CITY HOLDING CO
Form 8-K
October 15, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 14, 2003

CITY HOLDING COMPANY

(Exact name of registrant as specified in its charter)

West Virginia	0-17733	55-0619957
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employer Identification Number)

25 Gatewater Road

Charleston, West Virginia, 25313

(Address of principal executive officers)

(304) 769-1100

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits

99 News Release issued on October 14, 2003

Item 12. Results of Operations and Financial Condition.

On October 14, 2003, the Company issued a news release, attached as Exhibit 99, announcing the Company s earnings for the third quarter of 2003. Furnished as Exhibit 99 and incorporated herein by reference is the news release by the Company announcing its 2003 third quarter earnings.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CITY HOLDING COMPANY

Date: October 15, 2003 By: /s/ Michael D. Dean

Michael D. Dean

Senior Vice President-Finance,

Chief Accounting Officer and

Duly Authorized Officer

led in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Early adoption is permitted, but not before the original effective date (i.e., interim and annual reporting periods beginning after December 15, 2016). The ASU may be adopted using either a modified retrospective method or a full retrospective method. The Company adopted the ASU during the first quarter of 2018, as required, using a modified retrospective approach. The majority of the Company s revenue stream is generated from financial instruments which are not within the scope of this ASU. However, the Company has evaluated the impact for other fee-based income and has concluded that this standard will not materially impact its financial statements.

ASU 2016-01, *Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments include the following: (1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee)

to be measured at fair value with changes in fair value recognized in net income; (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. For public business entities, the amendments of this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU on January 1, 2018 did not have a material impact on the Company s Consolidated Financial Statements. The Company is currently evaluating methods of measuring fair value of its loan portfolio using an exit price notion as noted in (3) above.

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ASU 2016-02, *Leases,* requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for lease term. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The amendment should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): - Measurement of Credit Losses on Financial Instruments*, amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, the new standard eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses using a broader range of information regarding past events, current conditions and forecasts assessing the collectability of cash flows. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however the new standard will require that credit losses be presented as an allowance rather than as a write-down. The new guidance affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities that are SEC filers, the new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019 early adoption is permitted beginning in 2019. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, provides guidance on eight specific cash flow issues where current GAAP is either unclear or does not include specific guidance on classification in the statement of cash flows. The new guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017. As this guidance only affects classification within the statement of cash flows, adoption of this ASU on January 1, 2018 did not have a material impact on the Company s Consolidated Financial Statements.

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted cash,* amends guidance on how the statement of cash flows presents the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments are applied using a retrospective transition method to each period transitioned. As this guidance only affects classification within the statement of cash flows, adoption of this ASU on January 1, 2018 did not have a material impact on the Company s Consolidated Financial Statements.

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Table 1 Explanation of Non-GAAP Financial Measures

In addition to results presented in accordance with GAAP, this annual report on Form 10-K includes certain designated net interest income amounts presented on a tax-equivalent basis, a non-GAAP financial measure, including the presentation of total revenue and the calculation of the efficiency ratio.

The Company believes the presentation of net interest income on a tax-equivalent basis provides comparability of net interest income from both taxable and tax-exempt sources and facilitates comparability within the industry. Although the Company believes these non-GAAP financial measures enhance investors understanding of its business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. The reconciliation of these non-GAAP financial measures from GAAP to non-GAAP is presented below.

		Year ended December 31				
(In thousands)		**2017**	**2016**	**2015**	**2014**	**2013**
Net interest income (GAAP)	$	24,526	22,732	22,718	21,453	20,922
Tax-equivalent adjustment		1,205	1,276	1,342	1,288	1,440
Net interest income (Tax-equivalent)	$	25,731	24,008	24,060	22,741	22,362

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Table 2 - Selected Financial Data

(Dollars in thousands, except per share amounts)	2017	2016	2015	2014	2013
					Year ended December 31
Income statement					
Tax-equivalent interest income (a)	$ 29,325	28,092	28,495	28,105	28,898
Total interest expense	3,594	4,084	4,435	5,364	6,536
Tax equivalent net interest income (a)	25,731	24,008	24,060	22,741	22,362
Provision for loan losses	(300)	(485)	200	50	400
Total noninterest income	3,441	3,383	4,532	3,933	7,298
Total noninterest expense	16,784	15,348	16,372	15,104	18,412
Net earnings before income taxes and tax-equivalent adjustment	12,688	12,528	12,020	11,520	10,848
Tax-equivalent adjustment	1,205	1,276	1,342	1,288	1,440
Income tax expense	3,637	3,102	2,820	2,784	2,290
Net earnings	$ 7,846	8,150	7,858	7,448	7,118
Per share data:					
Basic and diluted net earnings	$ 2.15	2.24	2.16	2.04	1.95
Cash dividends declared	$ 0.92	0.90	0.88	0.86	0.84
Weighted average shares outstanding					
Basic and diluted	3,643,616	3,643,504	3,643,428	3,643,278	3,643,003
Shares outstanding	3,643,668	3,643,523	3,643,478	3,643,328	3,643,118
Book value	$ 23.85	22.55	21.94	20.80	17.70
Common stock price					
High	$ 40.25	31.31	30.39	25.80	25.75
Low	30.75	24.56	23.15	22.10	20.80
Period-end	$ 38.90	31.31	29.62	23.64	25.00
To earnings ratio	18.09 x	13.98	13.78	11.59	12.89
To book value	163 %	139	135	114	141
Performance ratios:					
Return on average equity	9.17 %	9.65	9.98	10.53	10.33
Return on average assets	0.94 %	0.98	0.98	0.97	0.94
Dividend payout ratio	42.79 %	40.18	40.74	42.16	43.08
Average equity to average assets	10.30 %	10.14	9.79	9.17	9.07
Asset Quality:					
Allowance for loan losses as a % of:					
Loans	1.05 %	1.08	1.01	1.20	1.37
Nonperforming loans	160 %	196	158	433	124
Nonperforming assets as a % of:					
Loans and other real estate owned	0.66 %	0.59	0.70	0.41	2.10
Total assets	0.35 %	0.30	0.36	0.21	1.08
Nonperforming loans as % of loans	0.66 %	0.55	0.64	0.28	1.11

Net (recoveries) charge-offs as a % of average loans	(0.09) %	(0.19)	0.18	0.12	0.48
Capital Adequacy:					
CET 1 risk-based capital ratio	16.42 %	16.44	15.28	na	na
Tier 1 risk-based capital ratio	16.98 %	17.00	16.57	17.45	17.19
Total risk-based capital ratio	17.91 %	17.95	17.44	18.54	18.40
Tier 1 leverage ratio	10.95 %	10.27	10.35	10.32	10.10
Other financial data:					
Net interest margin (a)	3.29 %	3.05	3.17	3.15	3.16
Effective income tax rate	31.67 %	27.57	26.41	27.21	24.34
Efficiency ratio (b)	57.53 %	56.03	57.26	56.62	62.08
Selected period end balances:					
Securities	$ 257,697	243,572	241,687	267,603	271,219
Loans, net of unearned income	453,651	430,946	426,410	402,954	383,339
Allowance for loan losses	4,757	4,643	4,289	4,836	5,268
Total assets	853,381	831,943	817,189	789,231	751,343
Total deposits	757,659	739,143	723,627	693,390	668,844
Long-term debt	3,217	3,217	7,217	12,217	12,217
Total stockholders equity	86,906	82,177	79,949	75,799	64,485

(a) Tax-equivalent. See Table 1 - Explanation of Non-GAAP Financial Measures .

(b) Efficiency ratio is the result of noninterest expense divided by the sum of noninterest income and tax-equivalent net interest income.

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Table 3 - Average Balance and Net Interest Income Analysis

	Year ended December 31					
	2017			2016		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans and loans held for sale (1)	$ 442,101	$ 20,781	4.70%	$ 432,180	$ 20,453	4.73%
Securities - taxable	197,108	4,229	2.15%	166,870	3,282	1.97%
Securities - tax-exempt (2)	69,881	3,545	5.07%	68,507	3,754	5.48%
Total securities	266,989	7,774	2.91%	235,377	7,036	2.99%
Federal funds sold	32,342	341	1.05%	49,446	249	0.50%
Interest bearing bank deposits	41,317	429	1.04%	70,064	354	0.51%
Total interest-earning assets	782,749	29,325	3.75%	787,067	28,092	3.57%
Cash and due from banks	13,386			13,126		
Other assets	34,291			32,127		
Total assets	$ 830,426			$ 832,320		
Interest-bearing liabilities:						
Deposits:						
NOW	$ 125,935	248	0.20%	$ 121,723	333	0.27%
Savings and money market	230,121	852	0.37%	232,601	890	0.38%
Certificates of deposits	198,457	2,351	1.18%	212,662	2,618	1.23%
Total interest-bearing deposits	554,513	3,451	0.62%	566,986	3,841	0.68%
Short-term borrowings	3,476	18	0.52%	2,973	15	0.50%
Long-term debt	3,217	125	3.89%	6,474	228	3.52%

Total interest-bearing liabilities		561,206		3,594	0.64%	576,433		4,084	0.71%
Noninterest-bearing deposits		180,891				167,695			
Other liabilities		2,788				3,760			
Stockholders equity		85,541				84,432			
Total liabilities and and stockholders equity	$	830,426			$	832,320			
Net interest income and margin			$	25,731	3.29%		$	24,008	3.05%

(1) Average loan balances are shown net of unearned income and loans on nonaccrual status have been included in the computation of average balances.

(2) Yields on tax-exempt securities have been computed on a tax-equivalent basis using an income tax rate of 34%.

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Table 4 - Volume and Rate Variance Analysis

(Dollars in thousands)	Years ended December 31, 2017 vs. 2016			Years ended December 31, 2016 vs. 2015		
	Net	Due to change in		Net	Due to change in	
	Change	Rate (2)	Volume (2)	Change	Rate (2)	Volume (2)
Interest income:						
Loans and loans held for sale	$ 328	(138)	466	$ (31)	(910)	879
Securities - taxable	947	298	649	(569)	(176)	(393)
Securities - tax-exempt (1)	(209)	(279)	70	(192)	(199)	7
Total securities	738	19	719	(761)	(375)	(386)
Federal funds sold	92	272	(180)	112	158	(46)
Interest bearing bank deposits	75	373	(298)	277	80	197
Total interest income	$ 1,233	526	707	$ (403)	(1,047)	644
Interest expense:						
Deposits:						
NOW	$ (85)	(93)	8	$ (15)	(33)	18
Savings and money market	(38)	(29)	(9)	58	(6)	64
Certificates of deposits	(267)	(99)	(168)	(337)	(113)	(224)
Total interest-bearing deposits	(390)	(221)	(169)	(294)	(152)	(142)
Short-term borrowings	3		3	(3)		(3)
Long-term debt	(103)	24	(127)	(54)	10	(64)
Total interest expense	(490)	(197)	(293)	(351)	(142)	(209)
Net interest income	$ 1,723	723	1,000	$ (52)	(905)	853

(1) Yields on tax-exempt securities have been computed on a tax-equivalent basis using an income tax rate of 34%.
(2) Changes that are not solely a result of volume or rate have been allocated to volume.

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Table 5 - Loan Portfolio Composition

	December 31				
(In thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Commercial and industrial	$ 59,086	49,850	52,479	54,329	57,780
Construction and land development	39,607	41,650	43,694	37,298	36,479
Commercial real estate	239,033	220,439	203,853	192,006	174,920
Residential real estate	106,863	110,855	116,673	107,641	101,706
Consumer installment	9,588	8,712	10,220	12,335	12,893
Total loans	454,177	431,506	426,919	403,609	383,778
Less: unearned income	(526)	(560)	(509)	(655)	(439)
Loans, net of unearned income	453,651	430,946	426,410	402,954	383,339
Less: allowance for loan losses	(4,757)	(4,643)	(4,289)	(4,836)	(5,268)
Loans, net	$ 448,894	426,303	422,121	398,118	378,071

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Table 6 - Loan Maturities and Sensitivities to Changes in Interest Rates

		December 31, 2017						
(Dollars in thousands)		1 year or less	1 to 5 years	After 5 years	Total	Adjustable Rate	Fixed Rate	Total
Commercial and industrial	$	37,317	10,254	11,515	59,086	16,716	42,370	59,086
Construction and land development		23,959	14,006	1,642	39,607	12,463	27,144	39,607
Commercial real estate		28,543	91,939	118,551	239,033	8,365	230,668	239,033
Residential real estate		11,571	23,951	71,341	106,863	53,457	53,406	106,863
Consumer installment		3,846	5,277	465	9,588	1,037	8,551	9,588
Total loans	$	105,236	145,427	203,514	454,177	92,038	362,139	454,177

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Table 7 - Allowance for Loan Losses and Nonperforming Assets

	Year ended December 31				
(Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Allowance for loan losses:					
Balance at beginning of period	$ 4,643	4,289	4,836	5,268	6,723
Charge-offs:					
Commercial and industrial	(449)	(97)	(100)	(46)	(514)
Construction and land development				(235)	(39)
Commercial real estate		(194)	(866)		(262)
Residential real estate	(107)	(182)	(89)	(438)	(808)
Consumer installment	(40)	(67)	(59)	(89)	(397)
Total charge-offs	(596)	(540)	(1,114)	(808)	(2,020)
Recoveries:					
Commercial and industrial	461	29	22	71	48
Construction and land development	347	1,212	17	8	6
Commercial real estate				119	4
Residential real estate	115	127	313	112	88
Consumer installment	87	11	15	16	19
Total recoveries	1,010	1,379	367	326	165
Net recoveries (charge-offs)	414	839	(747)	(482)	(1,855)
Provision for loan losses	(300)	(485)	200	50	400
Ending balance	$ 4,757	4,643	4,289	4,836	5,268
as a % of loans	1.05 %	1.08	1.01	1.20	1.37
as a % of nonperforming loans	160 %	196	158	433	124
Net (recoveries) charge-offs as % of average loans	(0.09) %	(0.19)	0.18	0.12	0.48
Nonperforming assets:					
Nonaccrual/nonperforming loans	$ 2,972	2,370	2,714	1,117	4,261
Other real estate owned		152	252	534	3,884
Total nonperforming assets	$ 2,972	2,522	2,966	1,651	8,145
as a % of loans and other real estate owned	0.66 %	0.59	0.70	0.41	2.10
as a % total assets	0.35 %	0.30	0.36	0.21	1.08
Nonperforming loans as a % of total loans	0.66 %	0.55	0.64	0.28	1.11
Accruing loans 90 days or more past due	$				73

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Table 8 - Allocation of Allowance for Loan Losses

	December 31									
	2017		2016		2015		2014		2013	
ollars in thousands)	**Amount**	**%***	**Amount**	**%***	**Amount**	**%***	**Amount**	**%***	**Amount**	**%***
ommercial and dustrial	$ 653	13.0	$ 540	11.6	$ 523	12.3	$ 639	13.5	$ 386	15.
onstruction and land velopment	734	8.7	812	9.7	669	10.2	974	9.2	366	9.
ommercial real estate	2,126	52.7	2,071	51.0	1,879	47.8	1,928	47.5	3,186	45.
sidential real estate	1,071	23.5	1,107	25.7	1,059	27.3	1,119	26.7	1,114	26.
onsumer installment	173	2.1	113	2.0	159	2.4	176	3.1	216	3.
tal allowance for an losses	$ 4,757		$ 4,643		$ 4,289		$ 4,836		$ 5,268	

* Loan balance in each category expressed as a percentage of total loans.

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Table 9 - CDs and Other Time Deposits of $100,000 or More

(Dollars in thousands)	**December 31, 2017**
Maturity of:	
3 months or less	$ 5,140
Over 3 months through 6 months	9,732
Over 6 months through 12 months	37,355
Over 12 months	65,884
Total CDs and other time deposits of $100,000 or more (1)	$ 118,111

(1) Includes brokered certificates of deposit.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by ITEM 7A is set forth in ITEM 7 under the caption Market and Liquidity Risk Management and is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Auburn National Bancorporation, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Auburn National Bancorporation, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of earnings, comprehensive income, stockholders equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements and schedules (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 13, 2018 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Elliott Davis, LLC

We have served as the Company s auditor since 2015.

Greenville, South Carolina

March 13, 2018

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31	
(Dollars in thousands, except share data)	**2017**	**2016**
Assets:		
Cash and due from banks	$ 12,942	$ 15,673
Federal funds sold	41,540	42,096
Interest bearing bank deposits	51,046	63,508
Cash and cash equivalents	105,528	121,277
Securities available-for-sale	257,697	243,572
Loans held for sale	1,922	1,497
Loans, net of unearned income	453,651	430,946
Allowance for loan losses	(4,757)	(4,643)
Loans, net	448,894	426,303
Premises and equipment, net	13,791	12,602
Bank-owned life insurance	18,330	17,888
Other real estate owned		152
Other assets	7,219	8,652
Total assets	$ 853,381	$ 831,943
Liabilities:		
Deposits:		
Noninterest-bearing	$ 193,917	$ 181,890
Interest-bearing	563,742	557,253
Total deposits	757,659	739,143
Federal funds purchased and securities sold under agreements to repurchase	2,658	3,366
Long-term debt	3,217	3,217
Accrued expenses and other liabilities	2,941	4,040
Total liabilities	766,475	749,766
Stockholders equity:		
Preferred stock of $.01 par value; authorized 200,000 shares; issued shares - none		
Common stock of $.01 par value; authorized 8,500,000 shares; issued 3,957,135 shares	39	39
Additional paid-in capital	3,771	3,767

Retained earnings		90,299		85,716
Accumulated other comprehensive loss, net		(566)		(708)
Less treasury stock, at cost - 313,467 shares and 313,612 shares at December 31, 2017 and 2016, respectively		(6,637)		(6,637)
Total stockholders equity		86,906		82,177
Total liabilities and stockholders equity	$	853,381	$	831,943

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(Dollars in thousands, except share and per share data)	Year ended December 31 2017	2016
Interest income:		
Loans, including fees	$ 20,781	$ 20,453
Securities:		
Taxable	4,229	3,282
Tax-exempt	2,340	2,478
Federal funds sold and interest bearing bank deposits	770	603
Total interest income	28,120	26,816
Interest expense:		
Deposits	3,451	3,841
Short-term borrowings	18	15
Long-term debt	125	228
Total interest expense	3,594	4,084
Net interest income	24,526	22,732
Provision for loan losses	(300)	(485)
Net interest income after provision for loan losses	24,826	23,217
Noninterest income:		
Service charges on deposit accounts	746	773
Mortgage lending	777	947
Bank-owned life insurance	442	456
Other	1,425	1,428
Securities gains (losses), net	51	(221)
Total noninterest income	3,441	3,383
Noninterest expense:		
Salaries and benefits	10,011	9,826
Net occupancy and equipment	1,471	1,474
Professional fees	966	825
FDIC and other regulatory assessments	346	406
Other real estate owned, net	5	(371)

Gain on early extinguishment of debt				(790)
Other		3,985		3,978
Total noninterest expense		16,784		15,348
Earnings before income taxes		11,483		11,252
Income tax expense		3,637		3,102
Net earnings	**$**	7,846	$	8,150
Net earnings per share:				
Basic and diluted	$	2.15	$	2.24
Weighted average shares outstanding:				
Basic and diluted		3,643,616		3,643,504

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

	Year ended December 31	
(Dollars in thousands)	**2017**	**2016**
Net earnings	$ 7,846	$ 8,150
Other comprehensive income (loss), net of tax:		
Unrealized net holding gain (loss) on all other securities	263	(2,784)
Reclassification adjustment for net (gain) loss on securities recognized in net earnings	(32)	139
Other comprehensive income (loss)	231	(2,645)
Comprehensive income	$ 8,077	$ 5,505

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

(Dollars in thousands, except share data)	**Common Stock** Shares	Amount	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Treasury stock**	**Total**
Balance, December 31, 2015	3,957,135	$ 39	3,766	80,845	1,937	(6,638)	$ 79,949
Net earnings				8,150			8,150
Other comprehensive loss					(2,645)		(2,645)
Cash dividends paid ($0.90 per share)				(3,279)			(3,279)
Sale of treasury stock (45 shares)			1			1	2
Balance, December 31, 2016	3,957,135	$ 39	$ 3,767	$ 85,716	$ (708)	$ (6,637)	$ 82,177
Net earnings				7,846			7,846
Other comprehensive income					231		231
Reclassification of certain tax effects				89	(89)		
Cash dividends paid ($0.92 per share)				(3,352)			(3,352)
Sale of treasury stock (145 shares)			4				4
Balance, December 31, 2017	3,957,135	$ 39	$ 3,771	$ 90,299	$ (566)	$ (6,637)	$ 86,906

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year ended December 31	
(In thousands)	**2017**	**2016**
Cash flows from operating activities:		
Net earnings	$ 7,846	$ 8,150
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	(300)	(485)
Depreciation and amortization	1,016	1,200
Premium amortization and discount accretion, net	2,133	1,677
Deferred tax expense	356	461
Net (gain) loss on securities available for sale	(51)	221
Net gain on sale of loans held for sale	(504)	(764)
Net gain on other real estate owned	(5)	(392)
Gain early extinguishment of debt		(790)
Loans originated for sale	(29,796)	(42,860)
Proceeds from sale of loans	29,651	43,343
Increase in cash surrender value of bank owned life insurance	(442)	(455)
Net decrease in other assets	592	412
Net (decrease) increase in accrued expenses and other liabilities	(1,095)	769
Net cash provided by operating activities	$ 9,401	$ 10,487
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	10,374	26,110
Proceeds from maturities of securities available-for-sale	32,945	63,410
Purchase of securities available-for-sale	(59,160)	(97,494)
Increase in loans, net	(22,291)	(4,097)
Net purchases of premises and equipment	(1,618)	(1,206)
Increase in FHLB stock	(13)	(25)
Proceeds from sale of other real estate owned	157	720
Net cash used in investing activities	$ (39,606)	$ (12,582)
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits	12,027	25,073
Net increase (decrease) in interest-bearing deposits	6,489	(9,557)
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(708)	415
Repayments or retirement of long-term debt		(3,210)
Dividends paid	(3,352)	(3,279)

Net cash provided by financing activities	$	14,456	$	9,442
Net change in cash and cash equivalents	$	(15,749)	$	7,347
Cash and cash equivalents at beginning of period		121,277		113,930
Cash and cash equivalents at end of period	$	105,528	$	121,277
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	3,624	$	4,108
Income taxes		3,289		2,203
Supplemental disclosure of non-cash transactions:				
Real estate acquired through foreclosure	$		$	400

See accompanying notes to consolidated financial statements

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Auburn National Bancorporation, Inc. (the Company) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, AuburnBank (the Bank). AuburnBank is a commercial bank located in Auburn, Alabama. The Bank provides a full range of banking services in its primary market area, Lee County, which includes the Auburn-Opelika Metropolitan Statistical Area.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Auburn National Bancorporation Capital Trust I is an affiliate of the Company and was included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, fair value measurements, valuation of other real estate owned, and valuation of deferred tax assets.

Accounting Standards Adopted in 2017

In 2017, the Company adopted new guidance related to the following Accounting Standards Update (Update or ASU):

ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* Information about this pronouncement is described in more detail below.

ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, requires Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings is $89 thousand.

Cash Equivalents

Cash equivalents include cash on hand, cash items in process of collection, amounts due from banks, including interest bearing deposits with other banks, and federal funds sold.

Securities

Securities are classified based on management s intention at the date of purchase. At December 31, 2017, all of the Company s securities were classified as available-for-sale. Securities available-for-sale are used as part of the Company s interest rate risk management strategy, and they may be sold in response to changes in interest rates, changes in prepayment risks or other factors. All securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income, net of the deferred income tax effects. Interest and dividends on securities, including the amortization of premiums and accretion of discounts are recognized in interest income over the anticipated life of the security using the effective interest method, taking into consideration prepayment assumptions. Realized gains and losses from the sale of securities are determined using the specific identification method.

On a quarterly basis, management makes an assessment to determine whether there have been events or economic circumstances to indicate that a security on which there is an unrealized loss is other-than-temporarily impaired. For equity securities with an unrealized loss, the Company considers many factors including the severity and duration of the impairment; the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value; and recent events specific to the issuer or industry. Equity securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-down recorded as a realized loss in securities gains (losses), net.

For debt securities with an unrealized loss, an other-than-temporary impairment write-down is triggered when (1) the Company has the intent to sell a debt security, (2) it is more likely than not that the Company will be required to sell the debt security before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the debt security. If the Company has the intent to sell a debt security or if it is more likely than not that it will be required to sell the debt security before recovery, the other-than-temporary write-down is equal to the entire difference between the debt security s amortized cost and its fair value. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings, as a realized loss in securities gains (losses), and is the difference between the security s amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security s fair value and the present value of future expected cash flows is due to factors that are not credit related and is recognized in other comprehensive income, net of applicable taxes.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Loan sales are recognized when the transaction closes, the proceeds are collected, and ownership is transferred. Continuing involvement, through the sales agreement, consists of the right to service the loan for a fee for the life of the loan, if applicable. Gains on the sale of loans held for sale are recorded net of related costs, such as commissions, and reflected as a component of mortgage lending income in the consolidated statements of earnings.

In the course of conducting the Bank s mortgage lending activities of originating mortgage loans and selling those loans in the secondary market, the Bank makes various representations and warranties to the purchaser of the mortgage loans. Every loan closed by the Bank s mortgage center is run through a government agency automated underwriting system. Any exceptions noted during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Failure by the Company to comply with the underwriting and/or appraisal standards could result in the Company being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Company within the specified period following discovery.

Loans

Loans are reported at their outstanding principal balances, net of any unearned income, charge-offs, and any deferred fees or costs on originated loans. Interest income is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized in interest income over the contractual life of the loan using the effective interest method. Loan commitment fees are generally deferred and amortized on a straight-line basis over the commitment period, which results in a recorded amount that approximates fair value.

The accrual of interest on loans is discontinued when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or the principal or interest is more than 90 days past due, unless the loan is both well-collateralized and in the process of collection. Generally, all interest accrued but not collected for loans that are placed on nonaccrual status is reversed against current interest income. Interest collections on nonaccrual loans are generally applied as principal reductions. The Company determines past due or delinquency status of a loan based on contractual payment terms.

A loan is considered impaired when it is probable the Company will be unable to collect all principal and interest payments due according to the contractual terms of the loan agreement. Individually identified impaired loans are measured based on the present value of expected payments using the loan s original effective rate as the discount rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as part of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

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Impaired loans also include troubled debt restructurings (TDRs). In the normal course of business, management may grant concessions to borrowers who are experiencing financial difficulty. The concessions granted most frequently for TDRs involve reductions or delays in required payments of principal and interest for a specified time, the rescheduling of payments in accordance with a bankruptcy plan or the charge-off of a portion of the loan. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructuring occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructuring. TDR loans may be returned to accrual status if there has been at least a six-month sustained period of repayment performance by the borrower.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that management believes is adequate to absorb probable losses inherent in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management s determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires various material estimates that are susceptible to significant change, including the amounts and timing of future cash flows expected to be received on any impaired loans. In addition, regulatory agencies, as an integral part of their examination process, will periodically review the Company s allowance for loan losses, and may require the Company to record additions to the allowance based on their judgment about information available to them at the time of their examinations.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on a straight-line method over the useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Other Real Estate Owned

Other real estate owned (OREO) includes properties acquired through, or in lieu of, loan foreclosure that are held for sale and are initially recorded at the lower of the loan s carrying amount or fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying value amount or fair value less cost to sell. Gains or losses realized upon sale of OREO and additional losses related to subsequent valuation adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs.

Nonmarketable equity investments

Nonmarketable equity investments include equity securities that are not publicly traded and securities acquired for various purposes. The Bank is required to maintain certain minimum levels of equity investments with certain regulatory and other entities in which the Bank has an ongoing business relationship based on the Bank s common stock and surplus (with regard to the relationship with the Federal Reserve Bank) or outstanding borrowings (with regard to the relationship with the Federal Home Loan Bank of Atlanta). These securities are accounted for under the cost method and are included in other assets. For cost-method investments, on a quarterly basis, the Company evaluates whether an event or change in circumstances has occurred during the reporting period that may have a significant adverse effect on the fair value of the investment. If the Company determines that a decline in value is

other-than-temporary, the Company will recognize the estimated loss in securities gains (losses), net.

Transfers of Financial Assets

Transfers of an entire financial asset (i.e. loan sales), a group of entire financial assets, or a participating interest in an entire financial asset (i.e. loan participations sold) are accounted for as sales when control over the assets have been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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Mortgage Servicing Rights

The Company recognizes as assets the rights to service mortgage loans for others, known as MSRs. The Company determines the fair value of MSRs at the date the loan is transferred. An estimate of the Company s MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees.

Subsequent to the date of transfer, the Company has elected to measure its MSRs under the amortization method. Under the amortization method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of MSRs is analyzed monthly and is adjusted to reflect changes in prepayment speeds, as well as other factors. MSRs are evaluated for impairment based on the fair value of those assets. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation allowance is established through a charge to earnings. The valuation allowance is adjusted as the fair value changes. MSRs are included in the other assets category in the accompanying consolidated balance sheets.

Derivative Instruments

In accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, all derivative instruments are recorded on the consolidated balance sheet at their respective fair values. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If the derivative instrument is not designated as part of a hedging relationship, the gain or loss on the derivative instrument is recognized in earnings in the period of change. None of the derivatives utilized by the Company have been designated as a hedge.

Securities sold under agreements to repurchase

Securities sold under agreements to repurchase generally mature less than one year from the transaction date. Securities sold under agreements to repurchase are reflected as a secured borrowing in the accompanying consolidated balance sheets at the amount of cash received in connection with each transaction.

Income Taxes

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The net deferred tax asset is reflected as a component of other assets in the accompanying consolidated balance sheets.

Income tax expense or benefit for the year is allocated among continuing operations and other comprehensive income (loss), as applicable. The amount allocated to continuing operations is the income tax effect of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (1) changes in certain circumstances that cause a change in judgment about the realization of deferred tax assets in future years, (2) changes in income tax laws or rates, and (3) changes in income tax status, subject to certain exceptions. The amount allocated to other comprehensive income (loss) is related solely to changes in the valuation allowance on items that are normally accounted for in other comprehensive income (loss) such as unrealized gains or losses on available-for-sale securities.

In accordance with ASC 740, *Income Taxes*, a tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. It is the Company s policy to recognize interest and penalties related to income tax matters in income tax expense. The Company and its wholly-owned subsidiaries file a consolidated income tax return.

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Fair Value Measurements

ASC 820, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies only to fair-value measurements that are already required or permitted by other accounting standards. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. For more information related to fair value measurements, please refer to Note 17, Fair Value.

Subsequent Events

The Company has evaluated the effects of events or transactions through the date of this filing that have occurred subsequent to December 31, 2017. The Company does not believe there are any material subsequent events that would require further recognition or disclosure.

NOTE 2: BASIC AND DILUTED NET EARNINGS PER SHARE

Basic net earnings per share is computed by dividing net earnings by the weighted average common shares outstanding for the year. Diluted net earnings per share reflect the potential dilution that could occur upon exercise of securities or other rights for, or convertible into, shares of the Company s common stock. As of December 31, 2017 and 2016, respectively, the Company had no such securities or other rights issued or outstanding, and therefore, no dilutive effect to consider for the diluted net earnings per share calculation.

The basic and diluted net earnings per share computations for the respective years are presented below.

		Year ended December 31		
(Dollars in thousands, except share and per share data)		**2017**		**2016**
Basic and diluted:				
Net earnings	$	7,846	$	8,150
Weighted average common shares outstanding		3,643,616		3,643,504
Net earnings per share	$	2.15	$	2.24

NOTE 3: VARIABLE INTEREST ENTITIES

Generally, a variable interest entity (VIE) is a corporation, partnership, trust or other legal structure that does not have equity investors with substantive or proportional voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities.

At December 31, 2017, the Company did not have any consolidated VIEs to disclose but did have one nonconsolidated VIE, discussed below.

Trust Preferred Securities

The Company owns the common stock of a subsidiary business trust, Auburn National Bancorporation Capital Trust I (the Trust), which issued mandatorily redeemable preferred capital securities (trust preferred securities) in 2003 in the aggregate of approximately $7.0 million at the time of issuance. The Trust meets the definition of a VIE of which the Company is not the primary beneficiary; the Trust s only assets are junior subordinated debentures issued by the Company, which were acquired by the Trust using the proceeds from the issuance of the trust preferred securities and common stock.

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In October 2016, the Company purchased $4.0 million par amount of outstanding trust preferred securities issued by the Trust. These securities were sold by the FDIC, as receiver of a failed bank that had held the trust preferred securities. The Company used dividends from the Bank to purchase these trust preferred securities and has deemed an equivalent amount of the related junior subordinated debentures issued by the Company as no longer outstanding. The Company realized a pre-tax gain of $0.8 million on the early extinguishment of debt in this transaction. Following the transaction, the Company had outstanding $3.2 million in junior subordinated debentures held by the trust related to the remaining $3.0 million of trust preferred securities outstanding and not purchased by the Company. The outstanding principal amount of debentures related to those trust preferred securities remains included in the Company s Tier I capital for regulatory purposes.

The following table summarizes VIEs that are not consolidated by the Company as of December 31, 2017.

(Dollars in thousands)	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Type:			
Trust preferred issuances	N/A	$ 3,217	Long-term debt

NOTE 4: RESTRICTED CASH BALANCES

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. As of December 31, 2017 and 2016, the Bank did not have a required reserve balance at the Federal Reserve Bank.

NOTE 5: SECURITIES

At December 31, 2017 and 2016, respectively, all securities within the scope of ASC 320, *Investments Debt and Equity Securities* were classified as available-for-sale. The fair value and amortized cost for securities available-for-sale by contractual maturity at December 31, 2017 and 2016, respectively, are presented below.

(Dollars in thousands)	**1 year or less**	**1 to 5 years**	**5 to 10 years**	**After 10 years**	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Amortized Cost**
December 31, 2017								
Agency obligations (a)	$	29,253	23,809		53,062	79	904	$ 53,887

Agency RMBS (a)				11,201	121,871	133,072	330	1,639		134,381
State and political subdivisions			2,564	9,999	59,000	71,563	1,616	237		70,184
Total available-for-sale	$		31,817	45,009	180,871	257,697	2,025	2,780	$	258,452
December 31, 2016										
Agency obligations (a)	$	3,047	22,531	19,893		45,471	331	973	$	46,113
Agency RMBS (a)			972	16,171	110,644	127,787	551	1,805	$	129,041
State and political subdivisions			2,480	10,210	57,624	70,314	1,509	734	$	69,539
Total available-for-sale	$	3,047	25,983	46,274	168,268	243,572	2,391	3,512	$	244,693

(a) Includes securities issued by U.S. government agencies or government sponsored entities.

Securities with aggregate fair values of $149.4 million and $137.2 million at December 31, 2017 and 2016, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, Federal Home Loan Bank (FHLB) advances, and for other purposes required or permitted by law.

Included in other assets on the accompanying consolidated balance sheets are cost-method investments. The carrying amounts of cost-method investments were $1.4 million at December 31, 2017 and 2016, respectively. Cost-method investments primarily include non-marketable equity investments, such as FHLB of Atlanta stock and Federal Reserve Bank (FRB) stock.

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Gross Unrealized Losses and Fair Value

The fair values and gross unrealized losses on securities at December 31, 2017 and 2016, respectively, segregated by those securities that have been in an unrealized loss position for less than 12 months and 12 months or more are presented below.

	Less than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(Dollars in thousands)	Value	Losses	Value	Losses	Value	Losses
December 31, 2017:						
Agency obligations	$ 14,381	99	20,353	805	34,734	$ 904
Agency RMBS	53,440	363	50,729	1,276	104,169	1,639
State and political subdivisions	2,009	22	10,155	215	12,164	237
Total	$ 69,830	484	81,237	2,296	151,067	$ 2,780
December 31, 2016:						
Agency obligations	$ 20,352	973			20,352	$ 973
Agency RMBS	89,062	1,805			89,062	1,805
State and political subdivisions	20,444	734			20,444	734
Total	$ 129,858	3,512			129,858	$ 3,512

For the securities in the previous table, the Company does not have the intent to sell and has determined it is not more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis, which may be maturity. The Company assesses each security for credit impairment. For debt securities, the Company evaluates, where necessary, whether credit impairment exists by comparing the present value of the expected cash flows to the securities amortized cost basis. For cost-method investments, the Company evaluates whether an event or change in circumstances has occurred during the reporting period that may have a significant adverse effect on the fair value of the investment.

In determining whether a loss is temporary, the Company considers all relevant information including:

the length of time and the extent to which the fair value has been less than the amortized cost basis;

adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security,

in the financial condition of the underlying loan obligors, including changes in technology or the discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security or changes in the quality of the credit enhancement);

the historical and implied volatility of the fair value of the security;

the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future;

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; and

recoveries or additional declines in fair value subsequent to the balance sheet date.

Agency obligations

The unrealized losses associated with agency obligations were primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities were issued by U.S. government agencies or government-sponsored entities and did not have any credit losses given the explicit government guarantee or other government support.

Agency residential mortgage-backed securities (RMBS)

The unrealized losses associated with agency RMBS were primarily driven by changes in interest rates and not due to the credit quality of the securities. These securities were issued by U.S. government agencies or government-sponsored entities and did not have any credit losses given the explicit government guarantee or other government support.

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Securities of U.S. states and political subdivisions

The unrealized losses associated with securities of U.S. states and political subdivisions were primarily driven by changes in interest rates and were not due to the credit quality of the securities. Some of these securities are guaranteed by a bond insurer, but management did not rely on the guarantee in making its investment decision. These securities will continue to be monitored as part of the Company s quarterly impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond insurers. As a result, the Company expects to recover the entire amortized cost basis of these securities.

Cost-method investments

At December 31, 2017, cost-method investments with an aggregate cost of $1.4 million were not evaluated for impairment because the Company did not identify any events or changes in circumstances that may have a significant adverse effect on the fair value of these cost-method investments.

The carrying values of the Company s investment securities could decline in the future if the financial condition of an issuer deteriorates and the Company determines it is probable that it will not recover the entire amortized cost basis for the security. As a result, there is a risk that significant other-than-temporary impairment charges may occur in the future.

Other-Than-Temporarily Impaired Securities

Credit-impaired debt securities are debt securities where the Company has written down the amortized cost basis of a security for other-than-temporary impairment and the credit component of the loss is recognized in earnings. At December 31, 2017 and 2016, respectively, the Company had no credit-impaired debt securities and there were no additions or reductions in the credit loss component of credit-impaired debt securities during the years ended December 31, 2017 and 2016, respectively.

Realized Gains and Losses

The following table presents the gross realized gains and losses on sales related to securities.

		Year ended December 31	
(Dollars in thousands)		**2017**	**2016**
Gross realized gains	$	51	166
Gross realized losses			(387)
Realized gains (losses), net	$	51	(221)

NOTE 6: LOANS AND ALLOWANCE FOR LOAN LOSSES

December 31

(In thousands)	**2017**	**2016**
Commercial and industrial	$ 59,086	$ 49,850
Construction and land development	39,607	41,650
Commercial real estate:		
Owner occupied	44,192	49,745
Multifamily	52,167	46,998
Other	142,674	123,696
Total commercial real estate	239,033	220,439
Residential real estate:		
Consumer mortgage	59,540	65,564
Investment property	47,323	45,291
Total residential real estate	106,863	110,855
Consumer installment	9,588	8,712
Total loans	454,177	431,506
Less: unearned income	(526)	(560)
Loans, net of unearned income	$ 453,651	$ 430,946

Loans secured by real estate were approximately 84.9% of the total loan portfolio at December 31, 2017. At December 31, 2017, the Company s geographic loan distribution was concentrated primarily in Lee County, Alabama and surrounding areas.

In accordance with ASC 310, *Receivables*, a portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. As part of the Company s quarterly assessment of the allowance, the loan portfolio is disaggregated into the following portfolio segments: commercial and industrial, construction and land development, commercial real estate, residential real estate and consumer installment. Where appropriate, the Company s loan portfolio segments are further disaggregated into classes. A class is generally determined based on the initial measurement attribute, risk characteristics of the loan, and an entity s method for monitoring and determining credit risk.

The following describe the risk characteristics relevant to each of the portfolio segments.

Commercial and industrial (C&I) includes loans to finance business operations, equipment purchases, or other needs for small and medium-sized commercial customers. Also included in this category are loans to finance agricultural production. Generally the primary source of repayment is the cash flow from business operations and activities of the borrower.

Construction and land development (C&D) includes both loans and credit lines for the purpose of purchasing, carrying and developing land into commercial developments or residential subdivisions. Also included are loans and lines for construction of residential, multi-family and commercial buildings. Generally the primary source of repayment is dependent upon the sale or refinance of the real estate collateral.

Commercial real estate (CRE) includes loans disaggregated into three classes: (1) owner occupied (2) multi-family and (3) other.

Owner occupied includes loans secured by business facilities to finance business operations, equipment and owner-occupied facilities primarily for small and medium-sized commercial customers. Generally the primary source of repayment is the cash flow from business operations and activities of the borrower, who owns the property.

Multifamily primarily includes loans to finance income-producing multi-family properties. Loans in this class include loans for 5 or more unit residential property and apartments leased to residents. Generally, the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these loans takes into consideration the occupancy and rental rates, as well as the financial health of the borrower.

Other primarily includes loans to finance income-producing commercial properties. Loans in this class include loans for neighborhood retail centers, hotels, medical and professional offices, single retail stores, industrial buildings, and warehouses leased generally to local businesses and residents. Generally the primary source of repayment is dependent upon income generated from the real estate collateral. The underwriting of these loans takes into consideration the occupancy and rental rates as well as the financial health of the borrower.

Residential real estate (RRE) includes loans disaggregated into two classes: (1) consumer mortgage and (2) investment property.

Consumer mortgage primarily includes first or second lien mortgages and home equity lines to consumers that are secured by a primary residence or second home. These loans are underwritten in accordance with the Bank s general loan policies and procedures which require, among other things, proper documentation of each borrower s financial condition, satisfactory credit history and property value.

Investment property primarily includes loans to finance income-producing 1-4 family residential properties. Generally the primary source of repayment is dependent upon income generated from leasing the property securing the loan. The underwriting of these loans takes into consideration the rental rates as well as the financial health of the borrower.

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Consumer installment includes loans to individuals both secured by personal property and unsecured. Loans include personal lines of credit, automobile loans, and other retail loans. These loans are underwritten in accordance with the Bank s general loan policies and procedures which require, among other things, proper documentation of each borrower s financial condition, satisfactory credit history, and if applicable, property value.

The following is a summary of current, accruing past due and nonaccrual loans by portfolio class as of December 31, 2017 and 2016.

(In thousands)		Current	Accruing 30-89 Days Past Due	Accruing Greater than 90 days	Total Accruing Loans	Non-Accrual		Total Loans
December 31, 2017:								
Commercial and industrial	$	59,047	8		59,055	31	$	59,086
Construction and land development		39,607			39,607			39,607
Commercial real estate:								
Owner occupied		44,192			44,192			44,192
Multifamily		52,167			52,167			52,167
Other		140,486			140,486	2,188		142,674
Total commercial real estate		236,845			236,845	2,188		239,033
Residential real estate:								
Consumer mortgage		58,195	746		58,941	599		59,540
Investment property		46,871	312		47,183	140		47,323
Total residential real estate		105,066	1,058		106,124	739		106,863
Consumer installment		9,517	57		9,574	14		9,588
Total	$	450,082	1,123		451,205	2,972	$	454,177
December 31, 2016:								
Commercial and industrial	$	49,747	66		49,813	37	$	49,850
Construction and land development		41,223	395		41,618	32		41,650
Commercial real estate:								
Owner occupied		49,564	43		49,607	138		49,745
Multifamily		46,998			46,998			46,998
Other		121,608	199		121,807	1,889		123,696

Total commercial real estate	218,170	242	218,412	2,027	220,439
Residential real estate:					
Consumer mortgage	64,059	1,282	65,341	223	65,564
Investment property	45,243	19	45,262	29	45,291
Total residential real estate	109,302	1,301	110,603	252	110,855
Consumer installment	8,652	38	8,690	22	8,712
Total	$ 427,094	2,042	429,136	2,370	$ 431,506

The gross interest income which would have been recorded under the original terms of those nonaccrual loans had they been accruing interest, amounted to approximately $140 thousand and $107 thousand for the years ended December 31, 2017 and 2016, respectively.

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Allowance for Loan Losses

The allowance for loan losses as of and for the years ended December 31, 2017 and 2016, is presented below.

(In thousands)	Year ended December 31 2017	2016
Beginning balance	$ 4,643	$ 4,289
Charged-off loans	(596)	(540)
Recovery of previously charged-off loans	1,010	1,379
Net recoveries	414	839
Provision for loan losses	(300)	(485)
Ending balance	$ 4,757	$ 4,643

The Company assesses the adequacy of its allowance for loan losses prior to the end of each calendar quarter. The level of the allowance is based upon management s evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect a borrower s ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan loss rates and other pertinent factors, including regulatory recommendations. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loans are charged off, in whole or in part, when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a confirming event has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.

The Company deems loans impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means that both the interest and principal payments of a loan will be collected as scheduled in the loan agreement.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan. The impairment is recognized through the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan s effective interest rate, or if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral, less estimated disposal costs.

The level of allowance maintained is believed by management to be adequate to absorb probable losses inherent in the portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

In assessing the adequacy of the allowance, the Company also considers the results of its ongoing internal, independent loan review process. The Company s loan review process assists in determining whether there are loans in the portfolio whose credit quality has weakened over time and evaluating the risk characteristics of the entire loan portfolio. The Company s loan review process includes the judgment of management, the input from our independent

loan reviewers, and reviews that may have been conducted by bank regulatory agencies as part of their examination process. The Company incorporates loan review results in the determination of whether or not it is probable that it will be able to collect all amounts due according to the contractual terms of a loan.

As part of the Company s quarterly assessment of the allowance, management divides the loan portfolio into five segments: commercial and industrial, construction and land development, commercial real estate, residential real estate, and consumer installment loans. The Company analyzes each segment and estimates an allowance allocation for each loan segment.

The allocation of the allowance for loan losses begins with a process of estimating the probable losses inherent for these types of loans. The estimates for these loans are established by category and based on the Company s internal system of credit risk ratings and historical loss data. The estimated loan loss allocation rate for the Company s internal system of credit risk grades is based on its experience with similarly graded loans. For loan segments where the Company believes it does not have sufficient historical loss data, the Company may make adjustments based, in part, on loss rates of peer bank groups. At December 31, 2017 and 2016, and for the years then ended, the Company adjusted its historical loss rates for the commercial real estate portfolio segment based, in part, on loss rates of peer bank groups.

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The estimated loan loss allocation for all five loan portfolio segments is then adjusted for management s estimate of probable losses for several qualitative and environmental factors. The allocation for qualitative and environmental factors is particularly subjective and does not lend itself to exact mathematical calculation. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified, as of the balance sheet date, and are based upon quarterly trend assessments in delinquent and nonaccrual loans, credit concentration changes, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures and other influencing factors. These qualitative and environmental factors are considered for each of the five loan segments and the allowance allocation, as determined by the processes noted above, is increased or decreased based on the incremental assessment of these factors.

The Company regularly re-evaluates its practices in determining the allowance for loan losses. Beginning with the quarter ended December 31, 2016, the Company implemented certain refinements to its allowance for loan losses methodology in order to better capture the effects of the most recent economic cycle on the Company s loan loss experience. First, the Company increased its look-back period for calculating average losses for all loan segments to 31 quarters. Prior to December 31, 2016, the Company calculated average losses for all loan segments using a rolling 20 quarter look-back period. For the year ended December 31, 2017, the Company increased its look back period to 35 quarters to continue to include losses incurred by the Company beginning with the first quarter of 2009. The Company will likely continue to increase its look-back period to incorporate the effects of at least one economic downturn in its loss history. The Company believes the extension of its look-back period is appropriate due to the risks inherent in the loan portfolio. Absent this extension, the early cycle periods in which the Company experienced significant losses would be excluded from the determination of the allowance for loan losses and its balance would decrease. Second, the Company increased the range of basis point adjustments allowed for qualitative and environmental factors to approximately 200 basis points, an increase of 65 basis points, or 48%, compared to the 135 basis point range used prior to December 31, 2016. After performing sensitivity testing of its calculation of the allowance for loan losses, the Company determined that it should increase the range of basis points allowed for qualitative and environmental factors in order to provide sufficient latitude in determining estimated probable credit losses during periods of economic stress. Third, the Company reduced the percentage allocation for qualitative and environmental factors on a weighted average basis to 21% of total basis points allocable at December 31, 2016, compared to 25% of total basis points allocable at September 30, 2016. The Company believes a decrease in the percentage allocation of qualitative environmental factors on a weighted average basis was appropriate due to the extension of its look-back period described above. If the Company did not make the changes described above, the Company s calculated allowance for loan loss allocation would have decreased by approximately $0.9 million, or 0.21% of total loans, at December 31, 2016. Other than the changes discussed above, the Company has not made any material changes to its methodology that would impact the calculation of the allowance for loan losses or provision for loan losses for the periods included in the accompanying consolidated balance sheets and statements of earnings.

The following table details the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2017 and 2016.

(in thousands)	Commercial and industrial	Construction and land Development	Commercial Real Estate	Residential Real Estate	Consumer Installment	Total
Balance, December 31, 2015	$ 523	669	1,879	1,059	159	$ 4,289
Charge-offs	(97)		(194)	(182)	(67)	(540)
Recoveries	29	1,212		127	11	1,379

Net (charge-offs) recoveries		(68)	1,212	(194)	(55)	(56)	839
Provision		85	(1,069)	386	103	10	(485)
Balance, December 31, 2016	$	540	812	2,071	1,107	113	$ 4,643
Charge-offs		(449)			(107)	(40)	(596)
Recoveries		461	347		115	87	1,010
Net recoveries		12	347		8	47	414
Provision		101	(425)	55	(44)	13	(300)
Balance, December 31, 2017	$	653	734	2,126	1,071	173	$ 4,757

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The following table presents an analysis of the allowance for loan losses and recorded investment in loans by portfolio segment and impairment methodology as of December 31, 2017 and 2016.

		Collectively evaluated (1)		Individually evaluated (2)		Total	
(In thousands)		Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans	Allowance for loan losses	Recorded investment in loans
December 31, 2017:							
Commercial and industrial	$	622	59,055	31	31	653	59,086
Construction and land development		734	39,607			734	39,607
Commercial real estate		2,115	236,322	11	2,711	2,126	239,033
Residential real estate		1,071	106,863			1,071	106,863
Consumer installment		173	9,588			173	9,588
Total	$	4,715	451,435	42	2,742	4,757	454,177
December 31, 2016:							
Commercial and industrial	$	540	49,835		15	540	49,850
Construction and land development		812	41,618		32	812	41,650
Commercial real estate		2,040	218,356	31	2,083	2,071	220,439
Residential real estate		1,107	110,855			1,107	110,855
Consumer installment		113	8,712			113	8,712
Total	$	4,612	429,376	31	2,130	4,643	431,506

(1) Represents loans collectively evaluated for impairment in accordance with ASC 450-20, *Loss Contingencies* (formerly FAS 5), and pursuant to amendments by ASU 2010-20 regarding allowance for unimpaired loans.

(2) Represents loans individually evaluated for impairment in accordance with ASC 310-30, *Receivables* (formerly FAS 114), and pursuant to amendments by ASU 2010-20 regarding allowance for impaired loans.

Credit Quality Indicators

The credit quality of the loan portfolio is summarized no less frequently than quarterly using categories similar to the standard asset classification system used by the federal banking agencies. The following table presents credit quality

indicators for the loan portfolio segments and classes. These categories are utilized to develop the associated allowance for loan losses using historical losses adjusted for qualitative and environmental factors and are defined as follows:

Pass loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral.

Special Mention loans with potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company s position at some future date. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.

Substandard Accruing loans that exhibit a well-defined weakness which presently jeopardizes debt repayment, even though they are currently performing. These loans are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected.

Nonaccrual includes loans where management has determined that full payment of principal and interest is in doubt.

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(In thousands)	Pass	Special Mention	Substandard Accruing	Nonaccrual	Total loans
December 31, 2017					
Commercial and industrial	$ 58,842	94	119	31	$ 59,086
Construction and land development	39,049	90	468		39,607
Commercial real estate:					
Owner occupied	43,615	240	337		44,192
Multifamily	52,167				52,167
Other	139,695	395	396	2,188	142,674
Total commercial real estate	235,477	635	733	2,188	239,033
Residential real estate:					
Consumer mortgage	54,101	1,254	3,586	599	59,540
Investment property	46,463	53	667	140	47,323
Total residential real estate	100,564	1,307	4,253	739	106,863
Consumer installment	9,430	66	78	14	9,588
Total	$ 443,362	2,192	5,651	2,972	$ 454,177
December 31, 2016					
Commercial and industrial	$ 49,558	22	233	37	$ 49,850
Construction and land development	41,165	113	340	32	41,650
Commercial real estate:					
Owner occupied	48,788	414	405	138	49,745
Multifamily	46,998				46,998
Other	121,326	32	449	1,889	123,696
Total commercial real estate	217,112	446	854	2,027	220,439
Residential real estate:					
Consumer mortgage	59,450	2,613	3,278	223	65,564
Investment property	44,109	105	1,048	29	45,291
Total residential real estate	103,559	2,718	4,326	252	110,855
Consumer installment	8,580	20	90	22	8,712
Total	$ 419,974	3,319	5,843	2,370	$ 431,506

Impaired loans

The following table presents details related to the Company s impaired loans. Loans which have been fully charged-off do not appear in the following table. The related allowance generally represents the following components which correspond to impaired loans:

Individually evaluated impaired loans equal to or greater than $500 thousand secured by real estate (nonaccrual construction and land development, commercial real estate, and residential real estate).

Individually evaluated impaired loans equal to or greater than $250 thousand not secured by real estate (nonaccrual commercial and industrial and consumer loans).

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The following table sets forth certain information regarding the Company s impaired loans that were individually evaluated for impairment at December 31, 2017 and 2016.

	December 31, 2017			
(In thousands)	Unpaid principal balance (1)	Charge-offs and payments applied (2)	Recorded investment (3)	Related allowance
With no allowance recorded:				
Commercial real estate:				
Other	3,630	(1,094)	2,536	
Total commercial real estate	3,630	(1,094)	2,536	
Total	$ 3,630	(1,094)	2,536	
With allowance recorded:				
Commercial and industrial	$ 52	(21)	31	$ 31
Commercial real estate:				
Owner occupied	175		175	11
Total commercial real estate	175		175	11
Total	$ 227	(21)	206	$ 42
Total impaired loans	$ 3,857	(1,115)	2,742	$ 42

(1) Unpaid principal balance represents the contractual obligation due from the customer.
(2) Charge-offs and payments applied represents cumulative charge-offs taken, as well as interest payments that have been applied against the outstanding principal balance.
(3) Recorded investment represents the unpaid principal balance less charge-offs and payments applied; it is shown before any related allowance for loan losses.

	December 31, 2016			
(In thousands)	Unpaid principal balance (1)	Charge-offs and payments applied (2)	Recorded investment (3)	Related allowance

With no allowance recorded:						
Commercial and industrial	$	15		15		
Construction and land development		140	(108)	32		
Commercial real estate:						
Other		2,874	(984)	1,890		
Total commercial real estate		2,874	(984)	1,890		
Total	$	3,029	(1,092)	1,937		
With allowance recorded:						
Commercial real estate:						
Owner occupied	$	193		193	$	31
Total commercial real estate		193		193		31
Total	$	193		193	$	31
Total impaired loans	$	3,222	(1,092)	2,130	$	31

(1) Unpaid principal balance represents the contractual obligation due from the customer.
(2) Charge-offs and payments applied represents cumulative charge-offs taken, as well as interest payments that have been applied against the outstanding principal balance.
(3) Recorded investment represents the unpaid principal balance less charge-offs and payments applied; it is shown before any related allowance for loan losses.

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The following table provides the average recorded investment in impaired loans and the amount of interest income recognized on impaired loans after impairment by portfolio segment and class.

	Year ended December 31, 2017		Year ended December 31, 2016	
(In thousands)	Average recorded investment	Total interest income recognized	Average recorded investment	Total interest income recognized
Impaired loans:				
Commercial and industrial	$ 50		$ 31	2
Construction and land development	11		94	
Commercial real estate:				
Owner occupied	184	10	699	31
Other	2,096	1	1,687	
Total commercial real estate	2,280	11	2,386	31
Total	$ 2,341	11	$ 2,511	33

Troubled Debt Restructurings

Impaired loans also include troubled debt restructurings (TDRs). In the normal course of business, management may grant concessions to borrowers who are experiencing financial difficulty. A concession may include, but is not limited to, delays in required payments of principal and interest for a specified period, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount or maturity amount of the debt. A concession has been granted when, as a result of the restructuring, the Bank does not expect to collect all amounts due, including interest at the original stated rate. A concession may have also been granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. In determining whether a loan modification is a TDR, the Company considers the individual facts and circumstances surrounding each modification. In determining the appropriate accrual status at the time of restructure, the Company evaluates whether a restructured loan has adequate collateral protection, among other factors.

Similar to other impaired loans, TDRs are measured for impairment based on the present value of expected payments using the loan s original effective interest rate as the discount rate, or the fair value of the collateral, less selling costs if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, impairment is recognized by establishing a valuation allowance as part of the allowance for loan losses or a charge-off to the

allowance for loan losses. In periods subsequent to the modification, all TDRs are evaluated individually, including those that have payment defaults, for possible impairment.

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The following is a summary of accruing and nonaccrual TDRs and the related loan losses, by portfolio segment and class.

	TDRs			Related
(In thousands)	**Accruing**	**Nonaccrual**	**Total**	**Allowance**
December 31, 2017				
Commercial and industrial	$	31	31	$ 31
Commercial real estate:				
Owner occupied	175		175	11
Other	287	1,431	1,718	
Total commercial real estate	462	1,431	1,893	11
Total	$ 462	1,462	1,924	$ 42
December 31, 2016				
Commercial and industrial	$ 15		15	$
Construction and land development		32	32	
Commercial real estate:				
Owner occupied	193		193	31
Other		1,818	1,818	
Total commercial real estate	193	1,818	2,011	31
Total	$ 208	1,850	2,058	$ 31

At December 31, 2017, there were no significant outstanding commitments to advance additional funds to customers whose loans had been restructured.

The following table summarizes loans modified in a TDR during the respective years both before and after modification.

($ in thousands)	**Number of contracts**	**Pre-modification outstanding recorded investment**	**Post-modification outstanding recorded investment**
December 31, 2017			
Commercial and industrial	1	$ 34	34

Commercial real estate:				
Other	1	$	1,275	1,266
Total commercial real estate	1		1,275	1,266
Total	2	$	1,309	1,300
December 31, 2016				
Commercial real estate:				
Other	3	$	3,147	3,137
Total commercial real estate	3		3,147	3,137
Total	3	$	3,147	3,137

The majority of the loans modified in a TDR during the years ended December 31, 2017 and 2016, respectively, included delays in required payments of principal and/or interest or where the only concession granted by the Company was that the interest rate at renewal was not considered to be a market rate.

The Company had no TDRs with a payment default during the years ended December 31, 2017 and 2016.

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NOTE 7: PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2017 and 2016 is presented below.

		December 31	
(Dollars in thousands)		**2017**	**2016**
Land	$	7,473	7,231
Buildings and improvements		10,394	9,478
Furniture, fixtures, and equipment		3,161	3,210
Total premises and equipment		21,028	19,919
Less: accumulated depreciation		(7,237)	(7,317)
Premises and equipment, net	$	13,791	12,602

Depreciation expense was approximately $428 thousand and $470 thousand for the years ended December 31, 2017 and 2016, respectively, and is a component of net occupancy and equipment expense in the consolidated statements of earnings.

NOTE 8: MORTGAGE SERVICING RIGHTS, NET

MSRs are recognized based on the fair value of the servicing rights on the date the corresponding mortgage loans are sold. An estimate of the Company s MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees. Subsequent to the date of transfer, the Company has elected to measure its MSRs under the amortization method. Under the amortization method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income. Servicing fee income is recorded net of related amortization expense and recognized in earnings as part of mortgage lending income.

The Company has recorded MSRs related to loans sold without recourse to Fannie Mae. The Company generally sells conforming, fixed-rate, closed-end, residential mortgages to Fannie Mae. MSRs are included in other assets on the accompanying consolidated balance sheets.

The Company evaluates MSRs for impairment on a quarterly basis. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation allowance is established. The valuation allowance is adjusted as the fair value changes. Changes in the valuation allowance are recognized in earnings as a component of mortgage lending income.

The following table details the changes in amortized MSRs and the related valuation allowance for the years ended December 31, 2017 and 2016.

(Dollars in thousands)		Year ended December 31 2017	2016
Beginning balance	$	1,952	2,316
Additions, net		224	324
Amortization expense		(533)	(687)
Change in valuation allowance		1	(1)
Ending balance	$	1,644	1,952
Valuation allowance included in MSRs, net:			
Beginning of period	$	1	
End of period			1
Fair value of amortized MSRs:			
Beginning of period	$	2,678	3,086
End of period		2,528	2,678

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Data and assumptions used in the fair value calculation related to MSRs at December 31, 2017 and 2016, respectively, are presented below.

	December 31	
(Dollars in thousands)	**2017**	**2016**
Unpaid principal balance	$ 312,318	338,434
Weighted average prepayment speed (CPR)	10.2 %	10.9
Discount rate (annual percentage)	10.0 %	10.0
Weighted average coupon interest rate	3.8 %	3.8
Weighted average remaining maturity (months)	253	257
Weighted average servicing fee (basis points)	25.0	25.0

At December 31, 2017, the weighted average amortization period for MSRs was 5.9 years. Estimated amortization expense for each of the next five years is presented below.

(Dollars in thousands)	**December 31, 2017**
2018	$ 262
2019	221
2020	188
2021	157
2022	134

NOTE 9: DEPOSITS

At December 31, 2017, the scheduled maturities of certificates of deposit and other time deposits are presented below.

(Dollars in thousands)	**December 31, 2017**
2018	$ 88,324
2019	53,936
2020	16,610
2021	8,055
2022	21,146
Total certificates of deposit and other time deposits	$ 188,071

Additionally, at December 31, 2017 and 2016, approximately $55.2 million and $59.5 million, respectively, of certificates of deposit and other time deposits were issued in denominations of $250 thousand or greater.

At December 31, 2017 and 2016, the amount of deposit accounts in overdraft status that were reclassified to loans on the accompanying consolidated balance sheets was not material.

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NOTE 10: SHORT-TERM BORROWINGS

At December 31, 2017 and 2016, the composition of short-term borrowings is presented below.

	2017		2016	
		Weighted		Weighted
(Dollars in thousands)	Amount	Avg. Rate	Amount	Avg. Rate
Federal funds purchased:				
As of December 31	$		$	
Average during the year	9	2.01 %	14	1.21 %
Maximum outstanding at any month-end				
Securities sold under agreements to repurchase:				
As of December 31	$ 2,658	0.50 %	$ 3,366	0.50 %
Average during the year	3,467	0.52 %	2,969	0.50 %
Maximum outstanding at any month-end	4,152		3,507	

Federal funds purchased represent unsecured overnight borrowings from other financial institutions by the Bank. The Bank had available federal fund lines totaling $41.0 million with none outstanding at December 31, 2017.

Securities sold under agreements to repurchase represent short-term borrowings with maturities less than one year collateralized by a portion of the Company s securities portfolio. Securities with an aggregate carrying value of $5.8 million and $6.0 million at December 31, 2017 and 2016, respectively, were pledged to secure securities sold under agreements to repurchase.

NOTE 11: LONG-TERM DEBT

At December 31, 2017 and 2016, the composition of long-term debt is presented below.

	2017		2016	
		Weighted		Weighted
(Dollars in thousands)	Amount	Avg. Rate	Amount	Avg. Rate
Subordinated debentures, due 2033	$ 3,217	4.63%	$ 3,217	3.88%
Total long-term debt	$ 3,217	4.63%	$ 3,217	3.88%

The Company formed Auburn National Bancorporation Capital Trust I (the Trust), a wholly-owned statutory business trust, in 2003. The Trust issued $7.0 million of trust preferred securities that were sold to third parties. The proceeds from the sale of the trust preferred securities and trust common securities that we hold, were used to purchase junior subordinated debentures of $7.2 million from the Company, which are presented as long-term debt in the consolidated balance sheets and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations. The debentures mature on December 31, 2033 and have been redeemable since December 31, 2008.

In October 2016, the Company purchased $4.0 million par amount of outstanding trust preferred securities issued by the Trust. These securities were sold by the FDIC, as receiver of a failed bank that held the trust preferred securities. The Company used dividends from the Bank to purchase these trust preferred securities and has deemed an equivalent amount of the related subordinated debentures issued by the company as no longer outstanding. The Company realized a pre-tax gain of $0.8 million on the early extinguishment of debt in this transaction. Following the transaction, the Company had outstanding $3.2 million in junior subordinated debentures held by the Trust related to the remaining $3.0 million of trust preferred securities outstanding and not purchased by the Company. The outstanding principal amount of debentures related to those trust preferred securities remains included in the Company s Tier 1 capital for regulatory purposes.

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The following is a schedule of contractual maturities of long-term debt:

(Dollars in thousands)		**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Subordinated debentures							3,217	3,217
Total long-term debt	$						3,217	3,217

NOTE 12: OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and it includes net earnings and other comprehensive income (loss). Other comprehensive income (loss) for the years ended December 31, 2017 and 2016, is presented below.

(In thousands)	**Pre-tax amount**	**Tax (expense) benefit**	**Net of tax amount**
2017:			
Unrealized net holding gain on all other securities	$ 417	(154)	263
Reclassification adjustment for net gain on securities recognized in net earnings	(51)	19	(32)
Other comprehensive income	$ 366	(135)	231
2016:			
Unrealized net holding loss on all other securities	$ (4,412)	1,628	(2,784)
Reclassification adjustment for net loss on securities recognized in net earnings	221	(82)	139
Other comprehensive loss	$ (4,191)	1,546	(2,645)

NOTE 13: INCOME TAXES

For the years ended December 31, 2017 and 2016 the components of income tax expense from continuing operations are presented below.

	Year ended December 31	
(Dollars in thousands)	**2017**	**2016**

Current income tax expense:			
Federal	$	2,782	2,143
State		499	498
Total current income tax expense		3,281	2,641
Deferred income tax expense (benefit):			
Federal		384	464
State		(28)	(3)
Total deferred income tax expense		356	461
Total income tax expense	$	3,637	3,102

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Total income tax expense differs from the amounts computed by applying the statutory federal income tax rate of 34% to earnings before income taxes. A reconciliation of the differences for the years ended December 31, 2017 and 2016, is presented below.

(Dollars in thousands)		**2017** Amount	**2017** Percent of pre-tax earnings	**2016** Amount	**2016** Percent of pre-tax earnings
Earnings before income taxes	$	11,483		11,252	
Income taxes at statutory rate		3,904	34.0 %	3,826	34.0 %
Tax-exempt interest		(813)	(7.0)	(857)	(7.6)
State income taxes, net of federal tax effect		325	2.8	325	2.9
Bank-owned life insurance		(150)	(1.3)	(155)	(1.4)
Federal tax reform impact		370	3.2		
Other		1		(37)	(0.3)
Total income tax expense	$	3,637	31.7 %	3,102	27.6 %

The Tax Cuts and Jobs Act was signed into law on December 22, 2017. The net tax expense recognized as a result of the remeasurement of deferred taxes is presented as Federal tax reform impact in the above table.

The Company had net deferred tax assets of $0.8 million and $1.3 million at December 31, 2017 and 2016, respectively, included in other assets on the consolidated balance sheets. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2017 and 2016 are presented below:

(Dollars in thousands)		December 31 2017	2016
Deferred tax assets:			
Allowance for loan losses	$	1,195	1,713
Unrealized loss on securities		190	414
Other		216	316
Total deferred tax assets		1,601	2,443
Deferred tax liabilities:			
Premises and equipment		241	205
Originated mortgage servicing rights		413	721
Other		158	237

Total deferred tax liabilities		812	1,163
Net deferred tax asset	$	789	1,280

A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion of the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the remaining deferred tax assets are deductible, management believes it is more-likely-than-not that the Company will realize the benefits of these deductible differences at December 31, 2017. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The change in the net deferred tax asset for the years ended December 31, 2017 and 2016, is presented below.

		Year ended December 31	
(Dollars in thousands)		**2017**	**2016**
Net deferred tax asset:			
Balance, beginning of year	$	1,280	195
Deferred tax expense related to continuing operations		(356)	(461)
Stockholders equity, for accumulated other comprehensive (income) loss		(135)	1,546
Balance, end of year	$	789	1,280

ASC 740, *Income Taxes,* defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. This section also provides guidance on the de-recognition, measurement, and classification of income tax uncertainties in interim periods. As of December 31, 2017, the Company had no unrecognized tax benefits related to federal or state income tax matters. The Company does not anticipate any material increase or decrease in unrecognized tax benefits during 2018 relative to any tax positions taken prior to December 31, 2017. As of December 31, 2017, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company s policy to recognize interest and penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file consolidated U.S. federal and State of Alabama income tax returns. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and the State of Alabama for the years ended December 31, 2014 through 2017.

NOTE 14: EMPLOYEE BENEFIT PLAN

The Company has a 401(k) Plan that covers substantially all employees. Participants may contribute up to 10% of eligible compensation subject to certain limits based on federal tax laws. The Company s matching contributions to the Plan are determined by the board of directors. Participants become 20% vested in their accounts after two years of service and 100% vested after six years of service. Company matching contributions to the Plan were $127 thousand and $124 thousand for the years ended December 31, 2017 and 2016, respectively, and are included in salaries and benefits expense.

NOTE 15: DERIVATIVE INSTRUMENTS

Financial derivatives are reported at fair value in other assets or other liabilities on the accompanying consolidated balance sheets. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as part of a hedging relationship, the gain or loss is recognized in current earnings within other noninterest income on the accompanying consolidated statements of earnings. From time to time, the Company may enter into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these swaps, the Company enters into offsetting positions in order to minimize the risk to the Company. These swaps qualify as derivatives, but are not designated as hedging instruments. At December 31, 2017 and December 31, 2016, the Company had no derivative

contracts to assist in managing its own interest rate sensitivity.

Interest rate swap agreements involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk.

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A summary of the Company s interest rate swaps as of and for the years ended December 31, 2017 and 2016 is presented below.

(Dollars in thousands)	Notional	Other Assets Estimated Fair Value	Other Liabilities Estimated Fair Value	Other noninterest income Gains (Losses)
December 31, 2017:				
Pay fixed / receive variable	$ 3,617		52	$ 189
Pay variable / receive fixed	3,617	52		(189)
Total interest rate swap agreements	$ 7,234	52	52	$
December 31, 2016:				
Pay fixed / receive variable	$ 3,967		241	$ 199
Pay variable / receive fixed	3,967	241		(199)
Total interest rate swap agreements	$ 7,934	241	241	$

NOTE 16: COMMITMENTS AND CONTINGENT LIABILITIES

Credit-Related Financial Instruments

The Company is party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company s exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amount represents credit risk:

	December 31	
(Dollars in thousands)	**2017**	**2016**
Commitments to extend credit	$ 57,014	$ 45,979
Standby letters of credit	7,390	7,432

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral, including accounts receivable, inventory, equipment, marketable securities, and property to support those commitments for which collateral is deemed necessary. The Company has recorded a liability for the estimated fair value of these standby letters of credit in the amount of $79 thousand and $84 thousand at December 31, 2017 and 2016, respectively.

Other Commitments

Minimum lease payments under leases classified as operating leases due in each of the five years subsequent to December 31, 2017, are as follows: 2018, $65 thousand; 2019, $35 thousand; 2020, $3 thousand; 2021, none ; 2022, none.

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Contingent Liabilities

The Company and the Bank are involved in various legal proceedings, arising in connection with their business. In the opinion of management, based upon consultation with legal counsel, the ultimate resolution of these proceeding will not have a material adverse effect upon the consolidated financial condition or results of operations of the Company and the Bank.

NOTE 17: FAIR VALUE

Fair Value Hierarchy

Fair value is defined by ASC 820, *Fair Value Measurements and Disclosures*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for an asset or liability at the measurement date. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs to the valuation methodology are unobservable and reflect the Company s own assumptions about the inputs market participants would use in pricing the asset or liability.

Level changes in fair value measurements

Transfers between levels of the fair value hierarchy are generally recognized at the end of the reporting period. The Company monitors the valuation techniques utilized for each category of financial assets and liabilities to ascertain when transfers between levels have been affected. The nature of the Company s financial assets and liabilities generally is such that transfers in and out of any level are expected to be infrequent. For the years ended December 31, 2017 and 2016, there were no transfers between levels and no changes in valuation techniques for the Company s financial assets and liabilities.

Assets and liabilities measured at fair value on a recurring basis

Securities available-for-sale

Fair values of securities available for sale were primarily measured using Level 2 inputs. For these securities, the Company obtains pricing from third party pricing services. These third party pricing services consider observable data that may include broker/dealer quotes, market spreads, cash flows, market consensus prepayment speeds, benchmark yields, reported trades for similar securities, credit information and the securities terms and conditions. On a quarterly basis, management reviews the pricing received from the third party pricing services for reasonableness given current market conditions. As part of its review, management may obtain non-binding third party broker quotes to validate the fair value measurements. In addition, management will periodically submit pricing provided by the third party pricing services to another independent valuation firm on a sample basis. This independent valuation firm will compare the

price provided by the third party pricing service with its own price and will review the significant assumptions and valuation methodologies used with management.

Interest rate swap agreements

The carrying amount of interest rate swap agreements was included in other assets and accrued expenses and other liabilities on the accompanying consolidated balance sheets. The fair value measurements for our interest rate swap agreements were based on information obtained from a third party bank. This information is periodically tested by the Company and validated against other third party valuations. If needed, other third party market participants may be utilized to corroborate the fair value measurements for our interest rate swap agreements. The Company classified these derivative assets and liabilities within Level 2 of the valuation hierarchy. These swaps qualify as derivatives, but are not designated as hedging instruments.

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The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016, respectively, by caption, on the accompanying consolidated balance sheets by ASC 820 valuation hierarchy (as described above).

(Dollars in thousands)	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Securities available-for-sale:				
Agency obligations	$ 53,062		53,062	
Agency RMBS	133,072		133,072	
State and political subdivisions	71,563		71,563	
Total securities available-for-sale	257,697		257,697	
Other assets [1]	52		52	
Total assets at fair value	$ 257,749		257,749	
Other liabilities[1]	52		52	
Total liabilities at fair value	$ 52		52	
December 31, 2016:				
Securities available-for-sale:				
Agency obligations	$ 45,471		45,471	
Agency RMBS	127,787		127,787	
State and political subdivisions	70,314		70,314	
Total securities available-for-sale	243,572		243,572	
Other assets [1]	241		241	
Total assets at fair value	$ 243,813		243,813	
Other liabilities[1]	241		241	
Total liabilities at fair value	$ 241		241	

[1]Represents the fair value of interest rate swap agreements.

Assets and liabilities measured at fair value on a nonrecurring basis

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value. Fair values of loans held for sale are determined using quoted market secondary market prices for similar loans. Loans held for sale are classified within Level 2 of the fair value hierarchy.

Impaired Loans

Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan s original effective rate as the discount rate, the loan s observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management s historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management s expertise and knowledge of the customer and the customer s business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Other real estate owned

Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans,

are initially recorded at the lower of the loan s carrying amount or the fair value less costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management s historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management s expertise and knowledge of the customer and the customer s business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, a loss is recognized in noninterest expense.

Mortgage servicing rights, net

Mortgage servicing rights, net, included in other assets on the accompanying consolidated balance sheets, are carried at the lower of cost or estimated fair value. MSRs do not trade in an active market with readily observable prices. To determine the fair value of MSRs, the Company engages an independent third party. The independent third party s valuation model calculates the present value of estimated future net servicing income using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, and late fees. Periodically, the Company will review broker surveys and other market research to validate significant assumptions used in the model. The significant unobservable inputs include prepayment speeds or the constant prepayment rate (CPR) and the weighted average discount rate. Because the valuation of MSRs requires the use of significant unobservable inputs, all of the Company s MSRs are classified within Level 3 of the valuation hierarchy.

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The following table presents the balances of the assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2017 and 2016, respectively, by caption, on the accompanying consolidated balance sheets and by ASC 820 valuation hierarchy (as described above):

(Dollars in thousands)	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2017:				
Loans held for sale	$ 1,922		1,922	
Loans, net[1]	2,700			2,700
Other assets [2]	1,644			1,644
Total assets at fair value	$ 6,266		1,922	4,344
December 31, 2016:				
Loans held for sale	$ 1,497		1,497	
Loans, net[1]	2,099			2,099
Other real estate owned	152			152
Other assets [2]	1,952			1,952
Total assets at fair value	$ 5,700		1,497	4,203

[1] Loans considered impaired under ASC 310-10-35 Receivables. This amount reflects the recorded investment in impaired loans, net of any related allowance for loan losses.

[2] Represents MSRs, net, carried at lower of cost or estimated fair value.

At December 31, 2017 and 2016 and for the years then ended, the Company had no Level 3 assets measured at fair

value on a recurring basis. For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2017, the significant unobservable inputs used in the fair value measurements are presented below.

(Dollars in thousands)	**Carrying Amount**	**Valuation Technique**	**Significant Unobservable Input**	**Weighted Average of Input**
Nonrecurring:				
Impaired loans	$ 2,700	Appraisal	Appraisal discounts (%)	16.9%
Mortgage servicing rights, net	1,644	Discounted cash flow	Prepayment speed or CPR (%)	10.2%
			Discount rate (%)	10.0%

Fair Value of Financial Instruments

ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company s financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow analyses. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company s financial instruments, but rather are a good-faith estimate of the fair value of financial instruments held by the Company. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

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The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Loans, net

Fair values for loans were calculated using discounted cash flows. The discount rates reflected current rates at which similar loans would be made for the same remaining maturities. This method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC 820 and generally produces a higher value than an exit-price approach. Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments.

Loans held for sale

Fair values of loans held for sale are determined using quoted market secondary market prices for similar loans.

Time Deposits

Fair values for time deposits were estimated using discounted cash flows. The discount rates were based on rates currently offered for deposits with similar remaining maturities.

Long-term debt

The fair value of the Company s fixed rate long-term debt is estimated using discounted cash flows based on estimated current market rates for similar types of borrowing arrangements. The carrying amount of the Company s variable rate long-term debt approximates its fair value.

The carrying value, related estimated fair value, and placement in the fair value hierarchy of the Company s financial instruments at December 31, 2017 and 2016 are presented below. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which fair value approximates carrying value included cash and cash equivalents. Financial liabilities for which fair value approximates carrying value included noninterest-bearing demand, interest-bearing demand, and savings deposits due to these products having no stated maturity. In addition, financial liabilities for which fair value approximates carrying value included overnight borrowings such as federal funds purchased and securities sold under agreements to repurchase.

			Fair Value Hierarchy		
	Carrying	**Estimated**	**Level 1**	**Level 2**	**Level 3**
(Dollars in thousands)	**amount**	**fair value**	**inputs**	**inputs**	**Inputs**
December 31, 2017:					
Financial Assets:					
Loans, net (1)	$ 448,894	$ 447,468	$	$	$ 447,468
Loans held for sale	1,922	1,950		1,950	
Financial Liabilities:					

Time Deposits	$ 188,071	$ 185,564	$	$ 185,564	$
Long-term debt	3,217	3,217		3,217	
December 31, 2016:					
Financial Assets:					
Loans, net (1)	$ 426,303	$ 428,446	$	$	$ 428,446
Loans held for sale	1,497	1,507		1,507	
Financial Liabilities:					
Time Deposits	$ 208,137	$ 207,791	$	$ 207,791	$
Long-term debt	3,217	3,217		3,217	

(1) Represents loans, net of unearned income and the allowance for loan losses.

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NOTE 18: RELATED PARTY TRANSACTIONS

The Bank has made, and expects in the future to continue to make in the ordinary course of business, loans to directors and executive officers of the Company, the Bank, and their affiliates. In management s opinion, these loans were made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than normal credit risk. An analysis of such outstanding loans is presented below.

(Dollars in thousands)	**Amount**
Loans outstanding at December 31, 2016	$ 3,944
New loans/advances	336
Repayments	(1,212)
Loans outstanding at December 31, 2017	$ 3,068

During 2017 and 2016, certain executive officers and directors of the Company and the Bank, including companies with which they are affiliated, were deposit customers of the bank. Total deposits for these persons at December 31, 2017 and 2016 amounted to $17.8 million.

NOTE 19: REGULATORY RESTRICTIONS AND CAPITAL RATIOS

The Company and the Bank are subject to various regulatory capital requirements and policies administered by federal and State of Alabama banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and Bank s assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company s and Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors, including anticipated capital needs. Supervisory assessments of capital adequacy may differ significantly from conclusions based solely upon risk-based capital ratios. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) common equity Tier 1 ratio, Tier 1 leverage ratio, Tier 1 risk-based ratio and total risk-based ratio. Management believes, as of December 31, 2017, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. Management has not received any notification from the Company s or the Bank s regulators that changes the Bank s regulatory capital status.

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The actual capital amounts and ratios and the aforementioned minimums as of December 31, 2017 and 2016 are presented below.

		Actual			Minimum for capital adequacy purposes			Minimum to be well capitalized	
(Dollars in thousands)		**Amount**	**Ratio**		**Amount**	**Ratio**		**Amount**	**Ratio**
At December 31, 2017:									
Tier 1 Leverage Capital									
Auburn National Bancorporation	$	90,382	10.95 %	$	33,012	4.00 %		N/A	N/A
AuburnBank		89,217	10.82		32,978	4.00	$	41,222	5.00 %
Common Equity Tier 1 Capital									
Auburn National Bancorporation	$	87,382	16.42 %	$	23,949	4.50 %		N/A	N/A
AuburnBank		89,217	16.74		23,987	4.50	$	34,648	6.50
Tier 1 Risk-Based Capital									
Auburn National Bancorporation	$	90,382	16.98 %	$	31,932	6.00 %		N/A	N/A
AuburnBank		89,217	16.74		31,983	6.00	$	42,644	8.00 %
Total Risk-Based Capital									
Auburn National Bancorporation	$	95,300	17.91 %	$	42,576	8.00 %		N/A	N/A
AuburnBank		94,135	17.66		42,644	8.00	$	53,305	10.00 %
At December 31, 2016:									
Tier 1 Leverage Capital									
Auburn National Bancorporation	$	85,480	10.27 %	$	33,293	4.00 %		N/A	N/A
AuburnBank		84,287	10.14		33,259	4.00	$	41,574	5.00 %
Common Equity Tier 1 Capital									
Auburn National Bancorporation	$	82,642	16.44 %	$	22,621	4.50 %		N/A	N/A
AuburnBank		84,287	16.74		22,663	4.50	$	32,736	6.50
Tier 1 Risk-Based Capital									
	$	85,480	17.00 %	$	30,162	6.00 %		N/A	N/A

Auburn National Bancorporation									
AuburnBank		84,287	16.74		30,218	6.00	$	40,290	8.00 %
Total Risk-Based Capital									
Auburn National Bancorporation	$	90,254	17.95 %	$	40,216	8.00 %		N/A	N/A
AuburnBank		89,061	17.68		40,290	8.00	$	50,363	10.00 %

Dividends paid by the Bank are a principal source of funds available to the Company for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary bank. State law and Federal Reserve policy restrict the Bank from declaring dividends in excess of the sum of the current year s earnings plus the retained net earnings from the preceding two years without prior approval. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank s total capital in relation to its assets, deposits, and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank. At December 31, 2017, the Bank could have declared additional dividends of approximately $10.2 million without prior approval of regulatory authorities. As a result of this limitation, approximately $78.5 million of the Company s investment in the Bank was restricted from transfer in the form of dividends.

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NOTE 20: AUBURN NATIONAL BANCORPORATION (PARENT COMPANY)

The Parent Company s condensed balance sheets and related condensed statements of earnings and cash flows are as follows:

CONDENSED BALANCE SHEETS

		December 31	
(Dollars in thousands)		**2017**	**2016**
Assets:			
Cash and due from banks	$	1,170	2,190
Investment in bank subsidiary		88,741	83,984
Other assets		1,760	881
Total assets	$	91,671	87,055
Liabilities:			
Accrued expenses and other liabilities	$	1,548	1,661
Long-term debt		3,217	3,217
Total liabilities		4,765	4,878
Stockholders equity		86,906	82,177
Total liabilities and stockholders equity	$	91,671	87,055

CONDENSED STATEMENTS OF EARNINGS

		Year ended December 31	
(Dollars in thousands)		**2017**	**2016**
Income:			
Dividends from bank subsidiary	$	3,471	6,709
Noninterest income		141	129
Total income		3,612	6,838
Expense:			

Interest expense		125	228
Gain on early extinguishment of debt			(790)
Noninterest expense		225	193
Total expense		350	(369)
Earnings before income tax benefit and equity in undistributed earnings of bank subsidiary		3,262	7,207
Income tax (benefit) expense		(58)	157
Earnings before equity in undistributed earnings of bank subsidiary		3,320	7,050
Equity in undistributed earnings of bank subsidiary		4,526	1,100
Net earnings	$	7,846	8,150

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CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Year ended December 31 2017	2016
Cash flows from operating activities:		
Net earnings	$7,846	8,150
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on early extinguishment of debt		(790)
Net increase in other assets	(879)	(36)
Net (decrease) increase in other liabilities	(109)	268
Equity in undistributed earnings of bank subsidiary	(4,526)	(1,100)
Net cash provided by operating activities	2,332	6,492
Cash flows from financing activities:		
Repayments or retirement of long-term debt		(3,210)
Dividends paid	(3,352)	(3,279)
Net cash used in financing activities	(3,352)	(6,489)
Net change in cash and cash equivalents	(1,020)	3
Cash and cash equivalents at beginning of period	2,190	2,187
Cash and cash equivalents at end of period	$ 1,170	2,190

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), the Company s management, under the supervision and with the participation of its principal executive and principal financial officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company s disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, and the results of the audit process described below, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and regulations, and that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Management s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Company s management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company s internal control over financial reporting as of December 31, 2017. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, the Chief Executive Officer and Chief Financial Officer assert that the Company maintained effective internal control over financial reporting as of December 31, 2017 based on the specified criteria.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2017 has been audited by Elliott Davis LLC, the independent registered public accounting firm who also has audited the Company s consolidated financial statements included in this Annual Report on Form 10-K. Elliott Davis LLC s attestation report on the Company s internal control over financial reporting appears on the following page and is incorporated by reference herein.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there has not been any change in the Company s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Auburn National Bancorporation, Inc.

Opinion on the Internal Control Over Financial Reporting

We have audited Auburn National Bancorporation, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016 and the related consolidated statements of earnings, comprehensive income, stockholders equity, and cash flows of the Company for the years then ended and our report dated March 13, 2018 expressed an unqualified opinion.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report of Management. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Elliott Davis, LLC

Greenville, South Carolina

March 13, 2018

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is set forth under the headings Proposal One: Election of Directors Information about Nominees for Directors, and Executive Officers, Additional Information Concerning the Company s Board of Directors and Committees, Executive Compensation, Audit Committee Report and Compliance with Section 16(a) of the Securities Exchange Act of 1934 in the Proxy Statement, and is incorporated herein by reference.

The Board of Directors has adopted a Code of Conduct and Ethics applicable to the Company s directors, officers and employees, including the Company s principal executive officer, principal financial and principal accounting officer, controller and other senior financial officers. The Code of Conduct and Ethics, as well as the charters for the Audit Committee, Compensation Committee, and the Nominating and Corporate Governance Committee, can be found by hovering over the heading About Us on the Company s website, *www.auburnbank.com*, and then clicking on Investor Relations , and then clicking on Governance Documents . In addition, this information is available in print to any shareholder who requests it. Written requests for a copy of the Company s Code of Conduct and Ethics or the Audit Committee, Compensation Committee, or Nominating and Corporate Governance Committee Charters may be sent to Auburn National Bancorporation, Inc., 100 N. Gay Street, Auburn, Alabama 36830, Attention: Marla Kickliter, Senior Vice President of Compliance and Internal Audit. Requests may also be made via telephone by contacting Marla Kickliter, Senior Vice President of Compliance and Internal Audit, or Laura Carrington, Vice President of Human Resources, at (334) 821-9200.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is set forth under the headings Additional Information Concerning the Company s Board of Directors and Committees Board Compensation, and Executive Officers in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is set forth under the headings Proposal One: Election of Directors Information about Nominees for Directors and Executive Officers and Stock Ownership by Certain Persons in the Proxy Statement, and is incorporated herein by reference.

As of December 31, 2017 the Company had no compensation plans under which equity securities of the Company are authorized for issuance.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is set forth under the headings Additional Information Concerning the Company s Board of Directors and Committees Committees of the Board of Directors Independent Directors Committee and Certain Transactions and Business Relationships in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is set forth under the heading Independent Public Accountants in the Proxy Statement, and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of all Financial Statements

The following consolidated financial statements and report of independent registered public accounting firm of the Company are included in this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Earnings for the years ended December 31, 2017 and 2016

Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016

Consolidated Statements of Stockholders Equity for the years ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016

Notes to the Consolidated Financial Statements

(b) Exhibits

3.1. Certificate of Incorporation of Auburn National Bancorporation, Inc. (incorporated by reference from Registrant s Form 10-Q dated June 20, 2002 (File No. 000-26486)).

3.2. Amended and Restated Bylaws of Auburn National Bancorporation, Inc., adopted as of November 13, 2007 (incorporated by reference from Registrant s Form 10-K dated March 31, 2008 (File No. 000-26486)).

4.1 Junior Subordinated Indenture, dated as of November 4, 2003, between Auburn National Bancorporation, Inc. and Wilmington Trust Company, as trustee (incorporated by reference from Registrant s Form 10-Q dated November 14, 2003 (File No. 000-26486)).

4.2 Amended and Restated Trust Agreement, dated as of November 4, 2003, among Auburn National Bancorporation, Inc., as Depositor, Wilmington Trust Company, as Property Trustee, Wilmington Trust Company, as Delaware Trustee and the Administrative Trustees named therein, as Administrative Trustees (incorporated by reference from Registrant s Form 10-Q dated November 14, 2003 (File No. 000-26486)).

4.3 Guarantee Agreement dated as of November 4, 2003, between Auburn National Bancorporation, Inc., as Guarantor, and Wilmington Trust Company, as Guarantee Trustee (incorporated by reference from Registrant s Form 10-Q dated November 14, 2003 (File No. 000-26486)).

21.1 Subsidiaries of Registrant

31.1	Certification signed by the Chief Executive Officer pursuant to SEC Rule 13a-14(a).
31.2	Certification signed by the Chief Financial Officer pursuant to SEC Rule 13a-14(a).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 by Robert W. Dumas President, Chief Executive Officer *
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 by David A. Hedges, EVP, Chief Financial Officer.*

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* The certifications attached as exhibits 32.1 and 32.2 to this annual report on Form 10-K are furnished to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

(c) Financial Statement Schedules

All financial statement schedules required pursuant to this item were either included in the financial information set forth in (a) above or are inapplicable and therefore have been omitted.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Auburn, State of Alabama, on March 13, 2018.

AUBURN NATIONAL BANCORPORATION, INC.
(Registrant)

By: /S/ ROBERT W. DUMAS
Robert W. Dumas
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ ROBERT W. DUMAS Robert W. Dumas	Vice Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 13, 2018
/S/ DAVID A. HEDGES David A. Hedges	EVP, Chief Financial Officer (Principal Financial Officer)	March 13, 2018
/S/ E. L. SPENCER, JR. E. L. Spencer, Jr.	Director and Chairman Emeritus	March 13, 2018
/S/ C. WAYNE ALDERMAN C. Wayne Alderman	Director	March 13, 2018
/S/ TERRY W. ANDRUS Terry W. Andrus	Director	March 13, 2018
/S/ J. TUTT BARRETT J. Tutt Barrett	Director	March 13, 2018
/S/ WILLIAM F. HAM, JR.	Director	March 13, 2018

William F. Ham, Jr.

/S/ DAVID E. HOUSEL	Director	March 13, 2018
David E. Housel		
/S/ ANNE M. MAY	Director	March 13, 2018
Anne M. May		
/S/ AMY B. MURPHY	Director	March 13, 2018
Amy B. Murphy		
/S/ EDWARD LEE SPENCER, III	Director	March 13, 2018
Edward Lee Spencer, III		
/S/ PATRICIA WADE	Director	March 13, 2018
Dr. Patricia Wade		