorded for the year ended December 31, 2013 or for the year ended December 31, 2012. Management believes the unrealized losses related to the five equity securities held at December 31, 2013 do not represent other-than-temporary impairment as losses are believed to be due to market fluctuations and not credit concerns with regard to the issuers.

(4) Restricted Investments

Restricted investments include stock held in correspondent banks and the Federal Reserve Bank. At December 31, 2012, restricted investments also included a $1.0 million trust preferred stock with a call option which the Bank exercised during 2013 without incurring a gain or loss. The trust preferred stock represented the Bank's investment in the Senior Housing and Crime Prevention Foundation. The investment in the stock of the correspondent banks totaled $674,000 as of December 31, 2013 and $1,159,000 as of December 31, 2012. As a member of the Federal Home Loan Bank of New York (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, 2013 and 2012, FHLB stock totaled $464,000 and $948,000, respectively, and is included as a part of restricted investments on the consolidated balance sheets.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as:

- its operating performance;
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and
- its liquidity and funding position.

After evaluating all of these considerations, the Company concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities in 2013 or 2012. Our evaluation of the factors described above, in future periods, could result in the recognition of impairment charges on FHLB stock. The Company has also determined that no impairment charges were required in 2013 or 2012 on the remaining restricted stock balances.

(5) Loans

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

Loans, Net	2013	2012
Commercial		
Commercial real estate loans:		
Commercial mortgage	$ 98,392	$ 89,043
Farm land	6,224	6,170
Construction	2,583	3,497
Total commercial real estate loans	107,199	98,710
Other commercial loans:		
Commercial loans	29,974	26,134
Agricultural loans	1,481	1,911
Total other commercial loans	31,455	28,045
Total commercial loans	138,654	126,755
Consumer		
Consumer real estate loans:		
Residential mortgage	100,653	105,017
Home equity	27,084	29,363
Construction	2,529	2,518
Total residential real estate loans	130,266	136,898
Other consumer loans:		
Consumer installment loans	3,541	4,262
Other consumer loans	1,341	1,348
Total other loans	4,882	5,610
Total consumer loans	135,148	142,508
Total gross loans	273,802	269,263
Allowance for loan losses	(4,671)	(5,035)
Total loans, net	$ 269,131	$ 264,228

Included in the above loan amounts are deferred loan fees and origination costs of $293,000 and $308,000 as of December 31, 2013 and 2012, 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	Consumer Other
December 31, 2013:					
Nonaccrual loans	$ 8,344	$ 6,655	$ 187	$ 1,502	$ —
Troubled debt restructures	1,237	400	—	837	—
Total nonaccrual loans	9,581	7,055	187	2,339	—
Loans past due 90 days or more and still accruing interest	1,303	535	5	763	—
Total nonperforming loans	$ 10,884	$ 7,590	$ 192	$ 3,102	$ —
December 31, 2012:					
Nonaccrual loans	$ 7,408	$ 4,866	$ 795	$ 1,604	$ 143
Troubled debt restructures	1,133	407	—	726	—
Total nonaccrual loans	8,541	5,273	795	2,330	143
Loans past due 90 days or more and still accruing interest	3,111	819	65	2,227	—
Total nonperforming loans	$ 11,652	$ 6,092	$ 860	$ 4,557	$ 143

There were no nonperforming loans in the consumer installment class at December 31, 2013 or 2012.

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.

Impaired loans are also included in nonperforming loans in the table above. The table below presents impaired loans, including trouble debt restructurings, as of December 31, 2013 and December 31, 2012 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, 2013:				
Unpaid principal balance	$ 10,006	$ 8,006	$ 513	$ 1,487
Recorded investment	8,551	7,182	187	1,182
Average balance	8,309	6,679	667	963
Interest income:				
Interest contractually due at original rates	592	502	35	55
Interest income recognized	410	309	34	67
Impaired loans:				
Loans with no allowance	$ 8,302	$ 6,933	$ 187	$ 1,182
Loans with an allowance recorded	$ 249	$ 249	$ —	$ —
Related specific allowance	$ 33	$ 33	$ —	$ —
December 31, 2012:				
Unpaid principal balance	$ 8,731	$ 6,594	$ 1,285	$ 852
Recorded investment	7,290	5,769	795	726
Average balance	8,496	6,598	1,158	740
Interest income:				
Interest contractually due at original rates	518	417	61	40
Interest income recognized	340	43	259	38
Impaired loans:				
Loans with no allowance	$ 7,290	$ 5,769	$ 795	$ 726
Loans with an allowance recorded	$ —	$ —	$ —	$ —
Related specific allowance	$ —	$ —	$ —	$ —

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, 2013 and 2012 (in thousands):

Troubled Debt Restructuring	No.	Pre-Modification Recorded investment	Post-Modification recorded investment	Current recorded investment
December 31, 2013				
Commercial:				
Real estate	2	$ 417	$ 430	$ 400
Consumer:				
Real estate	6	956	1,037	892
For the year ended December 31, 2013				
Commercial:				
Real estate	—	$ —	$ —	$ —
Consumer:				
Real estate	1	$ 190	$ 183	$ 172
December 31, 2012				
Commercial:				
Real estate	2	$ 417	$ 430	$ 407
Consumer:				
Real estate	5	766	854	726
Continued:				
For the year ended December 31, 2012				
Commercial:				
Real estate	—	$ —	$ —	$ —
Consumer:				
Real estate	2	$ 186	$ 205	$ 169

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, 2013 the Bank had one new consumer real estate mortgage qualify as a TDR. For the year ended December 31, 2012, the Bank had two new loans that qualified as a TDR which were consumer real estate loans. As of December 31, 2013 and December 31, 2012, the Bank had charged off $289,000 and $196,000, respectively for borrowers whose loan terms have been modified as TDRs. At December 31, 2013 and 2012, the Bank had a total of $1,292,000 and $1,133,000, 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, 2013. 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 both the years ended December 31, 2013 and 2012, 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 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. 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, 2013:						
Pass	$ 54,769	$ 38,983	$ 15,786			
Pass watch	60,902	48,368	12,534			
Special mention	5,276	4,543	733			
Substandard	16,928	15,259	1,669			
Doubtful	36	36	-			
Non-reviewed	135,891	10	733	$ 130,266	$ 3,541	$ 1,341
Total	$ 273,802	$ 107,199	$ 31,455	$ 130,266	$ 3,541	$ 1,341
December 31, 2012:						
Pass	$ 46,796	$ 33,304	$ 13,492			
Pass watch	48,610	38,980	9,630			
Special mention	9,129	7,630	1,499			
Substandard	21,357	18,576	2,781			
Doubtful	36	36	-			
Non-reviewed	143,335	184	643	$ 136,898	$ 4,262	$ 1,348
Total	$ 269,263	$ 98,710	$ 28,045	$ 136,898	$ 4,262	$ 1,348

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**
2013:							
Commercial real estate	$ 2,754	$ 1,326	$ 3,831	$ 7,911	$ 99,288	$ 107,199	$ 535
Residential real estate	1,752	2,121	2,044	5,917	124,349	130,266	763
Commercial other	254	14	5	273	31,182	31,455	5
Consumer installment	75	12	—	87	3,454	3,541	—
Other consumer	4	—	—	4	1,337	1,341	—
Total	$ 4,839	$ 3,473	$ 5,880	$ 14,192	$ 259,610	$ 273,802	$ 1,303
2012:							
Commercial real estate	$ 3,646	$ 833	$ 3,089	$ 7,568	$ 91,142	$ 98,710	$ 819
Residential real estate	2,858	3,077	3,336	9,271	127,627	136,898	2,227
Commercial other	564	18	354	936	27,109	28,045	65
Consumer installment	91	29	—	120	4,142	4,262	—
Other consumer	6	—	—	6	1,342	1,348	—
Total	$ 7,165	$ 3,957	$ 6,779	$ 17,901	$ 251,362	$ 269,263	$ 3,111

As of December 31, 2013 and 2012, nonaccrual loans included $5.0 million and $4.9 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 credit losses are summarized as follows 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, 2013:							
Beginning balance January 1	$ 5,035	$ 2,615	$ 625	$ 1,416	$ 70	$ 49	$ 260
Charge-offs	(1,301)	(514)	(301)	(335)	(88)	(63)	—
Recoveries	237	88	66	10	43	30	—
Provision	700	(149)	208	523	37	32	49
Ending balance December 31	$ 4,671	$ 2,040	$ 598	$ 1,614	$ 62	$ 48	$ 309
Ending balance as related to loans:							
Evaluated collectively [general reserve]	$ 4,638	$ 2,007	$ 598	$ 1,614	$ 62	$ 48	$ 309
Evaluated individually [specific reserve]	33	33	—	—	—	—	—
Total loans	$ 273,802	$ 107,199	$ 31,455	$ 130,266	$ 3,541	$ 1,341	
Loans evaluated for impairment							
Loans evaluated collectively	265,251	100,017	31,268	129,084	3,541	1,341	
Loans evaluated individually	8,551	7,182	187	1,182	—	—	
December 31, 2012:							
Beginning balance January 1	$ 4,712	$ 2,646	$ 557	$ 1,244	$ 70	$ 61	$ 134
Charge-offs	(1,738)	(493)	(472)	(587)	(109)	(77)	—
Recoveries	166	1	64	9	45	47	—
Provision	1,895	461	476	750	64	18	126
Ending balance December 31	$ 5,035	$ 2,615	$ 625	$ 1,416	$ 70	$ 49	$ 260
Ending balance as related to loans:							
Evaluated collectively [general reserve]	$ 5,035	$ 2,615	$ 625	$ 1,416	$ 70	$ 49	$ 260
Evaluated individually [specific reserve]	—	—	—	—	—	—	—
Total loans	$ 269,263	$ 98,710	$ 28,045	$ 136,898	$ 4,262	$ 1,348	
Loans evaluated for impairment							
Loans evaluated collectively	261,973	92,941	27,250	136,172	4,262	1,348	
Loans evaluated individually	7,290	5,769	795	726	—	—	

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	2013	2012
Land	$ 1,100	$ 1,100
Buildings and improvements	7,504	7,489
Furniture and fixtures	371	364
Equipment	3,842	3,802
Total premises and equipment	12,817	12,755
Less accumulated depreciation and amortization	(8,260)	(7,683)
Premises and equipment, net	$ 4,557	$ 5,072

Depreciation and amortization expense was $620,000 and $734,000 in 2013 and 2012, respectively.

The Company has three leases for branches located in Monticello, Callicoon, and Wurtsboro which expire in 2014, 2017, and 2020, respectively. A renewal option exists for Callicoon for an additional 10 years. Total rent expense for the years ended December 31, 2013 and 2012 was $86,000 and $90,000, respectively. The Company's contractual obligation on future minimum lease payments as of December 31, 2013, is as follows (in thousands):

Future Minimum Lease Payments, for the years ending:

2014	$ 78
2015	41
2016	41
2017	34
2018	25
2019 and thereafter	31
	$ 250

(7) Time Deposits

The following is a summary of time deposits at December 31, 2013 by remaining period to contractual maturity (in thousands):

Within one year	$ 83,271
One to two years	24,784
Two to three years	6,306
Three to four years	6,614
Four to five years	2,392
Over five years	8
Total time deposits	$ 123,375

Time deposits of $100,000 or more totaled $47,868,000 and $57,026,000 at December 31, 2013 and 2012, respectively. Interest expense related to time deposits over $100,000 was $382,000 and $542,000 for 2013 and 2012, respectively.

(8) Short-Term Borrowings

There were no short-term borrowings as of December 31, 2013 or 2012. At December 31, 2013, the Bank maintained unsecured lines of credit with Atlantic Central Bankers 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. Currently 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 $51.3 million as of December 31, 2013 which is collateralized by mortgage loans and FHLB stock. During 2013, the Bank had no borrowings. During 2012, there were no short-term borrowings at any month-end, the average balance was $5,000, and the average interest rate was 1.23%.

(9) Federal Home Loan Bank Borrowings

As of December 31, 2012, the Bank had $10 million (with an interest rate of 4.14%) of FHLB securities sold under agreements to repurchase which matured during 2013 and was not replaced.

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	2013	2012
Current:		
Federal	$ 844	$ 709
State	116	93
Deferred	97	5
	$ 1,057	$ 807

Items creating the differences between income tax expense and taxes computed by applying the statutory Federal tax rate of 34% to income before income taxes are as follows (dollars in thousands):

Income Tax Expense (Benefit)	2013 Amount	2013 % [1]	2012 Amount	2012 % [1]
Tax at statutory rate	$ 1,930	34%	$ 1,758	34%
State taxes, net of Federal Tax benefit	77	1	63	1
Tax-exempt interest and dividends	(801)	(14)	(850)	(16)
Interest expense allocated to tax-exempt securities	17	1	26	1
Bank-owned life insurance	(154)	(3)	(180)	(3)
Other adjustments	(12)	—	(10)	(1)
Income tax expense	$ 1,057	19%	$ 807	16%

[1] *Percentage is of pre-tax income*

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	2013	2012
Deferred tax assets:		
Allowance for loan losses in excess of tax bad debt reserve	$ 1,468	$ 1,668
Retirement benefits	1,973	1,996
Alternative minimum tax credit carryforward	407	533
Depreciation	564	467
Foreclosed real estate	214	133
Other comprehensive income (retirement benefits)	1,086	1,983
Other	40	38
Total deferred tax assets	5,752	6,818
Deferred tax liabilities:		
Prepaid expenses	(66)	(138)
Other comprehensive income:		
Retirement benefits	(833)	(824)
Unrealized gain on securities available for sale	(78)	(1,310)
Total deferred tax liabilities	(977)	(2,272)
Net deferred tax asset (included in other assets)	$ 4,775	$ 4,546

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 of 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, 2013 and 2012.

No unrecognized tax benefits are expected to arise within the next twelve months. The Company files income tax returns in the 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 2012 and NYS taxing authorities for years before 2010.

(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"). FDIC regulations require a minimum leverage ratio of Tier I capital to total adjusted assets of 4.0%, and minimum ratios of Tier I and total capital to risk-weighted assets of 4.0% 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 five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, a bank is considered well capitalized if it has a leverage (Tier I) capital ratio of at least 5.0%, a Tier I risk-based capital ratio of at least 6.0%, and a total risk-based capital ratio of at least 10.0%.

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, 2013 and 2012, 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, 2013 and 2012 for the Bank compared to the required ratios for minimum capital adequacy and for classification as well-capitalized (dollars in thousands):

	Actual		Required Ratios	
Regulatory Capital	Amount	Ratio	Minimum capital adequacy	Well capit-alized
December 31, 2013:				
Leverage (Tier I) capital	$48,346	11.3%	4.0%	5.0%
Risk-based capital:				
Tier I	48,346	17.0	4.0	6.0
Total	51,909	18.3	8.0	10.0
December 31, 2012:				
Leverage (Tier I) capital	$48,668	11.3%	4.0%	5.0%
Risk-based capital:				
Tier I	48,668	17.5	4.0	6.0
Total	52,155	18.8	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, 2013 totaled $3,560,000.

(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 unrecognized deferred costs of the Company's defined benefit pension plan, other postretirement benefit plans, and the supplemental retirement plans. These items are reflected in the consolidated statements of comprehensive income, net of income taxes.

At December 31, 2013 and 2012, the components of accumulated other comprehensive income (loss) reflected on the consolidated balance sheets are as follows (in thousands):

Accumulated Other Comprehensive Income (Loss), Net of Tax	2013	2012
Supplemental executive retirement plan	$ (704)	$ (504)
Postretirement benefits	2,314	2,290
Defined benefit pension liability	(2,312)	(5,006)
Net unrealized holding gains on securities available for sale	216	3,638
Accumulated other comprehensive income (loss), before income tax	(486)	418
Income tax related to accumulated other comprehensive income (loss)	175	(151)
	$ (311)	$ 267

(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. Such loans were made in the ordinary course of business at the Company's normal terms, including interest rates and collateral requirements, and do not represent more than normal risk of collection. Outstanding loans to these related parties are summarized as follows at December 31 (in thousands):

Related Party Transactions	2013	2012
Directors	$ 3,108	$ 2,946
Executive officers (non-directors)	472	346
	$ 3,580	$ 3,292

During 2013, total advances to these directors and officers were $871,000, and total payments made on these loans were $583,000. Directors and officers had unused lines of credit with the Company of $347,000 and $572,000 at December 31, 2013 and 2012, respectively.

(15) Employee Benefit Plans

Pension and Other Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering substantially all of its employees. The plan was amended on September 30, 2011 to be closed to new participants hired after September 30, 2011. The impact of the September 30, 2011 amendment is a reduction in future pension costs. 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 also sponsors a postretirement medical, dental and life insurance benefit plan for retirees included in the pension plan. Employees attaining age 55 or later, and whose age plus service is greater than or equal to 85 are eligible for postretirement benefits. The plan is unfunded. The Company accounts for the cost of these postretirement benefits in accordance with ASC Topic 715 *Compensation - Retirement Benefits* ("ASC 715"). Accordingly, the cost of these benefits is recognized on an accrual basis as employees perform services to earn the benefits.

In December 2004, the Medicare Prescription Drug, Improvement and Modernization Act of 2004 (Medicare Act) was signed into law. The Medicare Act introduced both a Medicare prescription-drug benefit and a federal subsidy to sponsors of retiree health-care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. These provisions of the Medicare Act will affect accounting measurements under ASC 715. Accordingly, the FASB staff has issued guidance allowing companies to recognize or defer recognizing the effects of the Medicare Act in annual financial statements for fiscal years ending after enactment of the Medicare Act. The Company has not determined the impact this act would have on the Company and has elected to defer recognizing the effects of the Medicare Act in its December 31, 2013 and 2012 consolidated financial statements. Accordingly, the reported measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost do

not include the effects of the Medicare Act.

The Company expects to contribute $80,000 to its other postretirement benefit plan in 2014 and has not determined its' 2014 expected contribution to the pension plan. The Company's minimum required pension contribution for 2014 is $132,000. Benefits, which reflect estimated future employee service, are expected to be paid as follows (in thousands):

Estimated Future Benefits	Pension benefit	Postretirement benefit
2014	$ 677	$ 80
2015	718	76
2016	716	77
2017	712	71
2018	708	63
Years 2019-2023	3,577	345

The following is a summary of changes in the benefit obligations and plan assets for the pension plan and postretirement benefit plans for the December 31, 2013 and 2012 measurement dates, together with a reconciliation of each plan's funded status to the amounts recognized in the consolidated balance sheets (in thousands).

Changes in Benefit Obligations, Plan Assets and Funded Status	Pension benefit		Postretirement benefit	
As of the Measurement Date, December 31,	2013	2012	2013	2012
Change in benefit obligation:				
Beginning of year	$ 13,088	$ 11,662	$ 1,641	$ 1,507
Service cost	395	326	50	43
Interest cost	522	552	66	72
Actuarial (gain) loss	(1,537)	1,243	(183)	59
Benefits paid and expected expenses	(712)	(695)	(80)	(62)
Contributions by plan participants	—	—	19	22
End of year	11,756	13,088	1,513	1,641
Changes in fair value of plan assets:				
Beginning of year	9,823	8,622	—	—
Actual return on plan assets	1,538	1,048	—	—
Employer contributions	800	852	61	41
Contributions by plan participants	—	—	19	22
Benefits paid and actual expenses	(719)	(699)	(80)	(63)
End of year	11,442	9,823	—	—
Funded status at end of year, recognized in Other liabilities on the balance sheet	$ (314)	$ (3,265)	$ (1,513)	$ (1,641)
Amounts recognized in accumulated other comprehensive income (loss) consists of:				
Unrecognized actuarial gain (loss)	$ (2,312)	$ (5,006)	$ 376	$ 194
Unrecognized prior service credit	—	—	1,938	2,096
Net amount recognized	$ (2,312)	$ (5,006)	$ 2,314	$ 2,290

The projected benefit obligation for the pension plan was $11,756,000 and $13,088,000 at December 31, 2013 and 2012, respectively. The accumulated benefit obligation for the pension plan was $11,537,000 and $12,895,000 at December 31, 2013 and 2012, respectively.

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

Net Periodic Benefit Cost	Pension benefit		Postretirement benefit	
For the year ended December 31,	2013	2012	2013	2012
Net periodic benefit cost:				
Service cost	$ 395	$ 326	$ 50	$ 43
Interest cost	522	552	66	72
Expected return on plan assets	(642)	(625)	—	—
Amortization of prior service cost	—	—	(157)	(157)
Recognized net actuarial (gain) loss	268	238	(2)	(5)
Net Periodic Benefit Cost (Benefit)	$ 543	$ 491	$ (43)	$ (47)
Net gain (loss)	$ 2,425	$ (823)	$ 183	$ (60)
Amortization of net (gain) loss	268	238	(2)	(5)
Amortization of prior service credit	—	—	(157)	(157)
Total recognized in other comprehensive income (loss)	$ 2,693	$ (585)	$ 24	$ (222)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (2,150)	$ 1,076	$ (67)	$ 175

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 2014 is $251,000. The estimated prior service cost and net (gain) loss on plan assets for the postretirement plan that will be amortized from accumulated other comprehensive loss into net periodic benefit credit during 2014 is $169,000.

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	Pension benefits		Postretirement benefits	
Assumptions	2013	2012	2013	2012
Discount rate	5.10%	4.11%	5.10%	4.11%
Rate of compensation increase	3.00	3.00	—	—

Assumptions used to determine net periodic benefit cost were as follows:

Net Periodic Benefit	Pension benefits		Postretirement benefits	
Cost Assumptions	2013	2012	2013	2012
Discount rate	4.11%	4.89%	4.11%	4.89%
Expected long-term rate of return on plan assets	6.75	7.25	—	—
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 assumed health care cost trend rate for retirees which was used to determine the benefit obligation for the other postretirement benefits plan at December 31, 2013 was 5.0%, declining to 4.0% in 2014 and remaining at that level thereafter. Age adjusted factors were applied to under age 65 retiree medical costs in addition to the trend rates. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the benefit obligation at December 31, 2013 by approximately $109,000 and the net periodic benefit cost for the year by approximately $16,000; a one percentage point decrease would decrease the benefit obligation and benefit cost by approximately $90,000 and $12,000, respectively.

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

Pension Plan Asset Allocation	2013	2012
Asset category:		
Equity securities	44%	40%
U.S. Government securities	4	11
Debt securities	14	10
Mutual funds	36	37
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, 2013 and 2012, 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, 2013:				
Cash and cash equivalents	$ 198	$ 198	$ —	$ —
Bonds:				
U.S. government agency	481	—	481	—
Municipal	730	—	730	—
U.S. corporate	729	—	729	—
Foreign corporate	211	—	211	—
Equity securities:				
U.S. companies	4,867	4,867	—	—
International companies	146	146	—	—
Mutual funds:				
U.S. companies	1,080	1,080	—	—
International companies	395	395	—	—
U.S. companies – fixed income	2,075	2,075	—	—
International companies - fixed income	530	530	—	—
	$ 11,442	$ 9,291	$ 2,151	$ —
Asset category as of December 31, 2012:				
Cash and cash equivalents	$ 178	$ 178	$ —	$ —
Bonds:				
U.S. government agency	317	—	317	—
Municipal	765	—	765	—
U.S. corporate	752	—	752	—
Foreign corporate	215	—	215	—
Equity securities:				
U.S. companies	3,859	3,859	—	—
Real estate investment trusts	52	52	—	—
Mutual funds:				
U.S. companies	1,014	1,014	—	—
International companies	444	444	—	—
U.S. companies – fixed income	1,841	1,841	—	—
International companies - fixed income	386	386	—	—
	$ 9,823	$ 7,774	$ 2,049	$ —

The Company has a Funding Agreement with RBS Citizens, 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 not insurable under the postretirement plan. The benefits accrued under this plan totaled $129,000 at December 31, 2013 and $119,000 at December 31, 2012 and are unfunded. The Company recorded an expense of $10,000, and $9,000 relating to this plan during the years ended December 31, 2013 and 2012, respectively.

Profit Incentive Program
The Company maintains a profit incentive program for all employees. There were no accrued benefits at December 31, 2013 or 2012 as benefits are paid in the year earned. The Company recorded an expense of $410,000, and $405,000 relating to this plan during the years ended December 31, 2013 and 2012, respectively.

Tax-Deferred Savings Plan
The Company maintains a qualified 401(k) plan for all 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 $192,000 and $193,000 in 2013 and 2012, 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 $2,827,000 at December 31, 2013 and $2,369,000 at December 31, 2012 and are unfunded. The Company recorded an expense of $365,000 and $315,000 relating to this plan during the years ended December 31, 2013 and 2012, respectively.

Director Retirement Plan
The Company established 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 calendar years preceding their retirement date, 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 $694,000 and $678,000 at December 31, 2013 and 2012, respectively, and are unfunded. The Company recorded an expense of $68,000 and $69,000, relating to this plan during the years ended December 31, 2013 and 2012, respectively.

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(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	**2013**	**2012**
Loan origination commitments and unused lines of credit:		
Commercial and residential mortgages	$ 2,465	$ 2,248
Commercial loans	19,653	22,255
Home equity lines	7,765	11,166
	29,883	35,669
Standby letters of credit	308	566
	$ 30,191	$ 36,235

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-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 varies 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 $308,000 and $566,000 at December 31, 2013 and 2012, 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, 2013 and 2012 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, 2013 and 2012, 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, 2013:				
Recurring:				
Available for sale securities				
Obligations of state and political subdivisions – New York state [(a)]	$ 72,525	$ —	$ 72,525	$ —
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	20,941	—	20,941	—
Corporate debt – financial services industry	13,150	—	13,150	—
Certificates of deposit – financial services industry	98	98	—	—
Equity securities – financial services industry	2,243	2,243	—	—
	$ 108,957	$ 2,341	$ 106,616	$ —
Non-recurring:				
Foreclosed real estate	$ 803	$ —	$ —	$ 803
Impaired loans	797	—	—	797
	$ 1,600	$ —	$ —	$ 1,600
December 31, 2012:				
Recurring:				
Available for sale securities				
Government sponsored enterprises ("GSE") [(a)]	$ 1,205	$ —	$ 1,205	$ —
Obligations of state and political subdivisions – New York state [(a)]	71,012	—	71,012	—
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	19,323	—	19,323	—
Corporate debt – financial services industry	12,808	—	12,808	—
Certificates of deposit – financial services industry	98	98	—	—
Equity securities – financial services industry	675	675	—	—
	$ 105,121	$ 773	$ 104,348	$ —
Non-recurring:				
Foreclosed real estate	$ 400	$ —	$ —	$ 400
Impaired loans	1,340	—	—	1,340
	$ 1,740	$ —	$ —	$ 1,740

(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 between Level 1 and Level 2 for recurring assets.

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, 2013 and December 31, 2012:

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 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 nine months, the loan is transferred out of impaired status. As of December 31, 2013 the fair values of collateral-dependent impaired loans were calculated using an outstanding balance of $797,000 with a specific valuation allowance of $33,000. At December 31, 2012, the fair values of collateral-dependent impaired loans were calculated using an outstanding balance of $1,340,000, with no specific valuation allowance. 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, 2013 and December 31, 2012, 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, 2013	2012	Valuation techniques	Unobservable input	Range
Foreclosed real estate	$ 803	$ 400	Appraisal of collateral [a]	Appraisal adjustments [b]	0% to -10%
				Liquidation expenses [b]	0% to -20%
Impaired loans	$ 797	$ 1,340	Appraisal of collateral [a]	Appraisal adjustments [b]	0% to -10%
				Liquidation expenses [b]	0% to -20%

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

(b) 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, 2013.

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, 2013					
Financial assets:					
Cash and cash equivalents	$ 19,895	$ 19,895	$ 19,895	$ —	$ —
Securities available for sale	108,957	108,957	2,243	106,714	—
Securities held to maturity	3,612	3,780	—	3,780	—
Loans, net	269,131	269,070	—	—	269,070
Accrued interest receivable	1,911	1,911	—	1,911	—
Restricted investments	674	674	—	674	—
Financial liabilities:					
Savings, money market and checking accounts	249,266	249,266	—	249,266	—
Time deposits	123,375	123,546	—	123,546	—
Accrued interest payable	81	81	—	81	—
December 31, 2012					
Financial assets:					
Cash and cash equivalents	$ 21,859	$ 21,859	$ 21,859	$ —	$ —
Securities available for sale	105,121	105,121	773	104,348	—
Securities held to maturity	4,528	4,891	—	4,891	—
Loans, net	264,228	264,953	—	—	264,953
Accrued interest receivable	2,058	2,058	—	2,058	—
Restricted investments	2,159	2,159	—	2,159	—
Financial liabilities:					
Savings, money market and checking accounts	221,285	221,285	—	221,285	—
Time deposits	137,488	137,837	—	137,837	—
Accrued interest payable	143	143	—	143	—
Federal Home Loan Bank borrowings	10,000	10,147	—	10,147	—

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Narrowsburg

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Loch Sheldrake

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SHAREHOLDER INFORMATION

The Company's common stock is traded on the NASDAQ Small Cap Market under the symbol JFBC. There are currently no market makers for the stock but the following investment firms are known to handle Jeffersonville Bancorp stock transactions: E*TRADE Securities LLC, TD Ameritrade, Inc. and Stifel, Nicolaus & Company, Inc. The following table shows the range of high and low sale prices 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, 2013	$10.90	$11.65	$ 0.13
September 30, 2013	$10.76	$11.48	$ 0.13
June 30, 2013	$10.75	$11.90	$ 0.13
March 31, 2013	$10.22	$11.78	$ 0.13
December 31, 2012	$10.07	$12.50	$ 0.13
September 30, 2012	$10.04	$11.25	$ 0.13
June 30, 2012	$10.05	$11.75	$ 0.13
March 31, 2012	$10.25	$11.38	$ 0.13











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