UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2016

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period __________ to __________

Commission File Number: 0-26486

Auburn National Bancorporation, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**63-0885779**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

100 N. Gay Street

Auburn, Alabama 36830

(334) 821-9200

(Address and telephone number of principal executive offices)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company x
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 28, 2016
Common Stock, $0.01 par value per share	3,643,503 shares

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except share data)		June 30, 2016		December 31, 2015
Assets:				
Cash and due from banks	$	11,872	$	9,806
Federal funds sold		48,571		57,395
Interest bearing bank deposits		103,977		46,729
Cash and cash equivalents		164,420		113,930
Securities available-for-sale		217,002		241,687
Loans held for sale		1,567		1,540
Loans, net of unearned income		430,694		426,410
Allowance for loan losses		(4,528)		(4,289)
Loans, net		426,166		422,121
Premises and equipment, net		11,710		11,866
Bank-owned life insurance		17,658		17,433
Other real estate owned		300		252
Other assets		7,233		8,360
Total assets	$	846,056	$	817,189
Liabilities:				
Deposits:				
Noninterest-bearing	$	167,741	$	156,817
Interest-bearing		579,798		566,810
Total deposits		747,539		723,627
Federal funds purchased and securities sold under agreements to repurchase		2,578		2,951
Long-term debt		7,217		7,217
Accrued expenses and other liabilities		3,914		3,445
Total liabilities		761,248		737,240

Stockholders equity:				
Preferred stock of $.01 par value; authorized 200,000 shares; no issued shares				
Common stock of $.01 par value; authorized 8,500,000 shares; issued 3,957,135 shares		39		39
Additional paid-in capital		3,767		3,766
Retained earnings		83,327		80,845
Accumulated other comprehensive income, net		4,313		1,937
Less treasury stock, at cost - 313,632 shares and 313,657 shares at June 30, 2016 and December 31, 2015, respectively		(6,638)		(6,638)
Total stockholders equity		84,808		79,949
Total liabilities and stockholders equity	$	846,056	$	817,189

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(Unaudited)

(In thousands, except share and per share data)	**Quarter ended June 30, 2016**	**2015**	**Six Months Ended June 30, 2016**	**2015**
Interest income:				
Loans, including fees	$ 5,172	$ 5,217	$ 10,268	$ 10,223
Securities:				
Taxable	775	949	1,673	1,989
Tax-exempt	623	654	1,248	1,305
Federal funds sold and interest bearing bank deposits	156	51	282	90
Total interest income	6,726	6,871	13,471	13,607
Interest expense:				
Deposits	967	1,020	1,948	2,122
Short-term borrowings	3	4	7	10
Long-term debt	64	59	127	164
Total interest expense	1,034	1,083	2,082	2,296
Net interest income	5,692	5,788	11,389	11,311
Provision for loan losses			(600)	
Net interest income after provision for loan losses	5,692	5,788	11,989	11,311
Noninterest income:				
Service charges on deposit accounts	193	209	391	415
Mortgage lending	315	457	494	791
Bank-owned life insurance	113	112	225	513
Other	372	389	717	766
Securities gains, net				3
Total noninterest income	993	1,167	1,827	2,488
Noninterest expense:				
Salaries and benefits	2,446	2,291	4,851	4,559
Net occupancy and equipment	358	362	718	720
Professional fees	194	218	405	419

FDIC and other regulatory assessments	122	118	244	243
Other real estate owned, net	(43)	1	(23)	18
Prepayment penalties on long-term debt				362
Other	944	1,039	1,935	2,022
Total noninterest expense	4,021	4,029	8,130	8,343
Earnings before income taxes	2,664	2,926	5,686	5,456
Income tax expense	733	776	1,564	1,444
Net earnings	$ 1,931	$ 2,150	$ 4,122	$ 4,012
Net earnings per share:				
Basic and diluted	$ 0.53	$ 0.59	$ 1.13	$ 1.10
Weighted average shares outstanding:				
Basic and diluted	3,643,503	3,643,413	3,643,493	3,643,389

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)	Quarter ended June 30, 2016	Quarter ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net earnings	$ 1,931	$ 2,150	$ 4,122	$ 4,012
Other comprehensive income (loss), net of tax:				
Unrealized net holding gain (loss) on securities	810	(1,842)	2,376	(1,156)
Reclassification adjustment for net gain on securities recognized in net earnings				(2)
Other comprehensive income (loss)	810	(1,842)	2,376	(1,158)
Comprehensive income	$ 2,741	$ 308	$ 6,498	$ 2,854

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

(Unaudited)

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
Balance, December 31, 2014	3,957,135	$ 39	$ 3,763	$ 76,193	$ 2,443	$ (6,639)	$ 75,799
Net earnings				4,012			4,012
Other comprehensive loss					(1,158)		(1,158)
Cash dividends paid ($0.44 per share)				(1,603)			(1,603)
Sale of treasury stock (100 shares)			2			1	3
Balance, June 30, 2015	3,957,135	$ 39	$ 3,765	$ 78,602	$ 1,285	$ (6,638)	$ 77,053
Balance, December 31, 2015	3,957,135	$ 39	$ 3,766	$ 80,845	$ 1,937	$ (6,638)	$ 79,949
Net earnings				4,122			4,122
Other comprehensive income					2,376		2,376
Cash dividends paid ($0.45 per share)				(1,640)			(1,640)
Sale of treasury stock (25 shares)			1				1

Balance, June 30, 2016	3,957,135	$	39	$	3,767	$	83,327	$	4,313	$	(6,638)	$	84,808

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net earnings	$ 4,122	$ 4,012
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	(600)	
Depreciation and amortization	544	545
Premium amortization and discount accretion, net	692	804
Net gain on securities available-for-sale		(3)
Net gain on sale of loans held for sale	(367)	(644)
Increase (decrease) in MSR valuation allowance	1	(39)
Net (gain) loss on other real estate owned	(43)	5
Loss on prepayment of long-term debt		362
Loans originated for sale	(20,327)	(38,404)
Proceeds from sale of loans	20,523	36,883
Increase in cash surrender value of bank-owned life insurance	(225)	(237)
Income recognized from death benefit on bank-owned life insurance		(276)
Net (increase) decrease in other assets	(425)	237
Net increase (decrease) in accrued expenses and other liabilities	510	(84)
Net cash provided by operating activities	4,405	3,161
Cash flows from investing activities:		
Proceeds from maturities of securities available-for-sale	30,922	16,698
Purchase of securities available-for-sale	(3,164)	(4,637)
Increase in loans, net	(3,693)	(5,491)
Net purchases of premises and equipment	(57)	(415)
Proceeds from bank-owned life insurance death benefit		1,319
(Increase) decrease in FHLB stock	(25)	191
Proceeds from sale of other real estate owned	203	30
Net cash provided by investing activities	24,186	7,695
Cash flows from financing activities:		
Net increase in noninterest-bearing deposits	10,924	19,576
Net increase in interest-bearing deposits	12,988	3,028
	(373)	(1,769)

Net decrease in federal funds purchased and securities sold under agreements to repurchase				
Repayments or retirement of long-term debt				(5,362)
Dividends paid		(1,640)		(1,603)
Net cash provided by financing activities		21,899		13,870
Net change in cash and cash equivalents		50,490		24,726
Cash and cash equivalents at beginning of period		113,930		83,503
Cash and cash equivalents at end of period	$	164,420	$	108,229

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	2,062	$	2,366
Income taxes		1,403		1,241
Supplemental disclosure of non-cash transactions:				
Real estate acquired through foreclosure		248		

See accompanying notes to consolidated financial statements

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AUBURN NATIONAL BANCORPORATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Auburn National Bancorporation, Inc. (the Company) provides a full range of banking services to individual and corporate customers in Lee County, Alabama and surrounding counties through its wholly owned subsidiary, AuburnBank (the Bank). The Company does not have any segments other than banking that are considered material.

Basis of Presentation and Use of Estimates

The unaudited consolidated financial statements in this report have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited consolidated financial statements include, in the opinion of management, all adjustments necessary to present a fair statement of the financial position and the results of operations for all periods presented. All such adjustments are of a normal recurring nature. The results of operations in the interim statements are not necessarily indicative of the results of operations that the Company and its subsidiaries may achieve for future interim periods or the entire year. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

The unaudited 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 unaudited consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses 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 other-than-temporary impairment on investment securities, the determination of the allowance for loan losses, fair value of financial instruments, and the valuation of deferred tax assets and other real estate owned.

Subsequent Events

The Company has evaluated the effects of events and transactions through the date of this filing that have occurred subsequent to June 30, 2016. The Company does not believe there were any material subsequent events during this period that would have required further recognition or disclosure in the unaudited consolidated financial statements included in this report.

Accounting Developments

In the first quarter of 2016, the Company adopted new guidance related to the following Accounting Standards Updates (Updates or ASUs):

ASU 2015-02, *Amendments to the Consolidation Analysis*;

ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs; and*

ASU 2015-05, *Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.*

Information about these pronouncements is described in more detail below.

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ASU 2015-02, *Amendments to the Consolidation Analysis,* affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. Adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs,* requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability, rather than as an asset. Adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

ASU 2015-05, *Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*, provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer s accounting for service contracts. Adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

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 respective period. 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. At June 30, 2016 and 2015, respectively, the Company had no such securities or rights issued or outstanding, and therefore, no dilutive effect to consider for the diluted earnings per share calculation.

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

	Quarter ended June 30,		Six Months Ended June 30,	
(In thousands, except share and per share data)	**2016**	**2015**	**2016**	**2015**
Basic and diluted:				
Net earnings	$ 1,931	$ 2,150	$ 4,122	$ 4,012
Weighted average common shares outstanding	3,643,503	3,643,413	3,643,493	3,643,389
Net earnings per share	$ 0.53	$ 0.59	$ 1.13	$ 1.10

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 June 30, 2016, the Company did not have any consolidated VIEs to disclose but did have one nonconsolidated VIE, discussed below.

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Trust Preferred Securities

The Company owns the common stock of a subsidiary business trust, Auburn National Bancorporation Capital Trust I, which issued mandatorily redeemable preferred capital securities (trust preferred securities) in the aggregate of approximately $7.0 million at the time of issuance. This 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. The junior subordinated debentures of approximately $7.2 million are included in long-term debt and the Company s equity interest of $0.2 million in the business trust is included in other assets. Interest expense on the junior subordinated debentures is included in interest expense on long-term debt.

The following table summarizes VIEs that are not consolidated by the Company as of June 30, 2016.

(Dollars in thousands)	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Type:			
Trust preferred issuances	N/A	$7,217	Long-term debt

NOTE 4: SECURITIES

At June 30, 2016 and December 31, 2015, respectively, all securities within the scope of Accounting Standards Codification (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 June 30, 2016 and December 31, 2015, 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**
June 30, 2016								
Agency obligations (a)	$ 3,113	23,136	16,390		42,639	943		$ 41,696
Agency RMBS (a)		1,265	20,223	81,391	102,879	2,132		100,747
State and political subdivisions		2,004	11,440	58,040	71,484	3,759		67,725
Total available-for-sale	$ 3,113	26,405	48,053	139,431	217,002	6,834		$ 210,168

December 31, 2015								
Agency obligations (a)	$ 5,000	25,852	19,463	9,770	60,085	384	518	$ 60,219
Agency RMBS (a)		1,623	13,511	95,820	110,954	968	780	110,766
State and political subdivisions		497	12,094	58,057	70,648	3,022	7	67,633
Total available-for-sale	$ 5,000	27,972	45,068	163,647	241,687	4,374	1,305	$ 238,618

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

Securities with aggregate fair values of $155.2 million and $133.3 million at June 30, 2016 and December 31, 2015, 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 are cost-method investments. The carrying amounts of cost-method investments were $1.4 million at June 30, 2016 and December 31, 2015, 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 Company had no gross unrealized losses at June 30, 2016. The fair values and gross unrealized losses on securities at December 31, 2015 segregated by those securities that have been in an unrealized loss position for less than 12 months and 12 months or longer, 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, 2015:						
Agency obligations	$ 8,157	2	24,444	516	$ 32,601	518
Agency RMBS	42,345	367	18,184	413	60,529	780
State and political subdivisions	267	1	969	6	1,236	7
Total	$ 50,769	370	43,597	935	$ 94,366	1,305

Cost-method investments

At June 30, 2016, 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 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 June 30, 2016 and December 31, 2015, 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 six months ended June 30, 2016 and 2015, respectively.

Realized Gains and Losses

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

(Dollars in thousands)	**Quarter ended June 30,**		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Gross realized gains	$		$	3
Realized gains, net	$		$	3

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NOTE 5: LOANS AND ALLOWANCE FOR LOAN LOSSES

(In thousands)		June 30, 2016		December 31, 2015
Commercial and industrial	$	50,190	$	52,479
Construction and land development		49,346		43,694
Commercial real estate:				
Owner occupied		47,600		46,602
Multi-family		43,279		45,264
Other		117,946		111,987
Total commercial real estate		208,825		203,853
Residential real estate:				
Consumer mortgage		68,077		70,009
Investment property		45,686		46,664
Total residential real estate		113,763		116,673
Consumer installment		9,125		10,220
Total loans		431,249		426,919
Less: unearned income		(555)		(509)
Loans, net of unearned income	$	430,694	$	426,410

Loans secured by real estate were approximately 86.2% of the Company s total loan portfolio at June 30, 2016. At June 30, 2016, the Company s geographic loan distribution was concentrated primarily in Lee County, Alabama, and surrounding areas.

In accordance with ASC 310, 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 and classes.

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 credit 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) multifamily 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.

Multi-family 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 that are not owner occupied. Loans in this class include loans for neighborhood retail centers, hotels, medical and professional offices, single retail stores, industrial buildings, and warehouses leased to local businesses. 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 of credit 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 and property value, as well as the financial health of the borrower.

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.

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The following is a summary of current, accruing past due, and nonaccrual loans by portfolio segment and class as of June 30, 2016 and December 31, 2015.

(In thousands)		Current	Accruing 30-89 Days Past Due	Accruing Greater than 90 days	Total Accruing Loans	Non-Accrual		Total Loans
June 30, 2016:								
Commercial and industrial	$	50,125	25		50,150	40	$	50,190
Construction and land development		49,291			49,291	55		49,346
Commercial real estate:								
Owner occupied		47,600			47,600			47,600
Multi-family		43,279			43,279			43,279
Other		116,382			116,382	1,564		117,946
Total commercial real estate		207,261			207,261	1,564		208,825
Residential real estate:								
Consumer mortgage		67,510	557		68,067	10		68,077
Investment property		45,598	88		45,686			45,686
Total residential real estate		113,108	645		113,753	10		113,763
Consumer installment		9,074	51		9,125			9,125
Total	$	428,859	721		429,580	1,669	$	431,249
December 31, 2015:								
Commercial and industrial	$	52,387	49		52,436	43	$	52,479
Construction and land development		43,111			43,111	583		43,694
Commercial real estate:								
Owner occupied		46,372			46,372	230		46,602
Multi-family		45,264			45,264			45,264
Other		110,467			110,467	1,520		111,987
Total commercial real estate		202,103			202,103	1,750		203,853
Residential real estate:								
Consumer mortgage		68,579	1,105		69,684	325		70,009

Investment property	46,435	229	46,664		46,664
Total residential real estate	115,014	1,334	116,348	325	116,673
Consumer installment	10,179	28	10,207	13	10,220
Total	$ 422,794	1,411	424,205	2,714	$ 426,919

Allowance for Loan Losses

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, the 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 and independent loan review processes. 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. 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 each loan segment. 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 Company calculates average losses for all loan segments using a rolling 20 quarter historical period. 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 June 30, 2016 and December 31, 2015, and for the periods 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.

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.

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The following table details the changes in the allowance for loan losses by portfolio segment for the respective periods.

	June 30, 2016					
(In thousands)	**Commercial and industrial**	**Construction and land development**	**Commercial real estate**	**Residential real estate**	**Consumer installment**	**Total**
Quarter ended:						
Beginning balance	$ 517	695	2,403	1,026	133	$ 4,774
Charge-offs	(83)		(194)	(37)	(2)	(316)
Recoveries	3	5		58	4	70
Net (charge-offs) recoveries	(80)	5	(194)	21	2	(246)
Provision for loan losses	69	44	(117)	14	(10)	
Ending balance	$ 506	744	2,092	1,061	125	$ 4,528
Six months ended:						
Beginning balance	$ 523	669	1,879	1,059	159	$ 4,289
Charge-offs	(83)		(194)	(155)	(28)	(460)
Recoveries	23	1,203		65	8	1,299
Net (charge-offs) recoveries	(60)	1,203	(194)	(90)	(20)	839
Provision for loan losses	43	(1,128)	407	92	(14)	(600)
Ending balance	$ 506	744	2,092	1,061	125	$ 4,528

	June 30, 2015					
(In thousands)	**Commercial and industrial**	**Construction and land development**	**Commercial real estate**	**Residential real estate**	**Consumer installment**	**Total**
Quarter ended:						
Beginning balance	$ 644	830	1,888	1,153	207	$ 4,722
Charge-offs					(5)	(5)
Recoveries	3	4		151	11	169
Net recoveries (charge-offs)	3	4		151	6	164
Provision for loan losses	34	(194)	258	(124)	26	
Ending balance	$ 681	640	2,146	1,180	239	$ 4,886

Six months ended:							
Beginning balance	$ 639	974	1,928	1,119	176	$	4,836
Charge-offs	(58)			(59)	(23)		(140)
Recoveries	4	9		165	12		190
Net (charge-offs) recoveries	(54)	9		106	(11)		50
Provision for loan losses	96	(343)	218	(45)	74		
Ending balance	$ 681	640	2,146	1,180	239	$	4,886

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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 June 30, 2016 and 2015.

	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**
June 30, 2016:						
Commercial and industrial	$ 506	50,159		31	506	50,190
Construction and land development	744	49,291		55	744	49,346
Commercial real estate	1,995	206,258	97	2,567	2,092	208,825
Residential real estate	1,061	113,763			1,061	113,763
Consumer installment	125	9,125			125	9,125
Total	$ 4,431	428,596	97	2,653	4,528	431,249
June 30, 2015:						
Commercial and industrial	$ 681	57,246		64	681	57,310
Construction and land development	640	38,252		602	640	38,854
Commercial real estate	1,672	182,465	474	1,659	2,146	184,124
Residential real estate	1,180	115,039			1,180	115,039
Consumer installment	239	13,632			239	13,632
Total	$ 4,412	406,634	474	2,325	4,886	408,959

(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 non-impaired 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 not expected.

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(In thousands)	Pass	Special Mention	Substandard Accruing	Nonaccrual	Total loans
June 30, 2016:					
Commercial and industrial	$ 46,015	3,850	285	40	$ 50,190
Construction and land development	48,873	53	365	55	49,346
Commercial real estate:					
Owner occupied	46,874	275	451		47,600
Multi-family	43,279				43,279
Other	115,568	354	460	1,564	117,946
Total commercial real estate	205,721	629	911	1,564	208,825
Residential real estate:					
Consumer mortgage	62,702	2,501	2,864	10	68,077
Investment property	44,588	107	991		45,686
Total residential real estate	107,290	2,608	3,855	10	113,763
Consumer installment	9,010	31	84		9,125
Total	$ 416,909	7,171	5,500	1,669	$ 431,249
December 31, 2015:					
Commercial and industrial	$ 48,038	4,075	323	43	$ 52,479
Construction and land development	42,458	60	593	583	43,694
Commercial real estate:					
Owner occupied	45,772	381	219	230	46,602
Multi-family	45,264				45,264
Other	110,159	36 &n			