

GLEN BURNIE BANCORP  
Form 10-Q  
August 11, 2017

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the Quarterly period ended June 30, 2017

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**                      **52-1782444**  
(State or other jurisdiction of (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 x 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 x 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 "

Non-Accelerated Filer " (Do not check if a smaller reporting company)

Accelerated filer "

Smaller  
Reporting Company x  
Emerging growth..  
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

At August 2, 2017, the number of shares outstanding of the registrant's common stock was 2,793,748.

**GLEN BURNIE BANCORP AND SUBSIDIARIES**

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**PART I - FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****GLEN BURNIE BANCORP AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(dollars in thousands)**

|   | June 30,<br>2017<br>(unaudited) | December 31,<br>2016 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Cash and due from banks                                     | \$ 14,487                       | \$ 6,946             |
| Interest bearing deposits with banks and federal funds sold | 2,851                           | 3,676                |
| Total Cash and Cash Equivalents                             | 17,338                          | 10,622               |
| Investment securities available for sale, at fair value     | 90,629                          | 94,607               |
| Restricted equity securities, at cost                       | 1,440                           | 1,230                |
| Loans, net of deferred fees and costs                       | 271,020                         | 265,058              |
| Less: Allowance for loan losses                             | (2,599 )                        | (2,484 )             |
| Loans, net  | 268,421                         | 262,574              |
| Real estate acquired through foreclosure                    | 114                             | 114                  |
| Premises and equipment, net                                 | 3,547                           | 3,638                |
| Bank owned life insurance                                   | 9,428                           | 9,328                |
| Deferred tax assets, net                                    | 2,803                           | 3,160                |
| Accrued interest receivable                                 | 1,092                           | 1,134                |
| Accrued taxes receivable                                    | 631                             | 674                  |
| Prepaid expenses  | 493                             | 546                  |
| Other assets  | 190                             | 805                  |
| Total Assets  | \$ 396,126                      | \$ 388,432           |
| <b>LIABILITIES</b>  |                                 |                      |
| Noninterest-bearing deposits                                | \$ 105,582                      | \$ 100,090           |
| Interest-bearing deposits                                   | 229,899                         | 233,147              |
| Total Deposits  | 335,481                         | 333,237              |
| Short-term borrowings                                       | 15,000                          | 10,000               |

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|  |                   |                   |
|--|-------------------|-------------------|
| Long-term borrowings   | 10,000            | 10,000            |
| Defined pension liability  | 374               | 369               |
| Accrued expenses and other liabilities   | 737               | 1,011             |
| <b>Total Liabilities</b>   | <b>361,592</b>    | <b>354,617</b>    |
| <b>STOCKHOLDERS' EQUITY</b>  |                   |                   |
| Common stock, par value \$1, authorized 15,000,000 shares, issued and outstanding 2,793,748 and 2,786,855 shares as of June 30, 2017 and December 31, 2016 , respectively. | 2,794             | 2,787             |
| Additional paid-in capital   | 10,199            | 10,130            |
| Retained earnings  | 21,803            | 21,708            |
| Accumulated other comprehensive (loss)   | (262 )            | (810 )            |
| Total Stockholders' Equity   | 34,534            | 33,815            |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 396,126</b> | <b>\$ 388,432</b> |

*See accompanying notes to unaudited consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(dollars in thousands, except per share amounts)****(unaudited)**

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2017                        | 2016     | 2017                      | 2016     |
| <b>INTEREST INCOME</b>                              |                             |          |                           |          |
| Loans, including fees                               | \$ 2,845                    | \$ 2,749 | \$ 5,619                  | \$ 5,585 |
| Interest and dividends on securities                | 507                         | 487      | 1,025                     | 975      |
| Deposits with banks and federal funds sold          | 31                          | 32       | 62                        | 59       |
| Total Interest Income                               | 3,383                       | 3,268    | 6,706                     | 6,619    |
| <b>INTEREST EXPENSE</b>                             |                             |          |                           |          |
| Deposits  | 327                         | 377      | 659                       | 769      |
| Short-term borrowings                               | 84                          | -        | 167                       | -        |
| Long term borrowings                                | 76                          | 159      | 152                       | 319      |
| Total Interest Expense                              | 487                         | 536      | 978                       | 1,088    |
| Net Interest Income                                 | 2,896                       | 2,732    | 5,728                     | 5,531    |
| Provision for loan losses                           | (30 )                       | -        | 165                       | 117      |
| Net interest income after provision for loan losses | 2,926                       | 2,732    | 5,563                     | 5,414    |
| <b>NONINTEREST INCOME</b>                           |                             |          |                           |          |
| Service charges on deposit accounts                 | 69                          | 81       | 136                       | 164      |
| Other fees and commissions                          | 167                         | 171      | 328                       | 330      |
| Gain on securities sold                             | 1                           | -        | 2                         | 1        |
| Income on life insurance                            | 51                          | 53       | 100                       | 107      |
| Other income  | 17                          | 13       | 35                        | 24       |
| Total Noninterest Income                            | 305                         | 318      | 601                       | 626      |
| <b>NONINTEREST EXPENSE</b>                          |                             |          |                           |          |
| Salary and employee benefits                        | 1,614                       | 1,535    | 3,036                     | 3,040    |
| Occupancy and equipment expenses                    | 249                         | 249      | 517                       | 509      |
| Legal, accounting and other professional fees       | 262                         | 192      | 468                       | 422      |
| Data processing and item processing services        | 143                         | 172      | 312                       | 334      |
| FDIC insurance costs                                | 64                          | 77       | 124                       | 154      |
| Advertising and marketing related expenses          | 42                          | 11       | 73                        | 36       |
| Loan collection costs                               | 29                          | 80       | 47                        | 121      |
| Telephone costs                                     | 59                          | 50       | 114                       | 95       |



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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Other expenses                                | 368     | 332     | 727     | 660     |
| Total Noninterest Expenses                    | 2,830   | 2,698   | 5,418   | 5,371   |
| Income before income taxes                    | 401     | 352     | 746     | 669     |
| Income tax expense                            | 63      | 44      | 92      | 78      |
| NET INCOME                                    | \$ 338  | \$ 308  | \$ 654  | \$ 591  |
| Basic and diluted net income per common share | \$ 0.12 | \$ 0.11 | \$ 0.23 | \$ 0.21 |

*See accompanying notes to unaudited consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(dollars in thousands)****(unaudited)**

|  | Three Months<br>Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|--|-----------------------------------|--------|------------------------------|----------|
|  | 2017                              | 2016   | 2017                         | 2016     |
| Net income   | \$ 338                            | \$ 308 | \$ 654                       | \$ 591   |
| Other comprehensive income, net of tax:  |                                   |        |                              |          |
| Net unrealized gains on securities available for sale:                             |                                   |        |                              |          |
| Net unrealized gain on securities during the period                                | 507                               | 663    | 549                          | 1,096    |
| Reclassification adjustment for gain on sales of securities included in net income | (1 )                              | -      | (1 )                         | (1 )     |
| Other Comprehensive Income   | 506                               | 663    | 548                          | 1,095    |
| Comprehensive income   | \$ 844                            | \$ 971 | \$ 1,202                     | \$ 1,686 |

*See accompanying notes to unaudited consolidated financial statements.*

## GLEN BURNIE BANCORP AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(dollars in thousands )

(unaudited)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income | Total<br>Stockholders'<br>Equity |   |
|---|-----------------|----------------------------------|----------------------|---|----------------------------------|---|
| Balances, December 31, 2015                           | \$ 2,774        | \$ 9,986                         | \$ 21,718            | \$ (302   | ) \$ 34,176                      |   |
| Net income  | -               | -                                | 591                  | -   | 591                              |   |
| Cash dividends, \$0.20 per share                      | -               | -                                | (555                 | ) -   | (555                             | ) |
| Dividends reinvested under dividend reinvestment plan | 6               | 83                               | -                    | -   | 89                               |   |
| Other comprehensive income                            | -               | -                                | -                    | 1,095   | 1,095                            |   |
| Balances, June 30, 2016                               | \$ 2,780        | \$ 10,069                        | \$ 21,754            | \$ 793  | \$ 35,396                        |   |
|   |                 |                                  |                      |   |                                  |   |
|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income | Total<br>Stockholders'<br>Equity |   |
| Balances, December 31, 2016                           | \$ 2,787        | \$ 10,130                        | \$ 21,708            | \$ (810   | ) \$ 33,815                      |   |
| Net income  | -               | -                                | 654                  | -   | 654                              |   |
| Cash dividends, \$0.20 per share                      | -               | -                                | (559                 | ) -   | (559                             | ) |
| Dividends reinvested under dividend reinvestment plan | 7               | 69                               | -                    | -   | 76                               |   |
| Other comprehensive income                            | -               | -                                | -                    | 548   | 548                              |   |
| Balances, June 30, 2017                               | \$ 2,794        | \$ 10,199                        | \$ 21,803            | \$ (262   | ) \$ 34,534                      |   |

See accompanying notes to unaudited consolidated financial statements.



**GLEN BURNIE BANCORP AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(dollars in thousands)****(unaudited)**

|  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2017                      | 2016     |
| Cash flows from operating activities:  |                           |          |
| Net income   | \$ 654                    | \$ 591   |
| Adjustments to reconcile net income to net cash provided by operating activities:                        |                           |          |
| Depreciation, amortization, and accretion  | 518                       | 590      |
| Provision for credit losses  | 165                       | 117      |
| Gains on disposals of assets, net  | (1 )                      | (1 )     |
| Income on investment in life insurance   | (100 )                    | (107 )   |
| Changes in assets and liabilities:   |                           |          |
| Decrease in ground rents   | 7                         | -        |
| Decrease in accrued interest receivable  | 42                        | 12       |
| Decrease in other assets   | 729                       | 89       |
| Decrease in accrued interest payable   | (2 )                      | (2 )     |
| Decrease in other liabilities  | (267 )                    | (108 )   |
| Net cash provided by operating activities  | 1,745                     | 1,181    |
| Cash flows from investing activities:  |                           |          |
| Maturities and principal paydowns of available for sale mortgage-backed securities                       | 6,443                     | 8,215    |
| Proceeds from call/sales of other investment securities  | 2,766                     | 3,767    |
| Purchases of available for sale mortgage-backed securities   | -                         | (6,307 ) |
| Purchases of other available for sale investment securities  | (4,659 )                  | (8,150 ) |
| (Purchase) sale of Federal Home Loan Bank stock  | (210 )                    | 3        |
| (Increase) decrease in loans, net  | (6,012 )                  | 5,904    |
| Purchases of premises and equipment  | (119 )                    | (118 )   |
| Net cash (used) provided by investing activities   | (1,791 )                  | 3,314    |
| Cash flows from financing activities:  |                           |          |
| Increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net | 5,492                     | 9,084    |
| Decrease in time deposits, net   | (3,248 )                  | (4,981 ) |
| Increase in short term borrowings  | 15,000                    | -        |
| Decrease in long term borrowings   | (10,000 )                 | -        |
| Cash dividends paid  | (558 )                    | (555 )   |
| Common stock dividends reinvested  | 76                        | 89       |
| Net cash provided by financing activities  | 6,762                     | 3,637    |

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|  |           |           |
|--|-----------|-----------|
| Increase in cash and cash equivalents        | 6,716     | 8,132     |
| Cash and cash equivalents, beginning of year | 10,622    | 12,371    |
| Cash and cash equivalents, end of period     | \$ 17,338 | \$ 20,503 |
| Supplementary cash flow information:         |           |           |
| Interest paid                                | \$ 1,122  | \$ 1,217  |

*See accompanying notes to consolidated financial statements.*

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**GLEN BURNIE BANCORP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 – ORGANIZATIONAL**

*Nature of Business.* Glen Burnie Bancorp is a bank holding company organized in 1990 under the laws of the State of Maryland. Glen Burnie Bancorp owns all the outstanding shares of capital stock of The Bank of Glen Burnie, a commercial bank organized in 1949 under the laws of the State of Maryland, serving northern Anne Arundel County and surrounding areas from its main office and branch in Glen Burnie, Maryland, and branch offices in Odenton, Riviera Beach, Crownsville, Severn (two locations), Linthicum and Severna Park, Maryland. The Bank is engaged in the commercial and retail banking business as authorized by the banking statutes of the State of Maryland, including the acceptance of demand and time deposits, and the origination of loans to individuals, associations, partnerships and corporations. The Bank's real estate financing consists of residential first and second mortgage loans, home equity lines of credit and commercial mortgage loans. Commercial lending consists of both secured and unsecured loans. The Bank also originates automobile loans through arrangements with local automobile dealers.

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying condensed balance sheet as of December 31, 2016, 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 three and six month periods ended June 30, 2017 and 2016.

Operating results for the three and six month periods ended June 30, 2017 is not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

**NOTE 3 - 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 |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,           |           | June 30,         |           |
|  | 2017               | 2016      | 2017             | 2016      |
| Basic and diluted:                         |                    |           |                  |           |
| Net income                                 | \$338,000          | \$308,000 | \$654,000        | \$591,000 |
| Weighted average common shares outstanding | 2,792,656          | 2,776,546 | 2,791,824        | 2,776,053 |
| Basic and dilutive net income per share    | \$0.12             | \$0.11    | \$0.23           | \$0.21    |

Diluted earnings per share calculations were not required for the three and six month periods ended June 30, 2017 and 2016, since there were no options outstanding.



**NOTE 4 – LOANS AND ASSET QUALITY**

*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.

| At June 30, 2017<br>(dollars in thousands) | Current   | 30-89 Days<br>Past Due | 90 Days or<br>More and<br>Still Accruing | Nonaccrual | Total     |
|--|-----------|------------------------|--|------------|-----------|
| Commercial and industrial                  | \$3,690   | \$ 49                  | \$ -                                     | \$ -       | \$3,739   |
| Commercial real estate                     | 65,015    | -                      | -  | 640        | 65,655    |
| Consumer and indirect                      | 94,343    | 835                    | -  | 331        | 95,509    |
| Residential real estate                    | 102,816   | 1,699                  | 57                                       | 2,556      | 107,128   |
|  | \$265,864 | \$ 2,583               | \$ 57                                    | \$ 3,527   | \$272,031 |

| At December 31, 2016<br>(dollars in thousands) | Current   | 30-89 Days<br>Past Due | 90 Days or<br>More and<br>Still Accruing | Nonaccrual | Total     |
|--|-----------|------------------------|--|------------|-----------|
| Commercial and industrial                      | \$4,679   | \$ -                   | \$ -                                     | \$ -       | \$4,679   |
| Commercial real estate                         | 68,775    | -                      | -  | 647        | 69,422    |
| Consumer and indirect                          | 82,134    | 992                    | -  | 456        | 83,582    |
| Residential real estate                        | 103,941   | 1,798                  | 36                                       | 2,648      | 108,423   |
|  | \$259,529 | \$ 2,790               | \$ 36                                    | \$ 3,751   | \$266,106 |

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 June 30, 2017, the allowance for loan loss is \$2,599,000 and the unearned income is \$1,012,000. For the period ending December 31, 2016, the allowance for loan loss is \$2,484,000 and the unearned income is \$1,048,000.

|   | June 30,<br>2017       | December 31,<br>2016 |  |  |
|---|------------------------|----------------------|--|--|
|   | (dollars in thousands) |                      |  |  |
| Troubled debt restructured loans  | \$ 302                 | \$ 312               |  |  |
| Non-accrual and 90 days or more and still accruing loans to gross loans                 | 1.32 %                 | 1.43 %               |  |  |
| Allowance for credit losses to non-accrual and 90 days or more and still accruing loans | 72.52 %                | 65.59 %              |  |  |

At June 30, 2017 there were three troubled debt restructured loans consisting of a commercial loan of \$222,000, a residential real estate loan of \$47,000 and a consumer loan of \$33,000. The consumer and residential real estate loans are both on nonaccrual.

At June 30, 2017, there was \$1,112,000 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 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. The three loans outstanding, totaling \$1,112,000, are as follows: \$726,000 Commercial Real Estate loan where the guarantor is in bankruptcy and the loan has an accelerated payoff since we have an assignment of rents from the property which has a very long-term national tenant; \$164,000 Home Equity Line of Credit which is paying as agreed, however the borrower has defaulted on other commercial loans which have been satisfied; and a \$222,000 Commercial loan with a loan to value ratio which has deteriorated, which has a complete specific reserve of \$222,000. All three of these loans are classified with a risk rating of Substandard.

Non-accrual loans with specific reserves at June 30, 2017 are comprised of:

Consumer loans – Three loans to three borrowers in the amount of \$182,000 with a specific reserve of \$65,000 established for the loans.

Residential Real Estate – Three loans to three borrowers in the amount of \$1,385,000, secured by residential property with a specific reserve of \$451,000 established for the loans.

Below is a summary of the recorded investment amount and related allowance for losses of the Bank's impaired loans at June 30, 2017 and December 31, 2016.

(dollars in thousands)

| June 30, 2017                                 | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Interest<br>Income<br>Recognized | Specific<br>Reserve | Average<br>Recorded<br>Investment |
|---|------------------------|--------------------------------|----------------------------------|---------------------|-----------------------------------|
| Impaired loans with specific reserves:        |                        |                                |                                  |                     |                                   |
| Real-estate - mortgage:                       |                        |                                |                                  |                     |                                   |
| Residential                                   | \$ 1,385               | 1,414                          | -                                | 451                 | 1,426                             |
| Commercial                                    | -                      | -                              | -                                | -                   | -                                 |
| Consumer                                      | 182                    | 182                            | 2                                | 65                  | 231                               |
| Installment                                   | -                      | -                              | -                                | -                   | -                                 |
| Home Equity                                   | -                      | -                              | -                                | -                   | -                                 |
| Commercial                                    | 222                    | 222                            | 6                                | 222                 | 225                               |
| Total impaired loans with specific reserves   | \$ 1,789               | 1,818                          | 8                                | 738                 | 1,882                             |
| Impaired loans with no specific reserve:      |                        |                                |                                  |                     |                                   |
| Real-estate - mortgage:                       |                        |                                |                                  |                     |                                   |
| Residential                                   | \$ 1,426               | 2,166                          | 7                                | n/a                 | 2,478                             |
| Commercial                                    | 1,367                  | 1,519                          | 17                               | n/a                 | 1,558                             |
| Consumer                                      | 62                     | 62                             | -                                | n/a                 | 101                               |
| Installment                                   | 87                     | 87                             | -                                | n/a                 | 87                                |
| Home Equity                                   | -                      | -                              | -                                | n/a                 | -                                 |
| Commercial                                    | 2                      | 2                              | -                                | n/a                 | 2                                 |
| Total impaired loans with no specific reserve | \$ 2,944               | 3,836                          | 24                               | -                   | 4,226                             |

(dollars in thousands)

| December 31, 2016                             | Recorded Investment | Unpaid Principal Balance | Interest Income Recognized | Specific Reserve | Average Recorded Investment |
|---|---------------------|--------------------------|----------------------------|------------------|-----------------------------|
| Impaired loans with specific reserves:        |                     |                          |                            |                  |                             |
| Real-estate - mortgage:                       |                     |                          |                            |                  |                             |
| Residential                                   | \$ 1,393            | 1,422                    | 58                         | 252              | 1,442                       |
| Commercial                                    | -                   | -                        | -                          | -                | -                           |
| Consumer                                      | 128                 | 128                      | -                          | 50               | 167                         |
| Installment                                   | -                   | -                        | -                          | -                | -                           |
| Home Equity                                   | -                   | -                        | -                          | -                | -                           |
| Commercial                                    | 229                 | 229                      | 8                          | 228              | 235                         |
| Total impaired loans with specific reserves   | \$ 1,750            | 1,779                    | 66                         | 530              | 1,844                       |
| Impaired loans with no specific reserve:      |                     |                          |                            |                  |                             |
| Real-estate - mortgage:                       |                     |                          |                            |                  |                             |
| Residential                                   | \$ 1,479            | 2,219                    | 21                         | n/a              | 2,463                       |
| Commercial                                    | 1,413               | 1,565                    | 59                         | n/a              | 1,594                       |
| Consumer                                      | 182                 | 182                      | -                          | n/a              | 75                          |
| Installment                                   | 193                 | 193                      | -                          | n/a              | -                           |
| Home Equity                                   | -                   | -                        | -                          | n/a              | -                           |
| Commercial                                    | -                   | -                        | -                          | n/a              | -                           |
| Total impaired loans with no specific reserve | \$ 3,267            | 4,159                    | 80                         | -                | 4,132                       |

Following are tables for June 2017 and December 2016 showing the provision for each group of loans.

| June 30, 2017<br>(dollars in thousands) | Commercial and Industrial | Commercial Real Estate | Consumer and Indirect | Residential Real Estate | Unallocated | Total   |
|---|---------------------------|------------------------|-----------------------|-------------------------|-------------|---------|
| Balance, beginning of year              | \$ 284                    | \$ 259                 | \$ 876                | \$ 1,051                | \$ 14       | \$2,484 |
| Provision for credit losses             | (27 )                     | 35                     | 211                   | (45 )                   | (9 )        | 165     |
| Recoveries                              | -                         | -                      | 177                   | 27                      | -           | 204     |
| Loans charged off                       | -                         | -                      | (251 )                | (3 )                    | -           | (254 )  |
| Balance, end of quarter                 | \$ 257                    | \$ 294                 | \$ 1,013              | \$ 1,030                | \$ 5        | \$2,599 |
| Individually evaluated for impairment:  |                           |                        |                       |                         |             |         |
| Balance in allowance                    | \$ 222                    | \$ -                   | \$ 65                 | \$ 451                  | \$ -        | \$738   |
| Related loan balance                    | 222                       | 1,367                  | 307                   | 1,425                   | -           | 3,321   |
| Collectively evaluated for impairment:  |                           |                        |                       |                         |             |         |
| Balance in allowance                    | \$ 35                     | \$ 294                 | \$ 948                | \$ 579                  | \$ 5        | \$1,861 |

|                      |       |        |        |         |   |         |
|----------------------|-------|--------|--------|---------|---|---------|
| Related loan balance | 3,517 | 64,288 | 95,202 | 105,703 | - | 268,710 |
|----------------------|-------|--------|--------|---------|---|---------|

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| December 31, 2016<br>(dollars in thousands) | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Unallocated | Total    |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------|-------------|----------|
| Balance, beginning of year                  | \$ 305                          | \$ 262                    | \$ 804                      | \$ 1,631                   | \$ 148      | \$3,150  |
| Provision for credit losses                 | (30 )                           | 361                       | 431                         | 240                        | (134 )      | 868      |
| Recoveries                                  | 9                               | -                         | 336                         | 34                         | -           | 379      |
| Loans charged off                           | -                               | (364 )                    | (695 )                      | (854 )                     | -           | (1,913 ) |
| Balance, end of year                        | \$ 284                          | \$ 259                    | \$ 876                      | \$ 1,051                   | \$ 14       | \$2,484  |
| Individually evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 229                          | \$ -                      | \$ 50                       | \$ 251                     | \$ -        | \$530    |
| Related loan balance                        | 229                             | 1,413                     | 503                         | 2,872                      | -           | 5,017    |
| Collectively evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 56                           | \$ 259                    | \$ 826                      | \$ 799                     | \$ 14       | \$1,954  |
| Related loan balance                        | 4,451                           | 68,009                    | 83,078                      | 105,552                    | -           | 261,090  |

Following is a table showing activity for non-accrual loans for the quarters ended June 30, 2017 and June 30, 2016.

| (Dollars in thousands)          | Commercial &<br>Industrial | Commercial<br>Real Estate | Consumer &<br>Indirect | Residential<br>Real Estate | Total   |
|---------------------------------|----------------------------|---------------------------|------------------------|----------------------------|---------|
| December 31, 2016               | \$ -                       | \$ 647                    | \$ 456                 | \$ 2,648                   | \$3,751 |
| Transfer into non-accrual       | -                          | -                         | 353                    | 125                        | 478     |
| Transfer to REO                 | -                          | -                         | -                      | -                          | -       |
| Loans paid down/payoffs         | -                          | (7 )                      | (115 )                 | (214 )                     | (336 )  |
| Loans brought to accrual status | -                          | -                         | (112 )                 | -                          | (112 )  |
| Loans charged off               | -                          | -                         | (251 )                 | (3 )                       | (254 )  |
| June 30, 2017                   | \$ -                       | \$ 640                    | \$ 331                 | \$ 2,556                   | \$3,527 |
| December 31, 2015               | \$ -                       | \$ 300                    | \$ 596                 | \$ 2,883                   | 3,779   |
| Transfer into non-accrual       | -                          | 840                       | 969                    | 1,461                      | 3,270   |
| Transfer to REO                 | -                          | (114 )                    | -                      | (126 )                     | (240 )  |
| Loans paid down/payoffs         | -                          | (15 )                     | (414 )                 | (716 )                     | (1,145) |
| Loans brought to accrual status | -                          | -                         | (25 )                  | (135 )                     | (160 )  |
| Loans charged off               | -                          | (364 )                    | (670 )                 | (719 )                     | (1,753) |

|               |    |   |        |        |          |         |
|---------------|----|---|--------|--------|----------|---------|
| June 30, 2016 | \$ | - | \$ 647 | \$ 456 | \$ 2,648 | \$3,751 |
|---------------|----|---|--------|--------|----------|---------|

### Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the quarter ending June 30, 2017 and the year ended December 31, 2016. 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.

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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 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.

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

| June 30, 2017<br>(dollars in thousands) | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Total     |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------|-----------|
| Pass                                    | \$ 3,517                        | \$ 63,837                 | \$ 94,194                   | \$ 104,164                 | \$265,712 |
| Special mention                         | -                               | 334                       | 848                         | 493                        | 1,675     |
| Substandard                             | 222                             | 1,484                     | 407                         | 2,471                      | 4,584     |
| Doubtful                                | -                               | -                         | 60                          | -                          | 60        |
| Loss                                    | -                               | -                         | -                           | -                          | -         |
|   | \$ 3,739                        | \$ 65,655                 | \$ 95,509                   | \$ 107,128                 | \$272,031 |
| Non-accrual                             | -                               | 640                       | 331                         | 2,556                      | 3,527     |
| Troubled debt restructures              | 222                             | -                         | 33                          | 47                         | 302       |
| Number of TDRs accounts                 | 1                               | -                         | 1                           | 1                          | 3         |
| Non-performing TDRs                     | \$ -                            | \$ -                      | \$ 33                       | \$ 47                      | \$80      |
| Non-performing TDRs accounts            | -                               | -                         | 1                           | 1                          | 2         |



| December 31, 2016<br>(dollars in thousands) | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Total     |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------|-----------|
| Pass  | \$ 4,357                        | \$ 64,208                 | \$ 82,943                   | \$ 105,225                 | \$256,733 |
| Special mention                             | 94                              | 3,801                     | 276                         | 527                        | 4,698     |
| Substandard                                 | 228                             | 1,413                     | 327                         | 2,493                      | 4,461     |
| Doubtful                                    | -                               | -                         | 36                          | 178                        | 214       |
| Loss  | -                               | -                         | -                           | -                          | -         |
|   | \$ 4,679                        | \$ 69,422                 | \$ 83,582                   | \$ 108,423                 | \$266,106 |
| Non-accrual                                 | -                               | 647                       | 456                         | 2,648                      | 3,751     |
| Troubled debt restructures                  | 228                             | -                         | 36                          | 48                         | 312       |
| Number of TDRs accounts                     | 1                               | -                         | 1                           | 1                          | 3         |
| Non-performing TDRs                         | \$ -                            | \$ -                      | \$ 36                       | \$ 48                      | \$84      |
| Non-performing TDRs accounts                | -                               | -                         | 1                           | 1                          | 2         |

## NOTE 5 – 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. The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. At June 30, 2017, these assets include 28 loans, excluding \$155,000 of consumer and indirect 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. Loans which are deemed to be impaired (\$4.7 million of loans with \$738,000 of specific reserves as of June 30, 2017) and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Company is predominantly a cash flow lender with real estate serving as collateral on a majority of loans (\$2.8 million of the total impaired loans as of June 30, 2017). On a quarterly basis, the Company determines such fair values through a variety of data points and mostly rely on appraisals from independent appraisers. We obtain an appraisal on properties when they become impaired and have new appraisals at least every year. Typically, these appraisals do not include an inside inspection of the property as our loan documents do not require the borrower to allow access to the property. Therefore the most significant unobservable inputs is the details of the amenities included within the property and the condition of the property. Further, we cannot always accurately assess the amount of time it takes to gain ownership of our collateral through the foreclosure process and the damage, as well as potential looting, of the property further decreasing our value. Thus, in determining the fair values we discount the current independent appraisals, with a range from 0% to 16%, based on individual circumstances. The remaining impaired loans (\$1.92 million with \$288,000 of specific reserves as of June 30, 2017) include mobile homes, commercial, consumer, and indirect auto loans, which are valued based on the value of the underlying collateral.

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 |
|-------------------------------|---------|----------|---------|------------|
| June 30, 2017                 |         |          |         |            |
| Recurring:                    |         |          |         |            |
| Securities available for sale |         |          |         |            |
| U.S. Treasury                 | \$ -    | \$1,506  | \$-     | \$1,506    |
| State and Municipal           | -       | 35,710   | -       | 35,710     |
| Mortgaged-backed              | -       | 53,413   | -       | 53,413     |
| Non-recurring:                |         |          |         |            |
| Maryland Financial Bank stock | -       | -        | 30      | 30         |
| Impaired loans                | -       | -        | 4,733   | 4,733      |
| OREO                          | -       | 114      | -       | 114        |
|                               | \$ -    | \$90,743 | \$4,763 | \$95,506   |
| December 31, 2016             |         |          |         |            |
| Recurring:                    |         |          |         |            |
| Securities available for sale |         |          |         |            |
| U.S. Treasury                 | \$ -    | \$1,507  | \$-     | \$1,507    |
| State and Municipal           | -       | 33,845   | -       | 33,845     |
| Mortgaged-backed              | -       | 59,255   | -       | 59,255     |
| Non-recurring:                |         |          |         |            |
| Maryland Financial Bank stock | -       | -        | 30      | 30         |
| Impaired loans                | -       | -        | 2,891   | 2,891      |
| OREO                          | -       | 114      | -       | 114        |
|                               | \$ -    | \$94,721 | \$2,921 | \$97,642   |

The estimated fair values of the Company's financial instruments at June 30, 2017 and December 31, 2016 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.

| (dollars in thousands)          | June 30, 2017   |            | December 31, 2016 |            |
|---------------------------------|-----------------|------------|-------------------|------------|
|                                 | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial assets:</b>        |                 |            |                   |            |
| Cash and due from banks         | \$14,487        | \$14,487   | \$6,946           | \$6,946    |
| Interest-bearing deposits       | 728             | 728        | 479               | 479        |
| Federal funds sold              | 2,123           | 2,123      | 3,197             | 3,197      |
| Investment securities           | 90,629          | 90,629     | 94,607            | 94,607     |
| Investments in restricted stock | 1,410           | 1,410      | 1,230             | 1,230      |
| Ground rents                    | 156             | 156        | 164               | 164        |
| Loans, net                      | 268,421         | 266,740    | 262,574           | 259,017    |
| Cash Value of life insurance    | 9,428           | 9,428      | 9,328             | 9,328      |
| Accrued interest receivable     | 1,092           | 1,092      | 1,134             | 1,134      |
| <b>Financial liabilities:</b>   |                 |            |                   |            |
| Deposits                        | 335,481         | 317,448    | 333,237           | 315,418    |
| Long-term borrowings            | 10,000          | 10,165     | 10,000            | 10,257     |
| Short-term borrowings           | 15,000          | 15,065     | 10,000            | 10,188     |
| Dividends payable               | -               | -          | -                 | -          |

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments.

| (dollars in thousands)                     | June 30, 2017 | Carrying Amount | Fair Value | Fair Value Hierarchy |         |         |
|--|---------------|-----------------|------------|----------------------|---------|---------|
|  |               |                 |            | Level 1              | Level 2 | Level 3 |
| <b>Financial instruments - Assets</b>      |               |                 |            |                      |         |         |
| Cash and cash equivalents                  |               | \$17,338        | \$17,338   | \$17,338             | \$-     | \$-     |
| Loans receivable, net                      |               | 268,421         | 266,740    | -                    | -       | 266,740 |
| Cash value of life insurance               |               | 9,428           | 9,428      | -                    | 9,428   | -       |
| <b>Financial instruments - Liabilities</b> |               |                 |            |                      |         |         |
| Deposits                                   |               | 335,481         | 317,448    | 217,906              | 99,542  | -       |
| Long-term debt                             |               | 10,000          | 10,165     | -                    | 10,165  | -       |
| Short-term debt                            |               | 15,000          | 15,065     | -                    | 15,065  | -       |

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 June 30, 2017 are as follows:

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| Securities available for sale:<br>(dollars in thousands) | Less than 12 months |                 | 12 months or more |                 | Total      |                 |
|--|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|  | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. Agency  | \$ 500              | \$ 1            | \$ -              | \$ -            | \$500      | \$ 1            |
| State and Municipal                                      | 7,461               | 178             | 1,398             | 45              | 8,859      | 223             |
| Mortgage Backed  | 44,590              | 591             | -                 | -               | 44,590     | 591             |
|  | \$ 52,551           | \$ 770          | \$ 1,398          | \$ 45           | \$53,949   | \$ 815          |

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 June 30, 2017, 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 June 30, 2017, the Bank held 4 investment securities that were in a continuous unrealized loss position for more than 12 months. Management does not believe the securities are impaired due to reasons of credit quality. As of June 30, 2017, management believes the impairment detailed in the table above is temporary and no impairment loss has been recognized in the Company's consolidated income statement.

## NOTE 6 – 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. 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 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue 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. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance

obligation. ASU 2014-09 is effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company's financial statements.

ASU 2016-1, "No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-02 “Leases (Topic 842).” ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-2 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the potential impact of ASU 2016-02 on our financial statements.

ASU 2016-05 “Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 was effective for us on January 1, 2017 and did not have a significant impact on our financial statements.

ASU 2016-07, “Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.” The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 was effective for us on January 1, 2017 and did not have a significant impact on our financial statements.

ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” ASU 2016-08 was issued to clarify certain principal versus agent considerations within the implementation guidance of ASC Topic 606, “Revenue from Contracts with Customers.” The effective date and transition of ASU 2016-08 is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as discussed above. The Company is currently evaluating the potential impact of ASU 2016-08 on our financial statements.

ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide



accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 was effective on January 1, 2017 and did not have a significant impact on our financial statements.

ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." ASU 2016-10 was issued to clarify ASC *Topic 606*, "Revenue from Contracts with Customers" related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," as discussed above. The Company is currently evaluating the potential impact of ASU 2016-10 on our financial statements.

ASU No. 2016-12, "Revenue From Contracts With Customers (Topic 606) Narrow-Scope and Practical Expedients" which updated guidance intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” which updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). This Accounting Standards Update addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate- owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory.” ASU 2016-16 provides guidance stating that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash.” ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business.” ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification". ASU 2017-09 was used to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modification to terms and conditions that they consider substantive, but do not when they conclude that particular modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of change in fair value, vesting, or classification may be used to evaluate whether a change is substantive. ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for the annual period, and interim periods within the annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for: (a) public business entities for reporting periods for which financial statements have not yet been issued, and (b) all other entities for reporting periods for which financial statements have not yet been made available for issuances. ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company is currently in the process of evaluating the impact of ASU 2017-09 on its consolidated financial statements, but does not expect the adoption of ASU 2017-09 to have material impact on its consolidated financial statements.

## **ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. 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 Bank’s relationship management activities resulted in growth in the Bank’s loan portfolio of \$5.8 million or 2.2% in the first six months of 2017. Overall deposits increased by \$2.2 million or 0.6%. The Company has a very strong capital position and capacity for future growth with estimated total regulatory capital to risk weighted assets of 14.65% as of June 30, 2017. At June 30, 2017, the Bank remained above all “well-capitalized” regulatory requirement levels. The Bank’s estimated tier 1 risk-based capital ratio was 13.60% at June 30, 2017 as compared to 13.63% at December 31, 2016. Our liquidity position remained strong due to available cash and cash equivalents, borrowing lines with the FHLB of Atlanta and correspondent banks, and the size and composition of the investment portfolio. Net income available to common stockholders for the three and six month periods ended June 30, 2017 were \$0.34 million and \$0.65 million, respectively, or \$0.12 and \$0.23 per basic and diluted share compared to \$0.31 million and \$0.59 million, or \$0.11 and \$0.21 per basic and diluted share for the same periods of 2016. The results recorded for the first three and six months of 2017 exceeded the same period of 2016 due primarily to strong loan growth and materially improving efficiency metrics. Our ongoing efficiency efforts continue in 2017. For the three and six month periods ended June 30, 2017, noninterest expense was \$2.8 million and \$5.4 million, respectively, compared to \$2.7 million and \$5.4 million for the same periods of 2016. The primary contributor to the increase when compared to the three and six months ended June 30, 2016 was an increase in salaries and employee benefits.

## Results Of Operations

*Net Interest Income.* The Company's net interest income for the three and six months ended June 30, 2017 was \$2.90 million and \$5.73 million, respectively, compared to \$2.73 million and \$5.53 million, respectively, for the same period in 2016, an increase of \$164,000 (6.00%) for the three months and an increase of \$195,000 (3.52%) for the six months.

Interest income for the second quarter increased \$115,000 from \$3.27 million in 2016 to \$3.38 million in 2017, a 3.52% increase. Interest income for the six months increased \$87,000 from \$6.62 million in 2016 to \$6.71 million in 2017, a 1.31% increase. The primary reason for the increase in interest income for the 2017 periods when compared to the 2016 periods was the \$34,000 increase in loan income and a \$50,000 increase in interest income for state and municipal and Treasury and agency securities.

Interest expense for the second quarter decreased from \$536,000 in 2016 to \$487,000 in 2017, a 9.14% decrease. Interest expense for the six months decreased from \$1.09 million in 2016 to \$978,000 in 2017, a 10.11% decrease. Interest expense for the second quarter and six months of 2017 was lower than the comparable periods of 2016 primarily due to the decrease in rates paid on our deposit accounts and a decrease in interest paid on borrowings.

Net interest margins for the three and six months ended June 30, 2017 was 3.10% and 3.08% compared to 3.07% and 3.14% for the three and six months ended June 30, 2016. The decrease of the net interest margin for the second quarter was primarily due to declining yields on the loan portfolio as runoff on higher yielding 1-4 Family Loans is replaced with lower yielding Indirect Automobile Loans.

*Provision for Credit Losses.* The Company made a negative provision for credit losses of (\$30,000) and a provision of \$165,000 during the three and six month periods ending June 30, 2017 and \$0 and \$117,000 during the three and six month periods ending June 30, 2016. As of June 30, 2017, the allowance for credit losses equaled 72.52% of non-accrual and past due loans compared to 65.59% at December 31, 2016 and 80.61% at June 30, 2016. During the three and six month periods ended June 30, 2017, the Company recorded net charge-offs of (\$27,000) and \$50,000 compared to net charge-offs of \$21,000 and \$977,000 during the corresponding period of the prior year.

*Noninterest Income.* Noninterest income decreased to \$305,000 for the three month period ended June 30, 2017, from \$318,000 for the corresponding 2016 period, a \$13,000 (4.09%) increase. Noninterest income decreased to \$601,000 for the six month period ended June 30, 2017, from \$626,000 for the corresponding 2016 period, a \$25,000 (4.00%) decrease. The decreases for the three and six month periods were primarily due to decreases in service charges and other fees with lesser decreases in other areas.

*Noninterest Expenses.* Noninterest expenses increased from \$2.7 million for the three month period ended June 30, 2016, to \$2.8 million for the corresponding 2017 period, a \$132,000 (4.89%) increase. The increase for the three month period was due to higher salaries and employee benefit expenses. Noninterest expenses increased from \$5.4 million for the six month period ended June 30, 2016, to \$5.42 million for the corresponding 2017 period, a \$47,000 (0.88%) increase. The increase for the six month period was due to higher occupancy and other expenses.

*Income Taxes.* During the three and six months ended June 30, 2017, the Company recorded an income tax expenses of \$63,000 and \$92,000, respectively, compared to income tax expense of \$44,000 and \$78,000 for the same respective periods in 2016. The Company's effective tax rate for the three and six month periods in 2017 was 15.71% and 12.33%, respectively, compared to 12.50% and 11.66% for the prior year period. The increases in the effective tax rate for the three and six month periods was due to higher income driven by the improved credit of the overall loan portfolio resulting in a lower provision.

*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 portfolio of investment securities. For the second quarter of 2017, comprehensive loss, net of tax, totaled \$844,000, compared to \$971,000 for the same period in 2016. Year-to-date comprehensive income, net of tax, totaled \$1.2 million, compared to \$1.69 million for the same period in 2016. The decreases for the three and six month periods were due to decreases in net unrealized gains on securities as compared to previous comparative periods.

## **Financial Condition**

*General.* The Company's assets increased to \$396.1 million at June 30, 2017 from \$388.4 million at December 31, 2016, primarily due to an increase in cash and cash equivalents and loans, offset by a decrease in investment securities. The Bank's net loans totaled \$268.4 million at June 30, 2017, compared to \$262.6 million at December 31, 2016, an increase of \$5.8 million (2.23%), primarily attributable to an increase in indirect, multifamily, land and smaller increases in various other loan categories. These increases were partially offset by decreases in purchase money mortgages, refinance loans and commercial and industrial mortgages. There was also an increase in mortgage participations sold.

The Company's investment securities available for sale totaled \$90.6 million at June 30, 2017, a \$3.82 million (4.04%) decrease from \$94.4 million at December 31, 2016. 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 June 30, 2017, totaled \$17.3 million, an increase of \$6.7 million (63.2%) from the December 31, 2016 total of \$10.6 million.

Deposits as of June 30, 2017 totaled \$335.48 million, which is an increase of \$2.2 million (0.67%) from \$333.2 million at December 31, 2016. Demand deposits as of June 30, 2017, totaled \$105.6 million, which is an increase of \$5.5 million (5.49%) from \$100.1 million at December 31, 2016. NOW accounts as of June 30, 2017, totaled \$27 million, which is a decrease of \$2.4 million (8.05%) from \$29.4 million at December 31, 2016. Money market accounts as of June 30, 2017, totaled \$18.7 million, which is an increase of \$354,000 (1.93%), from \$18.3 million at December 31, 2016. Savings deposits as of June 30, 2017, totaled \$83.8 million, which is an increase of \$3.8 million (4.75%) from \$80.0 million at December 31, 2016. Certificates of deposit over \$100,000 totaled \$29.6 million on June 30, 2017, which is a decrease of \$1.3 million (4.07%) from \$30.9 million at December 31, 2016. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$70.4 million on June 30, 2017, which is a \$4.1 million (5.45%) decrease from the \$74.5 million total at December 31, 2016.

*Loans.* The following tables set forth the amount of the Bank's loans by categories at the dates indicated.

| (dollars in thousands)             | June 30,<br>2017 |         | December 31,<br>2016 |         |
|------------------------------------|------------------|---------|----------------------|---------|
|                                    | \$               | %       | \$                   | %       |
| <b>Mortgage:</b>                   |                  |         |                      |         |
| Residential                        | \$102,348        | 37.63 % | \$105,878            | 39.79 % |
| Commercial                         | 62,468           | 22.96   | 66,756               | 25.09   |
| Construction and land development  | 7,968            | 2.93    | 5,211                | 1.96    |
| <b>Consumer:</b>                   |                  |         |                      |         |
| Installment                        | 13,782           | 5.07    | 13,591               | 5.11    |
| Personal unsecured lines           | 94               | 0.03    | 89                   | 0.03    |
| Indirect automobile                | 81,633           | 30.01   | 69,902               | 26.27   |
| Commercial                         | 3,739            | 1.37    | 4,679                | 1.76    |
| Gross loan                         | 272,032          | 100.00% | 266,106              | 100.00% |
| Unearned income on loans           | (1,012 )         |         | (1,048 )             |         |
| Gross loans net of unearned income | 271,020          |         | 265,058              |         |
| Allowance for credit losses        | (2,599 )         |         | (2,484 )             |         |
| Loans, net                         | \$268,421        |         | \$262,574            |         |

The Bank's net loans totaled \$268.4 million at June 30, 2017, compared to \$262.6 million at December 31, 2016, an increase of \$5.8 million (2.23%). Construction loans increased from \$5.2 million to \$7.97 million (\$2.8 million or 52.91%). Commercial real estate loans decreased from \$66.8 million to \$62.4 million (\$4.3 or 6.42%) as loan payoffs outpaced loan originations.

*Other Real Estate Owned.* At June 30, 2017, the Company had \$114,000 in real estate acquired in partial or total satisfaction of debt, compared to \$114,000 at December 31, 2016. 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.

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Transactions in the allowance for credit losses for the six months ended June 30, 2017 and the year ended December 31, 2016 were as follows:

| June 30, 2017<br>(dollars in thousands)     | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Unallocated | Total    |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------|-------------|----------|
| Balance, beginning of year                  | \$ 284                          | \$ 259                    | \$ 876                      | \$ 1,051                   | \$ 14       | \$2,484  |
| Provision for credit losses                 | (27 )                           | 35                        | 211                         | (45 )                      | (9 )        | 165      |
| Recoveries                                  | -                               | -                         | 176                         | 27                         | -           | 203      |
| Loans charged off                           | -                               | -                         | (250 )                      | (3 )                       | -           | (253 )   |
| Balance, end of quarter                     | \$ 257                          | \$ 294                    | \$ 1,013                    | \$ 1,030                   | \$ 5        | \$2,599  |
| Individually evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 222                          | \$ -                      | \$ 65                       | \$ 451                     | \$ -        | \$738    |
| Related loan balance                        | 222                             | 1,367                     | 307                         | 1,425                      | -           | 3,321    |
| Collectively evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 35                           | \$ 294                    | \$ 948                      | \$ 579                     | \$ 5        | \$1,861  |
| Related loan balance                        | 3,517                           | 64,288                    | 95,202                      | 105,703                    | -           | 268,710  |
| <br>  |                                 |                           |                             |                            |             |          |
| December 31, 2016<br>(dollars in thousands) | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Unallocated | Total    |
| Balance, beginning of year                  | \$ 305                          | \$ 262                    | \$ 804                      | \$ 1,631                   | \$ 148      | \$3,150  |
| Provision for credit losses                 | (30 )                           | 361                       | 431                         | 240                        | (134 )      | 868      |
| Recoveries                                  | 9                               | -                         | 336                         | 34                         | -           | 379      |
| Loans charged off                           | -                               | (364 )                    | (695 )                      | (854 )                     | -           | (1,913 ) |
| Balance, end of year                        | \$ 284                          | \$ 259                    | \$ 876                      | \$ 1,051                   | \$ 14       | \$2,484  |
| Individually evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 229                          | \$ -                      | \$ 50                       | \$ 251                     | \$ -        | \$530    |
| Related loan balance                        | 229                             | 1,413                     | 503                         | 2,872                      | -           | 5,017    |
| Collectively evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 56                           | \$ 259                    | \$ 826                      | \$ 799                     | \$ 14       | \$1,954  |
| Related loan balance                        | 4,451                           | 68,009                    | 83,078                      | 105,552                    | -           | 261,090  |

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As of June 30, 2017 and December 31, 2016, the allowance for loan losses included an unallocated portion in the amount of \$5,000 and \$14,000, respectively. The unallocated portion of the allowance for credit losses is available to absorb further losses that may not necessarily be accounted for in the current model. Management believes the allowance for credit losses is at an appropriate level to absorb inherent probable losses in the portfolio.

|   | June 30,<br>2017              | June 30,<br>2016 |
|---|-------------------------------|------------------|
|   | <b>(dollars in thousands)</b> |                  |
| Average loans                                 | \$ 265,902                    | \$ 255,636       |
| Net charge-offs to average loans (annualized) | 0.01 %                        | 0.76 %           |

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During 2017, loans to 34 borrowers and related entities totaling approximately \$115,000 were determined to be uncollectible and were charged off.

*Reserve for Unfunded Commitments.* As of June 30, 2017, the Bank had outstanding commitments totaling \$23.98 million. 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:

|                                  | <b>Six Months<br/>Ended June 30,<br/>2017                  2016<br/>(Dollars in Thousands)</b> |       |
|----------------------------------|--|-------|
| Beginning balance                | \$ 25  | \$ 12 |
| Reduction of unfunded reserve    | (20 )  | (6 )  |
| Provisions charged to operations | 17   | -     |
| Ending balance                   | \$ 22  | \$ 6  |

*Contractual Obligations and Commitments.* No material changes, outside the normal course of business, have been made during the second quarter of 2017.

### **ITEM 3.            QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **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.

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The following table sets forth the Company's interest-rate sensitivity at June 30, 2017.

|   | 0-3<br>Months<br>(dollars in thousands) | Over 3 to<br>12 Months | Over 1<br>Through<br>5 Years | Over<br>5 Years  | Total            |
|---|---|------------------------|------------------------------|------------------|------------------|
| <b>Assets:</b>                                    |   |                        |                              |                  |                  |
| Cash and due from banks                           | \$-                                     | \$-                    | \$-                          | \$-              | \$14,487         |
| Federal funds and overnight deposits              | 2,851                                   | -                      | -                            | -                | 2,851            |
| Securities  | -                                       | 504                    | 2,006                        | 88,119           | 90,629           |
| Loans   | 16,976                                  | 3,903                  | 80,679                       | 166,863          | 268,421          |
| Fixed assets                                      | -                                       | -                      | -                            | -                | 3,547            |
| Other assets                                      | -                                       | -                      | -                            | -                | 16,191           |
| <b>Total assets</b>                               | <b>\$19,827</b>                         | <b>\$4,407</b>         | <b>\$82,685</b>              | <b>\$254,982</b> | <b>\$396,126</b> |
| <b>Liabilities:</b>                               |   |                        |                              |                  |                  |
| Demand deposit accounts                           | \$-                                     | \$-                    | \$-                          | \$-              | \$105,582        |
| NOW accounts                                      | 27,045                                  | -                      | -                            | -                | 27,045           |
| Money market deposit accounts                     | 18,710                                  | -                      | -                            | -                | 18,710           |
| Savings accounts                                  | 83,785                                  | -                      | -                            | -                | 83,785           |
| IRA accounts                                      | 1,490                                   | 5,410                  | 26,177                       | 1,103            | 34,180           |
| Certificates of deposit                           | 6,898                                   | 12,834                 | 46,212                       | 235              | 66,179           |
| Long-term borrowings                              | -                                       | -                      | 10,000                       | -                | 10,000           |
| Short-term borrowings                             | 15,000                                  | -                      | -                            | -                | 15,000           |
| Other liabilities                                 | -                                       | -                      | -                            | -                | 1,111            |
| Stockholders' equity:                             | -                                       | -                      | -                            | -                | 34,534           |
| <b>Total liabilities and stockholders' equity</b> | <b>\$152,928</b>                        | <b>\$18,244</b>        | <b>\$82,389</b>              | <b>\$1,338</b>   | <b>\$396,126</b> |
| <b>GAP</b>  | <b>\$(133,101)</b>                      | <b>\$(13,837)</b>      | <b>\$296</b>                 | <b>\$253,644</b> |                  |
| <b>Cumulative GAP</b>                             | <b>\$(133,101)</b>                      | <b>\$(146,938)</b>     | <b>\$(146,642)</b>           | <b>\$107,002</b> |                  |
| <b>Cumulative GAP as a % of total assets</b>      | <b>-33.60 %</b>                         | <b>-37.09 %</b>        | <b>-37.02 %</b>              | <b>27.01 %</b>   |                  |

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.

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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 liabilities may differ from the assumptions used in the model. As of June 30, 2017, the model produced the following sensitivity profile for net interest income and the economic value of equity.

|                                      | <b>Immediate Change in Rates</b> |                     |                     |                     |   |
|--------------------------------------|----------------------------------|---------------------|---------------------|---------------------|---|
|                                      | <b>-200</b>                      | <b>-100</b>         | <b>+100</b>         | <b>+200</b>         |   |
|                                      | <b>Basis</b>                     | <b>Basis Points</b> | <b>Basis Points</b> | <b>Basis Points</b> |   |
|                                      | <b>Points</b>                    |                     |                     |                     |   |
| % Change in Net Interest Income      | -16.3 %                          | -7.8                | % 5.1               | % 9.1               | % |
| % Change in Economic Value of Equity | -15.1 %                          | -2.6                | % 4.8               | % 1.1               | % |

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Inasmuch as a large portion of the Company's deposits are non-interest bearing, in an increasing interest rate environment the Company's interest income increases at a proportionally greater rate than its total interest expense, thereby resulting in higher net interest income. Conversely, in a declining interest rate environment the decreases in the Company's interest income will be greater than decreases in its already low interest expense, thereby resulting in lower net interest income. In a rising interest rate environment, the Company is positioned to generate less economic value of equity as asset values fall faster than funding sources because the liabilities reprice much slower than our assets, especially considering our interest earning assets are much greater than our interest bearing liabilities. The Company's economic value of equity worsens in declining interest rate environments as the majority of our liabilities cannot continue to decrease much from their current low levels thus the economic value of liabilities and assets both worsen.

### **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 June 30, 2017, totaled \$17.3 million, an increase of \$6.7 million (63.15%) from the December 31, 2016 total of \$10.6 million.

As of June 30, 2017, the Bank was permitted to draw on a \$55 million 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 December 31, 2016, there were \$10.0 million in short-term borrowings and \$10.0 million in long-term borrowings from FHLB. As of June 30, 2017, there were \$10.0 million in long-term convertible advances outstanding with various monthly and quarterly call features. There were also \$15.0 million in short-term borrowings that include a 30 day short-term fixed advance at FHLB that is due July 7, 2017, in the amount of \$5 million. 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 June 30, 2017.

The Company's stockholders' equity increased \$719,000 (2.13%) during the six months ended June 30, 2017, due to a decrease in accumulated other comprehensive loss, net of taxes and an increase in surplus and retained earnings. The Company's accumulated other comprehensive loss, net of taxes decreased by \$548,000 (67.65%) from (\$810,000) at December 31, 2016 to (\$262,000) at June 30, 2017, as a result of an increase in the market value of securities classified as available for sale. Retained earnings increased by \$96,000 (0.44%) as the result of the Company's net income for the six months, 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 June 30, 2017, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 8.61%, a Tier 1 risk-based capital ratio of 13.60%, a common equity Tier 1 risk-based capital ratio of 13.60%, and a total risk-based capital ratio of 14.65%. The Company's capital amounts and ratios at June 30, 2017 and December 31, 2016 were as follows:

| June 30, 2017                                  | Actual                 |        | Minimum capital adequacy |       | To be well capitalized |        |
|--|------------------------|--------|--------------------------|-------|------------------------|--------|
|  | Amount                 | Ratio  | Amount                   | Ratio | Amount                 | Ratio  |
|  | (dollars in thousands) |        |                          |       |                        |        |
| Common equity tier 1 (to risk-weighted assets) | \$33,837               | 13.60% | \$11,198                 | 4.50% | \$16,175               | 6.50%  |
| Total capital (to risk weighted assets)        | \$36,458               | 14.65% | \$19,907                 | 8.00% | \$24,884               | 10.00% |
| Tier 1 capital (to risk weighted assets)       | \$33,837               | 13.60% | \$14,931                 | 6.00% | \$19,907               | 8.00%  |
| Tier 1 leverage (to average assets)            | \$33,837               | 8.61%  | \$15,717                 | 4.00% | \$19,647               | 5.00%  |

| December 31, 2016                              | Actual                 |        | Minimum capital adequacy |       | To be well capitalized |        |
|--|------------------------|--------|--------------------------|-------|------------------------|--------|
|  | Amount                 | Ratio  | Amount                   | Ratio | Amount                 | Ratio  |
|  | (dollars in thousands) |        |                          |       |                        |        |
| Common equity tier 1 (to risk-weighted assets) | \$33,962               | 13.63% | \$11,213                 | 4.50% | \$16,197               | 6.50%  |
| Total capital (to risk weighted assets)        | \$36,471               | 14.64% | \$19,935                 | 8.00% | \$24,918               | 10.00% |
| Tier 1 capital (to risk weighted assets)       | \$33,962               | 13.63% | \$14,951                 | 6.00% | \$19,935               | 8.00%  |
| Tier 1 leverage (to average assets)            | \$33,962               | 8.68%  | \$15,659                 | 4.00% | \$19,574               | 5.00%  |

### 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, 2016 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.

**PART II - OTHER INFORMATION**

**ITEM. 1 LEGAL PROCEEDINGS**

In the normal course of business, we are party to litigation arising from the banking, financial, and other activities we conduct. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising from these matters will have a material effect on the Company's financial condition, operating results, or liquidity.

**ITEM 1A. RISK FACTORS**

The risks and uncertainties to which our financial condition and operations are subject are discussed in detail in Item 3 of Part I of the Annual Report on Form 10-K of Glen Burnie Bancorp for the year ended December 31, 2016

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**Exhibit**

- | <b>No.</b> |   |
|------------|---|
| 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   |
| 101        | Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, June 30, 2017 and December 31, 2016, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2017 and 2016, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016,and (vi) 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: August 11, 2017 By: /s/ John D. Long  
John D. Long  
President, Chief Executive Officer

By: /s/ Jeffrey D. Harris  
Jeffrey D. Harris  
Chief Financial Officer

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