

GLEN BURNIE BANCORP  
Form 10-Q  
November 12, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-24047

**GLEN BURNIE BANCORP**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of

**52-1782444**  
(I.R.S. Employer

incorporation or organization) Identification No.)

**101 Crain Highway, S.E.**

**Glen Burnie, Maryland**

**21061**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(410) 766-3300**

Inapplicable

(Former name, former address and former fiscal year if changed from 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if 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.

Large accelerated filer Accelerated filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At October 15, 2015, the number of shares outstanding of the registrant's common stock was 2,773,361.



## **TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I - Financial Information</u></b>	
<b><u>Item</u></b> <b><u>1.</u></b> <u>Consolidated Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets, September 30, 2015 (unaudited) and December 31, 2014 (audited)</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2015 and 2014 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three And Nine Months Ended September 30, 2015 and 2014 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014 (unaudited)</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<b><u>Item</u></b> <b><u>2.</u></b> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<b><u>Item</u></b> <b><u>4.</u></b> <u>Controls and Procedures</u>	24
<b><u>Part II - Other Information</u></b>	
<b><u>Item</u></b> <b><u>6.</u></b> <u>Exhibits</u>	25
<u>Signatures</u>	26

**PART I - FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

GLEN BURNIE  
BANCORP AND  
SUBSIDIARIES  
CONDENSED  
CONSOLIDATED  
BALANCE  
SHEETS  
(Dollars in  
Thousands)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 7,845	\$ 7,101
Interest-bearing deposits in other financial institutions	1,842	2,155
Federal funds sold	6,870	4,024
Cash and cash equivalents	16,557	13,280
Investment securities available for sale, at fair value	93,990	87,993
Federal Home Loan Bank stock, at cost	1,203	1,328
Maryland Financial Bank stock	30	30
Loans, less allowance for credit losses (September 30: \$3,093; December 31: \$3,118)	265,305	273,986
Premises and equipment, at cost, less accumulated depreciation	3,477	3,671
Other real estate owned	—	45
Cash value of life insurance	9,303	9,139
Other assets	5,887	5,158
Total assets	\$ 395,752	\$ 394,630

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Liabilities:		
Deposits	\$ 340,307	\$ 338,877
Long-term borrowings	20,000	20,000
Other liabilities	1,520	1,922
Total liabilities	361,827	360,799

Commitments and contingencies

Stockholders' equity:

Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding:		
September 30: 2,771,174 shares; December 31: 2,760,964 shares	2,771	2,761
Surplus	9,962	9,854
Retained earnings	21,271	21,113
Accumulated other comprehensive income (loss), net of taxes	(79)	) 103
Total stockholders' equity	33,925	33,831
 Total liabilities and stockholders' equity	 \$ 395,752	 \$ 394,630

*See accompanying notes to condensed consolidated financial statements.*

**GLEN BURNIE  
BANCORP AND  
SUBSIDIARIES  
CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF INCOME  
(Dollars in  
Thousands, Except  
Per Share  
Amounts)  
(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income on:				
Loans, including fees	\$2,894	\$3,108	\$8,701	\$9,237
U.S. Treasury and U.S. Government agency securities	211	171	636	562
State and municipal securities	260	357	836	1,026
Other	31	22	77	68
Total interest income	3,396	3,658	10,250	10,893
Interest expense on:				
Deposits	427	505	1,336	1,403
Long-term borrowings	161	161	479	479
Total interest expense	588	666	1,815	1,882
Net interest income	2,808	2,992	8,435	9,011
Provision for credit losses	985	125	1,285	275
Net interest income after provision for credit losses	1,823	2,867	7,150	8,736
Other income:				
Service charges on deposit accounts	113	112	320	349
Other fees and commissions	234	241	585	602
Other non-interest income	61	(5	) 501	9
Income on life insurance	55	56	164	167
Gains on investment securities	200	361	669	581
Total other income	663	765	2,239	1,708
Other expenses:				
Salaries and employee benefits	1,552	1,657	4,895	5,003
Occupancy	190	191	595	618

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

Other expenses	913	1,147	2,853	3,121
Total other expenses	2,655	2,995	8,343	8,742
Income (loss) before income taxes	(169 )	637	1,046	1,702
Income tax (benefit) expense	(177 )	111	140	268
Net income	\$8	\$526	\$906	\$1,434
Basic and diluted earnings per share of common stock	\$0.00	\$0.19	\$0.33	\$0.52
Weighted average shares of common stock outstanding	2,770,897	2,757,213	2,770,644	2,757,011
Dividends declared per share of common stock	\$0.07	\$0.10	\$0.27	\$0.30

*See accompanying notes to condensed consolidated financial statements.*



**GLEN BURNIE  
BANCORP AND  
SUBSIDIARIES  
CONDENSED  
CONSOLIDATED  
STATEMENTS OF  
COMPREHENSIVE  
INCOME  
(Dollars in  
Thousands)  
(Unaudited)**

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
Net income	\$8	\$526	\$906	\$1,434
Other comprehensive income, net of tax				
Unrealized gains on securities:				
Unrealized holding gains arising during the period	655	83	221	2,045
Reclassification adjustment for gains included in net income	(120)	(217)	(403)	(350 )
Comprehensive income	\$543	\$392	\$724	\$3,129

*See accompanying notes to condensed consolidated financial statements.*

**GLEN BURNIE  
BANCORP AND  
SUBSIDIARIES  
CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF CASH FLOWS  
(Dollars in  
Thousands)  
(Unaudited)**

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$906	\$1,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	920	720
Provision for credit losses	1,285	275
Gains on disposals of assets, net	(703 )	(364 )
Provision on losses of other real estate owned	-	75
Income on investment in life insurance	(165 )	(167 )
Changes in assets and liabilities:		
(Increase) decrease in other assets	(372 )	50
Decrease in other liabilities	(320 )	(15 )
Net cash provided by operating activities	1,551	2,008
Cash flows from investing activities:		
Maturities and proceeds of available for sale mortgage-backed securities	15,463	13,612
Proceeds from maturities and sales of other investment securities	22,454	5,966
Purchases of investment securities	(44,131 )	(28,954 )
Sale of Federal Home Loan Bank stock	125	125
Proceeds from sales of other real estate	79	917
Decrease (increase) in loans, net	7,396	(9,826 )
Purchases of premises and equipment	(293 )	(411 )
Net cash provided (used) by investing activities	1,093	(18,571)
Cash flows from financing activities:		
Increase in deposits, net	1,430	25,646
Dividends paid	(915 )	(826 )
Common stock dividends reinvested	118	116
Net cash provided by financing activities	633	24,936

Increase in cash and cash equivalents	3,277	8,373
Cash and cash equivalents, beginning of year	13,280	10,953
Cash and cash equivalents, end of period	\$ 16,557	\$ 19,326

*See accompanying notes to condensed consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 1 - BASIS OF PRESENTATION**

The accompanying condensed balance sheet as of December 31, 2014, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the unaudited consolidated financial statements have been included in the results of operations for the nine months ended September 30, 2015 and 2014.

Operating results for the nine months ended September 30, 2015 is not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

**NOTE 2 - EARNINGS PER SHARE**

Basic earnings per share of common stock are computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by including the average dilutive common stock equivalents outstanding during the periods. Dilutive common equivalent shares consist of stock options, calculated using the treasury stock method.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic and diluted:				
Net income	\$8,000	\$526,000	\$906,000	\$1,434,000
Weighted average common shares outstanding	2,770,897	2,757,213	2,770,644	2,757,011
Basic and dilutive net income per share	\$0.00	\$0.19	\$0.33	\$0.52

Diluted earnings per share calculations were not required for the three and nine months ended September 30, 2015 and 2014, since there were no options outstanding.

### **NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS**

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued several exposure drafts regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities, capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, is expected to eliminate diversity in practice as it provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The changes were effective for the Company during the first quarter of 2014. Adoption of this ASU had no impact on the financial statements of the Company.

In May 2014, the FASB and the International Accounting Standards Board (the “IASB”) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards (“IFRS”). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*.” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is now effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company’s Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, “*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*.” The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, *Compensation - Stock Compensation*, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for interim or annual reporting periods beginning after December 15, 2015; early adoption is permitted. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As of June 30, 2014, the Company did not have any share-based payment awards that include performance targets that could be achieved

after the requisite service period. As such, the adoption of ASU No. 2014-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

*ASU 2014-11, "Transfers and Servicing (Topic 860)." ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective for us on January 1, 2015 and did not have a significant impact on our financial statements.*

*ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 is effective for us beginning January 1, 2016, though early adoption is permitted. ASU 2015-01 is not expected to have a significant impact on our financial statements.*

*ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis."* ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 will be effective for us on January 1, 2016 and is not expected to have a significant impact on our financial statements.

*ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs."* ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 will be effective for us on January 1, 2016, though early adoption is permitted. ASU 2015-03 is not expected to have a significant impact on our financial statements.

*ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement."* ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then 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. ASU 2015-05 will be effective for us on January 1, 2016 and is not expected to have a significant impact on our financial statements.

In May 2015, the FASB Issued *ASU 2015-09, "Financial Services-Insurance: Disclosures About Short-Duration Contracts."* ASU 2015-09 requires entities to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumption used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a rollforward of the liability of unpaid claims and claim adjustment expense for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual period beginning after December 15, 2016. ASU 2015-09 is not expected to have any impact on the Company's financial position, cash flows or results of operations.

In August 2015, the FASB issued *ASU 2015-14, "Revenue from Contracts with Customers—Deferral of the Effective Date"*. ASU 2015-14 defers the effective date of ASU 2014-09 "Revenue from Contracts with Customers which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition" by one year. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in



an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. Under ASU 2015-14, ASU 2014-09 is now effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

In August 2015, the FASB issued *ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements"*. ASU 2015-15 expands guidance provided in ASU 2015-03 and states that presentation of costs associated with securing a revolving line of credit as an asset is permitted, regardless of whether or not the line of credit is funded. ASU 2015-15 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the effects of ASU 2015-15 on its financial statements and disclosures, if any.

In September 2015, the FASB issued *ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"*. ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. ASU 2015-16 is effective for annual periods beginning after December 31, 2015, with early application permitted, and shall apply to adjustments to provisional amounts that occur after the effective date. ASU 2015-16 is not expected to have any significant impact on our financial statements.

#### **NOTE 4 – FAIR VALUE**

ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

##### *Fair Value Hierarchy*

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical securities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10.

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. Two assets are valued under Level 1 inputs at September 30, 2015 and December 31, 2014. The Company has assets measured by fair value measurements on a non-recurring basis during 2015. At September 30, 2015, these assets include 35 loans classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs.

- 10 -

The changes in the assets subject to fair value measurements are summarized below by Level:

	(Dollars in Thousands)			
	Level 1	Level 2	Level 3	Fair Value
<b>December 31, 2014</b>				
Recurring:				
Investment securities available for sale (AFS)	\$ 790	\$ 86,815	\$ 388	\$ 87,993
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	5,176	5,176
OREO	-	45	-	45
	790	86,860	5,594	93,244
Activity:				
Investment securities AFS				
Purchases of investment securities	-	44,131	-	44,131
Sales, calls and maturities of investment securities	-	(37,917)	-	(37,917)
Amortization/accretion of premium/discount	-	(584 )	-	(584 )
Increase (decrease) in market value	79	326	(38 )	367
Transfer to Level 2	(573)	797	(224 )	-
Loans				
New impaired loans	-	-	1,779	1,779
Payments and other loan reductions	-	-	(546 )	(546 )
Change in total provision	-	-	(41 )	(41 )
OREO				
Sales of OREO	-	(45 )	-	(45 )
<b>September 30, 2015</b>				
Recurring:				
Investment securities AFS	296	93,568	126	93,990
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	6,368	6,368
OREO	-	-	-	-
	\$ 296	\$ 93,568	\$ 6,524	\$ 100,388

The estimated fair values of the Company's financial instruments at September 30, 2015 and December 31, 2014 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

(In Thousands)	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$7,845	\$7,845	\$7,101	\$7,101
Interest-bearing deposits	1,842	1,842	2,155	2,155
Federal funds sold	6,870	6,870	4,024	4,024
Investment securities	93,990	93,990	87,993	87,993
Investments in restricted stock	1,203	1,203	1,328	1,328
Ground rents	164	164	169	169
Loans, net	265,305	263,288	273,986	268,536
Accrued interest receivable	1,125	1,125	1,274	1,274
Financial liabilities:				
Deposits	340,307	319,798	338,877	310,239
Long-term borrowings	20,000	20,935	20,000	20,951
Dividends payable	194	194	276	276
Accrued interest payable	40	40	40	40

Fair values are based on quoted market prices for similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs and optionality of such instruments.

The fair value of cash and due from banks, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations. The fair value of loans receivable is estimated using discounted cash flow analysis.

The fair value of non-interest bearing deposits, interest-bearing checking, savings, and money market deposit accounts, securities sold under agreements to repurchase, and accrued interest payable are equal to the carrying amounts. The fair value of fixed-maturity time deposits is estimated using discounted cash flow analysis.

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2015 are as follows:

Securities available for sale: (Dollars in Thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Govt Agencies	\$-	\$ -	\$-	\$ -	\$-	\$ -
State and Municipal	11,367	194	813	12	12,180	206
Corporate Trust Preferred	-	-	126	55	126	55
Mortgage Backed	22,917	113	16,955	315	39,872	428
	\$34,284	\$ 307	\$17,894	\$ 382	\$52,178	\$ 689

At September 30, 2015, the company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior Notes with a Moody's rating of Ca. The market for this security (two different portions) at September 30, 2015 was not active and markets for similar securities were also not active. As a result, the Company had cash flow testing performed as of September 30, 2015 by an unrelated third party specialist in order to measure the possible extent of other-than-temporary-impairment ("OTTI"). This testing assumed future defaults on the currently performing financial institutions of a range of 75 to 150 basis points applied annually with a 0% recovery on both current and future defaulting financial institutions. No additional write-down was taken in the first nine months of 2015.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary-impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of September 30, 2015, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On September 30, 2015, the Bank held 27 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgage-backed securities. The Bank has no mortgage-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Except as noted above, as of September 30, 2015, management believes the impairments detailed in the table above are temporary and no impairment loss has been recognized in the Company's consolidated income statement.

A rollforward of the cumulative other-than-temporary credit losses recognized in earnings for all debt securities for which a portion of an other-than-temporary loss is recognized in accumulated other comprehensive loss is as follows:

	At September 30, 2015	At December 31, 2014
	(Dollars in Thousands)	
Estimated credit losses, beginning of year	\$3,262	\$ 3,262
Credit losses - no previous OTTI recognized	-	-
Credit losses - previous OTTI recognized	-	-
Estimated credit losses, end of period	\$3,262	\$ 3,262

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

When used in this discussion and elsewhere in this Form 10-Q, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors could affect the Company’s financial performance and could cause the Company’s actual results for future periods to differ materially from those anticipated or projected. While it is impossible to identify all such factors, such factors include, but are not limited to, those risks identified in the Company’s periodic reports filed with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

**Overview**

Glen Burnie Bancorp, a Maryland corporation (the “Company”), through its subsidiary, The Bank of Glen Burnie, a Maryland banking corporation (the “Bank”), operates a commercial bank with eight offices in Anne Arundel County Maryland. The Company had consolidated net income of \$8,000 (\$0.00 basic and diluted earnings per share) for the third quarter of 2015, compared to the third quarter of 2014 consolidated net income of \$526,000 (\$0.19 basic and diluted income per share), a 98.48% decrease. Year-to-date net income was \$906,000 (\$0.33 basic and diluted earnings per share), compared to the 2014 consolidated net income of \$1,434,000 (\$0.52 basic and diluted income per share), a 36.82% decrease. The decrease in net income for the three month period was primarily due to an increase in the provision for loan loss. There was also a reduction in loan income, state and municipal income and gains on investment securities. This was partially offset by a reduction in salaries and employee benefits, other expenses and income tax expense. The decrease in net income for the nine month period was primarily due to an increase in the provision for loan loss. There was also a reduction in loan and state and municipal income. This was partially offset by a non-recurring gain in the second quarter on the redemption of insurance policies and a reduction in salaries and employee benefit expenses and other expenses. During the nine months ended September 30, 2015, deposits increased by \$1,430,000 and net loans decreased by \$8,681,000.

**Results Of Operations**



*Net Interest Income.* The Company's consolidated net interest income prior to provision for credit losses for the three and nine months ended September 30, 2015 was \$2,808,000 and \$8,435,000, compared to \$2,992,000 and \$9,011,000, respectively, for the same period in 2014, a decrease of \$184,000 (6.15%) for the three months and a decrease of \$576,000 (6.39%) for the nine months.

Interest income for the third quarter decreased from \$3,658,000 in 2014 to \$3,396,000 in 2015, a 7.17% decrease. Interest income for the nine months decreased from \$10,893,000 in 2014 to \$10,250,000 in 2015, a 5.90% decrease. The primary reason for the decline in interest income for the 2015 period when compared to the 2014 period was the decline in loan income as both yields and balances declined and a decrease in interest income for state and municipal securities.

Interest expense for the third quarter decreased from \$666,000 in 2014 to \$588,000 in 2015, a 11.72% decrease. Interest expense for the nine months decreased from \$1,882,000 in 2014 to \$1,815,000 in 2015, a 3.56% decrease. Interest expense in the third quarter decreased primarily due to the decrease in interest rates paid. Interest expense for the nine month period decreased primarily due to the decrease in interest rates paid offset slightly by the increase in average balances.

Net interest margins on a tax equivalent basis for the three and nine months ended September 30, 2015 was 3.06% and 3.05%, compared to 3.36% and 3.48% for the three and nine months ended September 30, 2014. The decrease of the net interest margin for both periods was primarily due to declining yields on earning assets, as loan balances and yields have continued to decline and the balances of lower yielding investment securities have continued to increase within the portfolio.

*Provision for Credit Losses.* The Company made a provision for credit losses of \$985,000 and \$1,285,000 during the three and nine month periods ending September 30, 2015 and \$125,000 and \$275,000 during the three and nine month periods ending September 30, 2014. As of September 30, 2015, the allowance for credit losses equaled 68.81% of non-accrual and past due loans compared to 104.84% at December 31, 2014 and 99.60% at September 30, 2014. During the three and nine month periods ended September 30, 2015, the Company recorded net charge-offs of \$1,166,000 and \$1,310,000, compared to net charge-offs of \$277,000 and \$736,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2015 period represent 0.65% of the average loan portfolio.

*Other Income.* Other income decreased from \$765,000 for the three month period ended September 30, 2014, to \$663,000 for the corresponding 2015 period, a \$102,000 (13.33%) decrease. Other income increased from \$1,708,000 for the nine month period ended September 30, 2014, to \$2,239,000 for the corresponding 2015 period, a \$531,000 (31.09%) increase. The decrease for the three month period was primarily due to a decrease in gains on investment securities. The increase for the nine month period was primarily due to non-recurring gains on the redemption of insurance policies and an increase in gains on investment securities.

*Other Expenses.* Other expenses decreased from \$2,995,000 for the three month period ended September 30, 2014, to \$2,655,000 for the corresponding 2015 period, a \$340,000 (11.00%) decrease. The decrease for the three month period was due to a decrease in salaries and employee benefits and other expenses. Other expenses decreased from \$8,742,000 for the nine month period ended September 30, 2014, to \$8,343,000 for the corresponding 2015 period, a \$399,000 (5.00%) decrease. The decrease for the nine month period was primarily due to a decrease in salaries and other benefits and other expenses including many smaller decreases in various accounts, partially offset by an increase in collection expense.

*Income Taxes.* During the three and nine months ended September 30, 2015, the Company recorded an income tax benefit and expense of (\$177,000) and \$140,000, respectively, compared to income tax expense of \$111,000 and \$268,000 for the same respective periods in 2014. The Company's effective tax rate for the three and nine month period in 2015 was (104.73%) and 13.39%, respectively, compared to 17.43% and 15.75% for the prior year period. The decrease in the effective tax rate for the three month period was due to additional funding to the provision for loan losses. The decrease for the nine month period was due to the additional funding to the provision for loan losses offset by the redemption of insurance policies and a payment to the Comptroller of Maryland of \$66,000 for unentitled refunds received in 2004 and 2007 (both done in the second quarter of 2015).

*Comprehensive Income.* In accordance with regulatory requirements, the Company reports comprehensive income in its financial statements. Comprehensive income consists of the Company's net income, adjusted for unrealized gains and losses on the Bank's investment portfolio of investment securities. For the third quarter of 2015, comprehensive income, net of tax, totaled \$543,000, compared to the September 30, 2014 comprehensive income, net of tax, of \$392,000. Year-to-date, comprehensive income, net of tax, totaled \$724,000, compared to the September 30, 2014 comprehensive income of \$3,129,000. The increase for the three month period was due to an increase in the net unrealized gains on securities. The decrease for the nine month period was due to a decrease in the net unrealized gains on securities.

## **Financial Condition**

*General.* The Company's assets increased to \$395,752,000 at September 30, 2015 from \$394,630,000 at December 31, 2014, primarily due to an increase in cash and cash equivalents, investment securities and other assets, offset by a decrease in loans. The Bank's net loans totaled \$265,305,000 at September 30, 2015, compared to \$273,986,000 at

December 31, 2014, a decrease of \$8,681,000 (3.17%), primarily attributable to a decrease in indirect lending with lesser decreases in refinance loans and smaller decreases in various other loan categories. These decreases were partially offset by increases in commercial and industrial loans.

The Company's total investment securities portfolio (investment securities available for sale) totaled \$93,990,000 at September 30, 2015, a \$5,997,000 (6.82%) increase from \$87,993,000 at December 31, 2014. The Bank's cash and due from banks (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of September 30, 2015, totaled \$16,557,000, an increase of \$3,277,000 (24.68%) from the December 31, 2014 total of \$13,280,000. The increase in investment securities was funded by the decrease in loans and a slight increase in deposits.

Deposits as of September 30, 2015, totaled \$340,307,000, which is an increase of \$1,430,000 (0.43%) from \$338,877,000 at December 31, 2014. Demand deposits as of September 30, 2015, totaled \$95,383,000, which is an increase of \$6,820,000 (7.70%) from \$88,563,000 at December 31, 2014. NOW accounts as of September 30, 2015, totaled \$27,272,000, which is an increase of \$282,000 (1.04%) from \$26,990,000 at December 31, 2014. Money market accounts as of September 30, 2015, totaled \$20,474,000, which is an increase of \$9,000 (0.04%), from \$20,465,000 at December 31, 2014. Savings deposits as of September 30, 2015, totaled \$77,864,000, which is an increase of \$2,891,000 (3.86%) from \$74,973,000 at December 31, 2014. Certificates of deposit over \$100,000 totaled \$34,525,000 on September 30, 2015, which is a decrease of \$1,593,000 (4.41%) from \$36,118,000 at December 31, 2014. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$84,789,000 on September 30, 2015, which is a \$6,979,000 (7.61%) decrease from the \$91,768,000 total at December 31, 2014.

*Asset Quality.* The following tables set forth the amount of the Bank's current, past due, and non-accrual loans by categories of loans and restructured loans, at the dates indicated.

The following table analyzes the age of past due loans, including both accruing and non-accruing loans, segregated by class of loans as of the nine months ended September 30, 2015 and the year ended December 31, 2014.

At September 30, 2015		90 Days or 30-89 Days More and Past Still Due Accruing			
(Dollars in Thousands)		Current	Past Due	Nonaccrual	Total
Commercial and industrial	\$3,256	\$58	\$ -	\$ -	\$3,314
Commercial real estate	65,441	-	-	1,004	66,445
Consumer and indirect	75,129	1,702	-	880	77,711
Residential real estate	117,231	2,175	45	2,566	122,017
	\$261,057	\$3,935	\$ 45	\$ 4,450	\$269,487

At December 31, 2014		90 Days or 30-89 Days More and Past Still Due Accruing			
(Dollars in Thousands)		Current	Past Due	Nonaccrual	Total
Commercial and industrial	\$3,519	\$-	\$ -	\$ -	\$3,519
Commercial real estate	64,545	-	-	1,097	65,642
Consumer and indirect	81,316	2,272	-	515	84,103
Residential real estate	123,285	319	197	1,166	124,967
	\$272,665	\$2,591	\$ 197	\$ 2,778	\$278,231

The balances in the above charts have not been reduced by the allowance for loan loss and the unearned income on loans. For the period ending September 30, 2015, the allowance for loan loss is \$3,093,000 and the unearned income is \$1,089,000. For the period ending December 31, 2014, the allowance for loan loss is \$3,118,000 and the unearned income is \$1,127,000.

At	At
September	December
30,	31,
2015	2014

(Dollars in  
Thousands)

Troubled debt restructured loans	\$293		\$253	
Non-accrual and 90 days or more and still accruing loans to gross loans	1.67	%	1.07	%
Allowance for credit losses to non-accrual and 90 days or more and still accruing loans	68.81	%	104.84	%

At September 30, 2015, there was \$3,241,000 in loans outstanding, included in the current and 30-89 days past due columns in the above table, as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. Such loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency, or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors.

Non-accrual loans with specific reserves at September 30, 2015 are comprised of:

Consumer loans – Four loans to four borrowers in the amount of \$346,000 with a specific reserve of \$132,000 established for the loans.

Commercial Real Estate – One loan to one borrower in the amount of \$305,000, secured by commercial and/or residential properties with a specific reserve of \$86,000 established for the loan.

Residential Real Estate – One loan to one borrower in the amount of \$278,000, secured by residential property with a specific reserve of \$95,000 established for the loan.

Below is a summary of the recorded investment amount and related allowance for losses of the Bank's impaired loans at September 30, 2015 and December 31, 2014.

(Dollars in thousands)

<b>September 30, 2015</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Interest Income Recognized</b>	<b>Specific Reserve</b>	<b>Average Recorded Investment</b>
<b>Impaired loans with specific reserves:</b>					
Real-estate - mortgage:					
Residential	\$ 2,266	2,266	96	818	2,271
Commercial	305	305	-	86	318
Consumer	418	418	18	163	440
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	244	244	8	244	248
Total impaired loans with specific reserves	\$ 3,233	3,233	122	1,311	3,277
<b>Impaired loans with no specific reserve:</b>					
Real-estate - mortgage:					
Residential	\$ 636	834	18	n/a	864
Commercial	3,010	3,718	57	n/a	3,749
Consumer	372	425	1	n/a	380
Installment	428	428	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	\$ 4,446	5,405	76	-	4,993



(Dollars in thousands)

<b>December 31, 2014</b>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Interest Income Recognized</b>	<b>Specific Reserve</b>	<b>Average Recorded Investment</b>
<b>Impaired loans with specific reserves:</b>					
Real-estate - mortgage:					
Residential	\$ 2,726	2,726	177	682	2,747
Commercial	1,094	1,094	1	149	1,162
Consumer	612	612	31	186	623
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	253	253	11	253	259
Total impaired loans with specific reserves	\$ 4,685	4,685	220	1,270	4,791
<b>Impaired loans with no specific reserve:</b>					
Real-estate - mortgage:					
Residential	\$ 205	266	3	n/a	340
Commercial	1,061	1,061	48	n/a	1,090
Consumer	61	61	-	n/a	-
Installment	434	434	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	\$ 1,761	1,822	51	-	1,430

## Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the quarter ending September 30, 2015 and the year ended December 31, 2014. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank's internal risk ratings are as follows:

- 1 Superior – minimal risk (normally supported by pledged deposits, United States government securities, etc.)
- 2 Above Average – low risk. (all of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
- 3 Average – moderately low risk. (most of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
- 4 Acceptable – moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)

5



Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

Other Assets Especially Mentioned – moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)

6 Substandard – (the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)

7 Doubtful – (weaknesses make collection or liquidation in full, based on currently existing facts, improbable)

8 Loss – (of little value; not warranted as a bankable asset)

Loans rated 1-4 are considered “Pass” for purposes of the risk rating chart below.

- 18 -

Risk ratings of loans by categories of loans are as follows:

September 30, 2015 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	\$ 2,990	\$ 59,919	\$ 74,708	\$ 117,447	\$255,064
Special mention	81	4,511	1,786	418	6,796
Substandard	243	1,319	526	2,509	4,597
Doubtful	-	696	691	1,643	3,030
Loss	-	-	-	-	-
	\$ 3,314	\$ 66,445	\$ 77,711	\$ 122,017	\$269,487
Non-accrual	-	1,004	880	2,566	4,450
Troubled debt restructures	243	-	-	50	293
Number of TDRs contracts	1	-	-	1	2
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-
December 31, 2014 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	\$ 3,178	\$ 58,837	\$ 80,502	\$ 121,244	\$263,761
Special mention	89	4,649	2,556	833	8,127
Substandard	253	2,156	882	2,726	6,017
Doubtful	-	-	163	-	163
Loss	-	-	-	163	163
	\$ 3,520	\$ 65,642	\$ 84,103	\$ 124,966	\$278,231
Non-accrual	-	1,097	515	1,166	2,778
Troubled debt restructures	253	-	-	-	253
Number of TDRs contracts	1	-	-	-	1
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

*Other Real Estate Owned.* At September 30, 2015, the Company did not have any real estate acquired in partial or total satisfaction of debt, compared to \$45,000 at December 31, 2014. All such properties are recorded at the lower of cost or fair value (net realizable value) at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and expense of operation are included in non-interest expense. Gains and losses realized from the sale of other real estate owned are included in non-interest income or expense.

*Allowance For Credit Losses.* The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on evaluations of the collectability of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the borrowers' ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Based on that analysis, the Bank deems its allowance for credit losses in proportion to the total non-accrual loans and past due loans to be sufficient.

Transactions in the allowance for credit losses for the nine months ended September 30, 2015 and the year ended December 31, 2014 were as follows:

September 30, 2015 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	\$ 386	\$ 335	\$ 1,281	\$ 1,170	\$ (54 )	\$ 3,118
Provision for credit losses	(58 )	(1 )	39	1,458	(153 )	1,285
Recoveries	1	-	405	1	-	407
Loans charged off	(3 )	(63 )	(808 )	(843 )	-	(1,717 )
Balance, end of quarter	\$ 326	\$ 271	\$ 917	\$ 1,786	\$ (207 )	\$ 3,093
Individually evaluated for impairment:						
Balance in allowance	\$ 244	\$ 86	\$ 163	\$ 818	\$ -	\$ 1,311
Related loan balance	244	3,315	1,218	2,902	-	7,679
Collectively evaluated for impairment:						
Balance in allowance	\$ 82	\$ 185	\$ 754	\$ 968	\$ (207 )	\$ 1,782
Related loan balance	3,070	63,130	76,493	119,115	-	261,808
December 31, 2014 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	\$ 413	\$ 898	\$ 1,188	\$ 593	\$ (120 )	\$ 2,972
Provision for credit losses	(4 )	(448 )	601	806	66	1,021
Recoveries	6	128	331	6	-	471
Loans charged off	(29 )	(243 )	(839 )	(235 )	-	(1,346 )
Balance, end of year	\$ 386	\$ 335	\$ 1,281	\$ 1,170	\$ (54 )	\$ 3,118
Individually evaluated for impairment:						
Balance in allowance	\$ 253	\$ 149	\$ 186	\$ 682	\$ -	\$ 1,270
Related loan balance	253	2,156	1,106	2,931	-	6,446
Collectively evaluated for impairment:						
Balance in allowance	\$ 133	\$ 186	\$ 1,095	\$ 488	\$ (54 )	\$ 1,848
Related loan balance	3,267	63,486	82,997	122,035	-	271,785

As of September 30, 2015 and December 31, 2014, the allowance for loan losses included an unallocated shortfall in the amount of \$207,000 and \$54,000, respectively. The 2015 and 2014 shortfall is well within the internal Bank policy of 5% tolerance for actual to required reserves. Management is comfortable with these amounts as they feel the amounts are adequate to absorb inherent potential losses in the loan portfolio.

	At September 30, 2015	At September 30, 2014
	(Dollars in Thousands)	
Average loans	\$267,863	\$278,523
Net charge-offs to average loans (annualized)	0.65 %	0.35 %

During 2015, loans to 72 borrowers and related entities totaling approximately \$1,717,000 were determined to be uncollectible and were charged off.

*Reserve for Unfunded Commitments.* As of September 30, 2015, the Bank had outstanding commitments totaling \$25,176,000. These outstanding commitments consisted of letters of credit, undrawn lines of credit, and other loan commitments. The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

	Nine Months Ended September 30, 2015 2014	
	(Dollars in Thousands)	
Beginning balance	\$200	\$200
Provisions charged to operations	-	-
Ending balance	\$200	\$200

*Contractual Obligations and Commitments.* No material changes, outside the normal course of business, have been made during the third quarter of 2015.

#### **Market Risk and Interest Rate Sensitivity**

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates or equity pricing. The Company's principal market risk is interest rate risk that arises from its lending, investing and deposit taking activities. The Company's profitability is dependent on the Bank's net interest income. Interest rate risk can significantly affect net interest income to the degree that interest bearing liabilities mature or reprice at different intervals than interest earning assets. The Bank's Asset/Liability and Risk Management Committee oversees the management of interest rate risk. The primary purpose of the committee is to manage the exposure of net interest margins to unexpected changes due to interest rate fluctuations. The Company does not utilize derivative financial or commodity instruments or hedging strategies in its management of interest rate risk. The primary tool used by the committee to monitor interest rate risk is a "gap" report which measures the dollar difference between the amount of interest bearing assets and interest bearing liabilities subject to repricing within a given time period. These efforts affect the loan pricing and deposit rate policies of the Company as well as the asset mix, volume guidelines, and liquidity and capital planning.

The following table sets forth the Company's interest-rate sensitivity at September 30, 2015.

	0-3 Months (Dollars in Thousands)	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
<b>Assets:</b>					
Cash and due from banks	\$-	\$-	\$-	\$-	\$7,845
Federal funds and overnight deposits	8,712	-	-	-	8,712
Securities	-	-	3,021	90,969	93,990
Loans	10,515	2,854	87,728	164,208	265,305
Fixed assets	-	-	-	-	3,477
Other assets	-	-	-	-	16,423
Total assets	\$19,227	\$2,854	\$90,749	\$255,177	\$395,752
<b>Liabilities:</b>					
Demand deposit accounts	\$-	\$-	\$-	\$-	\$95,383
NOW accounts	27,272	-	-	-	27,272
Money market deposit accounts	20,474	-	-	-	20,474
Savings accounts	77,864	-	-	-	77,864
IRA accounts	1,909	9,458	25,897	1,245	38,509
Certificates of deposit	9,084	23,454	48,181	86	80,805
Long-term borrowings	-	-	20,000	-	20,000
Other liabilities	-	-	-	-	1,520
<b>Stockholders' equity:</b>	-	-	-	-	33,925
Total liabilities and stockholders' equity	\$136,603	\$32,912	\$94,078	\$1,331	\$395,752
GAP	\$(117,376)	\$(30,058)	\$(3,329)	\$253,846	
Cumulative GAP	\$(117,376)	\$(147,434)	\$(150,763)	\$103,083	
Cumulative GAP as a % of total assets	-29.66 %	-37.25 %	-38.10 %	26.05 %	

The foregoing analysis assumes that the Company's assets and liabilities move with rates at their earliest repricing opportunities based on final maturity. Mortgage backed securities are assumed to mature during the period in which they are estimated to prepay and it is assumed that loans and other securities are not called prior to maturity. Certificates of deposit and IRA accounts are presumed to reprice at maturity. NOW savings accounts are assumed to reprice at within three months although it is the Company's experience that such accounts may be less sensitive to changes in market rates.

In addition to GAP analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The model takes into consideration the effect of call features of investments as well as prepayments of loans in periods of declining rates. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

liabilities may differ from the assumptions used in the model. As of September 30, 2015, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates					
	-200	-100	+100	+200		
	Basis Points	Basis Points	Basis Points	Basis Points		
% Change in Net Interest Income	-5.6	% -2.4	% 0.1	% -1.4	%	
% Change in Economic Value of Equity	-8.4	% -3.2	% -6.6	% -15.9	%	

- 22 -



## **Liquidity and Capital Resources**

The Company currently has no business other than that of the Bank and does not currently have any material funding commitments. The Company's principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank is subject to various regulatory restrictions on the payment of dividends.

The Bank's principal sources of funds for investments and operations are net income, deposits from its primary market area, principal and interest payments on loans, interest received on investment securities and proceeds from maturing investment securities. Its principal funding commitments are for the origination or purchase of loans and the payment of maturing deposits. Deposits are considered a primary source of funds supporting the Bank's lending and investment activities.

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold, certificates of deposit with other financial institutions that have an original maturity of three months or less and money market mutual funds. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. The Bank's cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of September 30, 2015, totaled \$16,557,000, an increase of \$3,277,000 (24.68%) from the December 31, 2014 total of \$13,280,000.

As of September 30, 2015, the Bank was permitted to draw on a \$73,018,000 line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans. At September 30, 2015, there was nothing outstanding in short-term borrowings from FHLB. As of September 30, 2015, there were \$20.0 million in long-term convertible advances outstanding with various monthly and quarterly call features and with final maturities through August 2018. In addition, the Bank has three unsecured federal funds lines of credit in the amount of \$3.0 million, \$5.0 million and \$8.0 million, of which nothing was outstanding as of September 30, 2015.

The Company's stockholders' equity increased \$94,000 (0.28%) during the nine months ended September 30, 2015, due mainly to an increase in retained net income and surplus from the period and an increase in accumulated other comprehensive loss, net of taxes. The Company's accumulated other comprehensive income (loss), net of taxes decreased by \$182,000 (176.70%) from \$103,000 at December 31, 2014 to (\$79,000) at September 30, 2015, as a result of a decrease in the market value of securities classified as available for sale. Retained earnings increased by \$158,000 (0.75%) as the result of the Company's net income for the nine months, partially offset by dividends.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to “risk-weighted” assets. At September 30, 2015, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 8.43%, a Tier 1 risk-based capital ratio of 13.71% and a total risk-based capital ratio of 14.97%.

## **Current Outlook**

The Bank’s results of operations continue to be affected by the low interest rate environment and slow recovering economy. In addition, as the values of real estate held as collateral securing loans declined, the Bank has continued to increase its loan loss reserves and experience a higher level of charge-offs. As a result, net interest income for the periods ended September 30, 2015 are lower than net interest income for the comparable 2014 periods. Future results of operation depend greatly on the overall economy, actions of the Federal Reserve Board and other factors beyond the Bank’s control, and the Bank cannot accurately forecast these factors.

The Bank has several new initiatives with the goal of increasing net interest. These initiatives include becoming a Small Business Administration (SBA) lender and otherwise increasing focus on commercial loans, and increasing the Bank’s mortgage products offerings. Furthermore, the Bank will continue to update its technology to increase delivery channels to customers and update internal processes to increase efficiency. The Bank is also evaluating branch hours and efficiency in all departments and has engaged a marketing firm to strengthen its brand and expand its marketing efforts.

## **Critical Accounting Policies and Estimates**

The Company's accounting policies are more fully described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Management has used the best information available to make the estimations necessary to value the related assets and liabilities based on historical experience and on various assumptions which are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the financial statements. The Company reevaluates these variables as facts and circumstances change. Historically, actual results have not differed significantly from the Company's estimates. The following is a summary of the more judgmental accounting estimates and principles involved in the preparation of the Company's financial statements, including the identification of the variables most important in the estimation process:

*Allowance for Credit Losses.* The Bank's allowance for credit losses is determined based upon estimates that can and do change when the actual events occur, including historical losses as an indicator of future losses, fair market value of collateral, and various general or industry or geographic specific economic events. The use of these estimates and values is inherently subjective and the actual losses could be greater or less than the estimates. For further information regarding the Bank's allowance for credit losses, see "Allowance for Credit Losses", above.

*Accrued Taxes.* Management estimates income tax expense based on the amount it expects to owe various tax authorities. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of the Company's tax position.

## **ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this quarterly report, and have concluded that the system is effective. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are

reasonably likely to materially affect, the Company's internal control over financial reporting.

- 24 -

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS

Exhibit No.

- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
  - 3.2 Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
  - 3.3 Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
  - 3.4 By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
  - 10.1 Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 33-62280)
  - 10.2 The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
  - 10.3 Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
  - 31.1 Rule 15d-14(a) Certification of Chief Executive Officer
  - 31.2 Rule 15d-14(a) Certification of Chief Financial Officer
  - 32.1 Section 1350 Certifications
  - 99.1 Press release dated November 10, 2015
- Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, September 30, 2015 and December 31, 2014, (ii)
- 101 Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (v) Notes to Unaudited Condensed Consolidated Financial Statements

## **SIGNATURES**

Pursuant to the requirements 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.

**GLEN BURNIE BANCORP**  
(Registrant)

Date: November 12, 2015 By: /s/ Michael G. Livingston.  
Michael G. Livingston  
President, Chief Executive Officer

By: /s/ John Wright  
John Wright  
Chief Financial Officer