

GLEN BURNIE BANCORP  
Form 10-Q  
May 14, 2013

**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 March 31, 2013

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**

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

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

**Glen Burnie, Maryland**

**21061**

(Address of principal executive offices) (Zip Code)

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

Inapplicable

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

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

Yes  No

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

Yes  No

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

At May 1, 2013, the number of shares outstanding of the registrant's common stock was 2,740,319.



**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b>Part I - Financial Information</b>  |             |
| <b><u>Item</u></b><br><b><u>1.</u></b> Consolidated Financial Statements:  |             |
| Condensed Consolidated Balance Sheets, March 31, 2013 (unaudited) and December 31, 2012 (audited)                            | 3           |
| Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2013 and 2012 (unaudited)                   | 4           |
| Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012 (unaudited)     | 5           |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012 (unaudited)               | 6           |
| Notes to Unaudited Condensed Consolidated Financial Statements   | 7           |
| <b><u>Item</u></b><br><b><u>2.</u></b> Management’s Discussion and Analysis of Financial Condition and Results of Operations | 12          |
| <b><u>Item</u></b><br><b><u>4.</u></b> Controls and Procedures   | 22          |
| <b>Part II - Other Information</b>   |             |
| <b><u>Item</u></b><br><b><u>6.</u></b> Exhibits  | 23          |
| Signatures   | 24          |

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

|   | March 31,<br>2013<br>(unaudited) | December 31,<br>2012<br>(audited) |
|---|----------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                                  |                                   |
| Cash and due from banks   | \$ 7,530                         | \$ 9,332                          |
| Interest-bearing deposits in other financial institutions                         | 6,663                            | 6,627                             |
| Federal funds sold  | 444                              | 2,669                             |
| Cash and cash equivalents   | 14,637                           | 18,628                            |
| Investment securities available for sale, at fair value                           | 103,298                          | 100,490                           |
| Federal Home Loan Bank stock, at cost   | 1,363                            | 1,448                             |
| Maryland Financial Bank stock   | 30                               | 30                                |
| Loans, less allowance for credit losses (March 31: \$3,291; December 31: \$3,308) | 252,070                          | 249,632                           |
| Premises and equipment, at cost, less accumulated depreciation                    | 3,874                            | 3,873                             |
| Other real estate owned   | 412                              | 478                               |
| Cash value of life insurance  | 8,739                            | 8,681                             |
| Other assets  | 4,444                            | 4,178                             |
| <b>Total assets</b>   | <b>\$ 388,867</b>                | <b>\$ 387,438</b>                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                       |                                  |                                   |
| <b>Liabilities:</b>   |                                  |                                   |
| Deposits  | \$ 334,141                       | \$ 332,289                        |
| Long-term borrowings  | 20,000                           | 20,000                            |
| Other liabilities   | 1,292                            | 1,561                             |
| <b>Total liabilities</b>  | <b>355,433</b>                   | <b>353,850</b>                    |
| Commitments and contingencies   |                                  |                                   |
| Stockholders' equity:   |                                  |                                   |
|   | 2,737                            | 2,737                             |

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding:

March 31: 2,736,978 shares; December 31: 2,736,978 shares

|  |            |            |
|--|------------|------------|
| Surplus  | 9,605      | 9,605      |
| Retained earnings                                  | 19,038     | 18,783     |
| Accumulated other comprehensive gain, net of taxes | 2,054      | 2,463      |
| Total stockholders' equity                         | 33,434     | 33,588     |
| <br>   |            |            |
| Total liabilities and stockholders' equity         | \$ 388,867 | \$ 387,438 |

*See accompanying notes to condensed consolidated financial statements.*

- 3 -

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

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2013                            | 2012    |
| Interest income on:                                   |                                 |         |
| Loans, including fees                                 | \$3,003                         | \$3,364 |
| U.S. Treasury and U.S. Government agency securities   | 187                             | 254     |
| State and municipal securities                        | 418                             | 417     |
| Other   | 22                              | 21      |
| Total interest income                                 | 3,630                           | 4,056   |
| Interest expense on:                                  |                                 |         |
| Deposits  | 559                             | 688     |
| Long-term borrowings                                  | 158                             | 160     |
| Total interest expense                                | 717                             | 848     |
| Net interest income                                   | 2,913                           | 3,208   |
| Provision for credit losses                           | -                               | -       |
| Net interest income after provision for credit losses | 2,913                           | 3,208   |
| Other income:   |                                 |         |
| Service charges on deposit accounts                   | 138                             | 143     |
| Other fees and commissions                            | 175                             | 187     |
| Other non-interest income                             | 6                               | 5       |
| Income on life insurance                              | 58                              | 60      |
| Gains on investment securities                        | 2                               | 23      |
| Total other income                                    | 379                             | 418     |
| Other expenses:                                       |                                 |         |
| Salaries and employee benefits                        | 1,655                           | 1,732   |
| Occupancy   | 202                             | 197     |
| Other expenses  | 828                             | 757     |
| Total other expenses                                  | 2,685                           | 2,686   |
| Income before income taxes                            | 607                             | 940     |
| Income tax expense                                    | 78                              | 210     |

|  |           |           |
|--|-----------|-----------|
| Net income   | \$529     | \$730     |
| Basic and diluted earnings per share of common stock | \$0.19    | \$0.27    |
| Weighted average shares of common stock outstanding  | 2,736,978 | 2,722,419 |
| Dividends declared per share of common stock         | \$0.10    | \$0.10    |

*See accompanying notes to condensed consolidated financial statements.*



**GLEN BURNIE BANCORP AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Dollars in Thousands)**

**(Unaudited)**

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2013                            | 2012     |
| Net income   | \$ 529                          | \$ 730   |
| Other comprehensive income, net of tax                       |                                 |          |
| Unrealized (losses) gains on securities:                     |                                 |          |
| Unrealized holding (losses) gains arising during the period  | (408 )                          | 303      |
| Reclassification adjustment for gains included in net income | (1 )                            | (14 )    |
| Comprehensive income   | \$ 120                          | \$ 1,019 |

*See accompanying notes to condensed consolidated financial statements.*

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

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2013                         | 2012     |
| Cash flows from operating activities:   |                              |          |
| Net income  | \$ 529                       | \$ 730   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |          |
| Depreciation, amortization, and accretion   | 383                          | 455      |
| Gains on disposals of assets, net   | (2 )                         | (23 )    |
| Income on investment in life insurance  | (58 )                        | (60 )    |
| Changes in assets and liabilities:  |                              |          |
| (Increase) decrease in other assets   | (6 )                         | 88       |
| Decrease in other liabilities   | (543 )                       | (498 )   |
| Net cash provided by operating activities   | 303                          | 692      |
| Cash flows from investing activities:   |                              |          |
| Maturities of available for sale mortgage-backed securities                       | 4,871                        | 5,075    |
| Proceeds from maturities and sales of other investment securities                 | 282                          | 2,544    |
| Purchases of investment securities  | (8,910 )                     | (8,855 ) |
| Purchase of Federal Home Loan Bank stock  | -                            | (4 )     |
| Sales of Federal Home Loan Bank stock   | 85                           | -        |
| Proceeds from sales of other real estate  | 66                           | 182      |
| Increase in loans, net  | (2,438 )                     | (5,829 ) |
| Purchases of premises and equipment   | (102 )                       | (45 )    |
| Net cash used by investing activities   | (6,146 )                     | (6,932 ) |
| Cash flows from financing activities:   |                              |          |
| Increase in deposits, net   | 1,852                        | 9,019    |
| Decrease in short-term borrowings, net  | -                            | (255 )   |
| Dividends paid  | -                            | (270 )   |
| Common stock dividends reinvested   | -                            | 36       |
| Net cash provided by financing activities   | 1,852                        | 8,530    |
| (Decrease) increase in cash and cash equivalents                                  | (3,991 )                     | 2,290    |

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents, beginning of year | 18,628    | 9,954     |
| Cash and cash equivalents, end of period     | \$ 14,637 | \$ 12,244 |

*See accompanying notes to condensed consolidated financial statements.*

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

The accompanying condensed balance sheet as of December 31, 2012, 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 months ended March 31, 2013 and 2012.

Operating results for the three months ended March 31, 2013 is not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

**NOTE 2 - EARNINGS PER SHARE**

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

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2013                            | 2012      |
| Basic and diluted:                         |                                 |           |
| Net income                                 | \$529,000                       | \$730,000 |
| Weighted average common shares outstanding | 2,736,978                       | 2,722,419 |
| Basic and dilutive net income per share    | \$0.19                          | \$0.27    |

Diluted earnings per share calculations were not required for the three months ended March 31, 2013 and 2012, since there were no options outstanding.

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

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

*ASU 2011-11, "Balance Sheet (Topic 210) – "Disclosures about Offsetting Assets and Liabilities."* ASU 2011-11 amends Topic 210, "Balance Sheet," to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's financial statements.

*ASU 2012-02 “Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment.”* ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for the Corporation beginning January 1, 2013 (early adoption permitted) and is not expected to have a significant impact on the Corporation’s financial statements.

*ASU 2013-02, Comprehensive Income (Topic 220), “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.”* ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This standard is effective prospectively for public entities for annual and interim reporting periods beginning after December 15, 2012. Being disclosure-related only, the Company’s adoption of ASU 2013-02 on January 1, 2013 did not have a material effect on the Company’s results of operations or financial condition.

#### **NOTE 4 – FAIR VALUE**

ASC 820-10, formerly SFAS No. 157, 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. No assets are valued under Level 1 inputs at March 31, 2013 or December 31, 2012. The Company has assets measured by fair value measurements on a non-recurring basis during 2013. At March 31, 2013, these assets include 18 loans classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, or troubled debt restructuring, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs and three properties classified as OREO valued under Level 2 inputs.

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

|  | (Dollars in Thousands) |           |         | Fair      |
|--|------------------------|-----------|---------|-----------|
| December 31, 2012                                    | Level 1                | Level 2   | Level 3 | Value     |
| Recurring:   |                        |           |         |           |
| Investment securities available for sale (AFS)       | \$-                    | \$100,490 | \$-     | \$100,490 |
| Non-recurring:                                       |                        |           |         |           |
| Maryland Financial Bank stock                        | -                      | -         | 30      | 30        |
| Impaired loans                                       | -                      | -         | 6,084   | 6,084     |
| OREO   | -                      | 478       | -       | 478       |
|  | -                      | 100,968   | 6,114   | 107,082   |
| Activity:  |                        |           |         |           |
| Investment securities AFS                            |                        |           |         |           |
| Purchases of investment securities                   | -                      | 8,910     | -       | 8,910     |
| Sales, calls and maturities of investment securities | -                      | (5,153 )  | -       | (5,153 )  |
| Amortization/accretion of premium/discount           | -                      | (273 )    | -       | (273 )    |
| Increase in market value                             | -                      | (676 )    | -       | (676 )    |
| Loans  |                        |           |         |           |
| New impaired loans                                   | -                      | -         | 170     | 170       |
| Payments and other loan reductions                   | -                      | -         | (130 )  | (130 )    |
| Change in total provision                            | -                      | -         | 118     | 118       |
| OREO   |                        |           |         |           |
| OREO converted from loans                            | -                      | -         | -       | -         |
| Sales of OREO  | -                      | (66 )     | -       | (66 )     |
| March 31, 2013                                       |                        |           |         |           |
| Recurring:   |                        |           |         |           |
| Investment securities AFS                            | -                      | 103,298   | -       | 103,298   |
| Non-recurring:                                       |                        |           |         |           |
| Maryland Financial Bank stock                        | -                      | -         | 30      | 30        |
| Impaired loans                                       | -                      | -         | 6,242   | 6,242     |
| OREO   | -                      | 412       | -       | 412       |
|  | \$-                    | \$103,710 | \$6,272 | \$109,982 |

The estimated fair values of the Company's financial instruments at March 31, 2013 and December 31, 2012 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.

- 9 -

| (In Thousands)                  | March 31, 2013  |            | December 31, 2012 |            |
|---------------------------------|-----------------|------------|-------------------|------------|
|                                 | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial assets:</b>        |                 |            |                   |            |
| Cash and due from banks         | \$7,530         | \$7,530    | \$9,332           | \$9,332    |
| Interest-bearing deposits       | 6,663           | 6,663      | 6,627             | 6,627      |
| Federal funds sold              | 444             | 444        | 2,669             | 2,669      |
| Investment securities           | 103,298         | 103,298    | 100,490           | 100,490    |
| Investments in restricted stock | 1,363           | 1,363      | 1,448             | 1,448      |
| Ground rents                    | 172             | 172        | 175               | 175        |
| Loans, net                      | 252,070         | 253,847    | 249,632           | 251,419    |
| Accrued interest receivable     | 1,320           | 1,320      | 1,450             | 1,450      |
| <b>Financial liabilities:</b>   |                 |            |                   |            |
| Deposits                        | 334,141         | 311,832    | 332,289           | 314,680    |
| Long-term borrowings            | 20,000          | 21,663     | 20,000            | 21,899     |
| Dividends payable               | 274             | 274        | -                 | -          |
| Accrued interest payable        | 33              | 33         | 28                | 28         |
| Off-balance sheet commitments   | 23,577          | 23,577     | 26,236            | 26,236     |

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 March 31, 2013 are as follows:

| Securities available for sale:<br>(Dollars in Thousands) | Less than 12 months |            | 12 months or more |            | Total |            |
|--|---------------------|------------|-------------------|------------|-------|------------|
|  | Fair                | Unrealized | Fair              | Unrealized | Fair  | Unrealized |
|  |                     |            |                   |            |       |            |

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

|                                   | Value     | Loss   | Value  | Loss   | Value    | Loss   |
|-----------------------------------|-----------|--------|--------|--------|----------|--------|
| Obligations of U.S. Govt Agencies | \$ -      | \$ -   | \$ -   | \$ -   | \$-      | \$ -   |
| State and Municipal               | 6,752     | 139    | 284    | 17     | 7,036    | 156    |
| Corporate Trust Preferred         | -         | -      | 217    | 132    | 217      | 132    |
| Mortgage Backed                   | 19,118    | 117    | -      | -      | 19,118   | 117    |
|                                   | \$ 25,870 | \$ 256 | \$ 501 | \$ 149 | \$26,371 | \$ 405 |

At March 31, 2013, the company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior Notes with a Moody's rating of Ca. The market for these securities at March 31, 2013 was not active and markets for similar securities were also not active. As a result, the Company had cash flow testing performed as of March 31, 2013 by an unrelated third party in order to measure the possible extent of other-than-temporary-impairment ("OTTI"). This testing assumed future defaults on the currently performing financial institutions of 150 basis points applied annually with a 0% recovery on both current and future defaulting financial institutions. As a result of this testing, no write-down was required in the first quarter of 2013.

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 March 31, 2013, 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 March 31, 2013 the Bank held 3 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgage-backed securities. The Bank has no mortgage-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Except as noted above, as of March 31, 2013, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

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

|   | At<br>March 31,<br>2013 | At<br>December 31,<br>2012 |
|---|-------------------------|----------------------------|
|   | (Dollars in Thousands)  |                            |
| Estimated credit losses, beginning of year  | \$ 3,247                | \$ 3,247                   |
| Credit losses - no previous OTTI recognized | -                       | -                          |
| Credit losses - previous OTTI recognized    | -                       | -                          |
| Estimated credit losses, end of period      | \$ 3,247                | \$ 3,247                   |

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

Forward-Looking Statements

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

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

Overview

Glen Burnie Bancorp, a Maryland corporation (the “Company”), through its subsidiary, The Bank of Glen Burnie, a Maryland banking corporation (the “Bank”), operates a commercial bank with eight offices in Anne Arundel County Maryland. The Company had consolidated net income of \$529,000 (\$0.19 basic and diluted earnings per share) for the first quarter of 2013, compared to the first quarter of 2012 consolidated net income of \$730,000 (\$0.27 basic and diluted income per share), a 27.53% decrease. The decrease in net income for the first quarter was primarily due to an increase in other expenses and decreases in income on loans, U.S. Government agency securities, and gains on investment securities. These decreases were partially offset by decreases in salaries and employee benefits and decreases in interest expense on deposits. During the three months ended March 31, 2013, the Bank increased deposits by \$1,852,000 and increased net loans by \$2,438,000.

Results Of Operations

*Net Interest Income.* The Company’s consolidated net interest income prior to provision for credit losses for the three months ended March 31, 2013 was \$2,913,000, compared to \$3,208,000 for the same period in 2012, a decrease of \$295,000 (9.20%) for the three months.

Interest income for the first quarter decreased from \$4,056,000 in 2012 to \$3,630,000 in 2013, a 10.50% decrease. While the Bank's net loans increased during these periods, interest income decreased for the three month period due to a decline in the interest rates on loans and U.S. Government agency securities.

Interest expense for the first quarter decreased from \$848,000 in 2012 to \$717,000 in 2013, a 15.45% decrease. While total deposits increased during the three months ended March 31, 2013, interest paid on deposit balances for the three month periods ended March 31, 2013 decreased due to lower interest rates paid on deposit balances.

Net interest margins on a tax equivalent basis for the three months ended March 31, 2013 was 3.56%, compared to 4.07% for the three months ended March 31, 2012. The decrease of the net interest margin from the 2012 to 2013 period was primarily due to the continuing decline in the interest rates on loans and U.S. Government Agency securities partially offset by the reduction in interest expense, as noted above.

*Provision for Credit Losses.* The Company made a provision for credit losses of \$0 during the three month periods ending March 31, 2013 and March 31, 2012. As of March 31, 2013, the allowance for credit losses equaled 57.82% of non-accrual and past due loans compared to 58.84% at December 31, 2012 and 79.71% at March 31, 2012. During the three month period ended March 31, 2013, the Company recorded net charge-offs of \$17,000, compared to net charge-offs of \$105,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2013 period represent 0.03% of the average loan portfolio.

*Other Income.* Other income decreased from \$418,000 for the three month period ended March 31, 2012, to \$379,000 for the corresponding 2013 period, a \$39,000 (9.33%) decrease. The decrease for the three month period was due to a decrease in gains on investment securities and a decrease in other fees and commissions.

*Other Expenses.* Other expenses decreased from \$2,686,000 for the three month period ended March 31, 2012, to \$2,685,000 for the corresponding 2013 period, a \$1,000 (0.04%) decrease. The decrease for the three month period was primarily due to the decrease in salary and employee benefits offset by an increase in other expenses.

*Income Taxes.* During the three months ended March 31, 2013, the Company recorded income tax expense of \$78,000, compared to income tax expense of \$210,000 for the same respective period in 2012. The Company's effective tax rate for the three month period in 2013 was 12.85%, compared to 22.34% for the prior year period. The decrease in the effective tax rate for the three month period was due to an increase in the proportion of tax exempt income included in net interest income.

*Comprehensive Income.* In accordance with regulatory requirements, the Company reports comprehensive income in its financial statements. Comprehensive income consists of the Company's net income, adjusted for unrealized gains and losses on the Bank's investment portfolio of investment securities. For the first quarter of 2013, comprehensive income, net of tax, totaled \$120,000, compared to the March 31, 2012 comprehensive income of \$1,019,000. The decrease was due to a decrease in net income and a decrease in the net unrealized gains on securities arising during the three month period.

## Financial Condition

*General.* The Company's assets increased to \$388,867,000 at March 31, 2013 from \$387,438,000 at December 31, 2012, primarily due to an increase in loans and investment securities and partially offset by a decrease in cash and cash equivalents. The Bank's net loans totaled \$252,070,000 at March 31, 2013, compared to \$249,632,000 at December 31, 2012, an increase of \$2,438,000 (0.98%), primarily attributable to an increase in purchase money mortgages, refinance mortgages, home equity loans and real estate construction (non-home owner occupied), offset by decreases primarily in indirect lending and residential construction.

The Company's total investment securities portfolio (investment securities available for sale) totaled \$103,298,000 at March 31, 2013, a \$2,808,000 (2.79%) increase from \$100,490,000 at December 31, 2012. 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 March 31, 2013, totaled \$14,637,000, a decrease of \$3,991,000 (21.43%) from the December 31, 2012 total of \$18,628,000. The decrease in cash and cash equivalents was used to buy securities and fund loans.

Deposits as of March 31, 2013, totaled \$334,141,000, which is an increase of \$1,852,000 (0.56%) from \$332,289,000 at December 31, 2012. Demand deposits as of March 31, 2013, totaled \$87,461,000, which is an increase of \$3,173,000 (3.76%) from \$84,288,000 at December 31, 2012. NOW accounts as of March 31, 2013, totaled \$29,144,000, which is a decrease of \$2,556,000 (8.06%) from \$31,700,000 at December 31, 2012. Money market

accounts as of March 31, 2013, totaled \$22,170,000, which is an increase of \$1,435,000 (6.92%), from \$20,735,000 at December 31, 2012. Savings deposits as of March 31, 2013, totaled \$69,457,000, which is an increase of \$780,000 (1.14%) from \$68,677,000 at December 31, 2012. Certificates of deposit over \$100,000 totaled \$27,397,000 on March 31, 2013, which is a decrease of \$817,000 (2.90%) from \$28,214,000 at December 31, 2012. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$98,512,000 on March 31, 2013, which is a \$163,000 (0.17%) decrease from the \$98,675,000 total at December 31, 2012.

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

The following table analyzes the age of past due loans, including both accruing and non-accruing loans, segregated by class of loans as of the three months ended March 31, 2013 and the year ended December 31, 2012.



Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

| At March 31, 2013<br>(Dollars in Thousands) |           | 30-89 Days | 90 Days or     |            |           |
|---|-----------|------------|----------------|------------|-----------|
|   | Current   | Past Due   | More and       | Nonaccrual | Total     |
|   |           |            | Still Accruing |            |           |
| Commercial and industrial                   | \$4,212   | \$ -       | \$ -           | \$ 202     | \$4,414   |
| Commercial real estate                      | 69,027    | -          | -              | 3,908      | 72,935    |
| Consumer and indirect                       | 62,769    | 979        | -              | 227        | 63,975    |
| Residential real estate                     | 113,501   | 376        | 291            | 1,064      | 115,232   |
|   | \$249,509 | \$ 1,355   | \$ 291         | \$ 5,401   | \$256,556 |

| At December 31, 2012<br>(Dollars in Thousands) |           | 30-89 Days | 90 Days or     |            |           |
|--|-----------|------------|----------------|------------|-----------|
|  | Current   | Past Due   | More and       | Nonaccrual | Total     |
|  |           |            | Still Accruing |            |           |
| Commercial and industrial                      | \$4,678   | \$ 206     | \$ -           | \$ 17      | \$4,901   |
| Commercial real estate                         | 68,880    | -          | 1,354          | 2,645      | 72,879    |
| Consumer and indirect                          | 64,428    | 1,431      | -              | 237        | 66,096    |
| Residential real estate                        | 108,545   | 233        | 259            | 1,109      | 110,146   |
|  | \$246,531 | \$ 1,870   | \$ 1,613       | \$ 4,008   | \$254,022 |

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 March 31, 2013, the allowance for loan loss is \$3,291,000 and the unearned income is \$1,195,000. For the period ending December 31, 2012, the allowance for loan loss is \$3,308,000 and the unearned income is \$1,083,000.

|   | At<br>March<br>31,<br>2013 | At<br>December 31,<br>2012 |  |  |
|---|----------------------------|----------------------------|--|--|
|   | (Dollars in Thousands)     |                            |  |  |
| Restructured loans  | \$ 2,144                   | \$ 2,202                   |  |  |
| Non-accrual and 90 days or more and still accruing loans to gross loans                 | 2.21 %                     | 2.22 %                     |  |  |
| Allowance for credit losses to non-accrual and 90 days or more and still accruing loans | 57.82 %                    | 58.84 %                    |  |  |

At March 31, 2013, there was \$1,598,000 in loans outstanding, included in the current and 30-89 days past due columns in the above table, as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. Such loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency, or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors.

Non-accrual loans with specific reserves at March 31, 2013 are comprised of:

Consumer loans – One loan to one borrower in the amount of \$147,000 with a specific reserve of \$30,000 established for the loan.

Commercial loans - Three loans to two borrowers totaling \$134,000 with \$134,000 of specific reserves established.

- 14 -

Commercial Real Estate – Three loans to three borrowers in the amount of \$2,596,000, secured by commercial and/or residential properties with a specific reserve of \$394,000 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 March 31, 2013 and December 31, 2012.

(Dollars in thousands)

| March 31, 2013                                | 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                                   | \$ 180                 | 180                            | 3                                | 35                  | 180                               |
| Commercial                                    | 3,574                  | 3,574                          | 15                               | 705                 | 3,595                             |
| Consumer                                      | 76                     | 76                             | 1                                | 20                  | 76                                |
| Installment                                   | 239                    | 239                            | -                                | 70                  | 239                               |
| Home Equity                                   | -                      | -                              | -                                | -                   | -                                 |
| Commercial                                    | 407                    | 407                            | 4                                | 408                 | 410                               |
| Total impaired loans with specific reserves   | \$ 4,476               | 4,476                          | 23                               | 1,238               | 4,500                             |
| Impaired loans with no specific reserve:      |                        |                                |                                  |                     |                                   |
| Real-estate - mortgage:                       |                        |                                |                                  |                     |                                   |
| Residential                                   | \$ 1,304               | 1,752                          | 1                                | n/a                 | 1,557                             |
| Commercial                                    | 1,311                  | 1,311                          | -                                | n/a                 | 1,347                             |
| Consumer                                      | 51                     | 51                             | -                                | n/a                 | -                                 |
| Installment                                   | 218                    | 218                            | -                                | n/a                 | -                                 |
| Home Equity                                   | 50                     | 50                             | -                                | n/a                 | 50                                |
| Commercial                                    | 69                     | 69                             | -                                | n/a                 | 69                                |
| Total impaired loans with no specific reserve | \$ 3,003               | 3,451                          | 1                                | -                   | 3,023                             |

- 15 -

(Dollars in thousands)

| December 31, 2012                             | Recorded Investment | Unpaid Principal Balance | Interest Income Recognized | Specific Reserve | Average Recorded Investment |
|---|---------------------|--------------------------|----------------------------|------------------|-----------------------------|
| Impaired loans with specific reserves:        |                     |                          |                            |                  |                             |
| Real-estate - mortgage:                       |                     |                          |                            |                  |                             |
| Residential                                   | \$ 180              | 180                      | 12                         | 36               | 182                         |
| Commercial                                    | 3,611               | 4,211                    | 99                         | 808              | 3,642                       |
| Consumer                                      | 76                  | 76                       | 8                          | 20               | 76                          |
| Installment                                   | 147                 | 147                      | 8                          | 30               | 148                         |
| Home Equity                                   | -                   | -                        | -                          | -                | -                           |
| Commercial                                    | 421                 | 421                      | 20                         | 421              | 432                         |
| Total impaired loans with specific reserves   | \$ 4,435            | 5,035                    | 147                        | 1,315            | 4,480                       |
| Impaired loans with no specific reserve:      |                     |                          |                            |                  |                             |
| Real-estate - mortgage:                       |                     |                          |                            |                  |                             |
| Residential                                   | \$ 1,365            | 1,812                    | 75                         | n/a              | 1,795                       |
| Commercial                                    | 1,370               | 1,370                    | -                          | n/a              | 2,441                       |
| Consumer                                      | 1                   | -                        | -                          | n/a              | -                           |
| Installment                                   | 228                 | -                        | -                          | n/a              | -                           |
| Home Equity                                   | -                   | -                        | -                          | n/a              | -                           |
| Commercial                                    | -                   | -                        | -                          | n/a              | -                           |
| Total impaired loans with no specific reserve | \$ 2,964            | 3,182                    | 75                         | -                | 4,236                       |

### Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the quarter ending March 31, 2013 and the year ended December 31, 2012. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank's internal risk ratings are as follows:

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

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

- 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)

- 16 -

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:

| March 31, 2013<br>(Dollars in Thousands)    | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Total     |
|---|---------------------------------|---------------------------|-----------------------------|----------------------------|-----------|
| Pass  | \$ 3,825                        | \$ 63,486                 | \$ 62,459                   | \$ 113,038                 | \$242,808 |
| Special mention                             | 181                             | 5,875                     | 983                         | 1,182                      | 8,221     |
| Substandard                                 | 408                             | 3,574                     | 453                         | 1,012                      | 5,447     |
| Doubtful                                    | -                               | -                         | 80                          | -                          | 80        |
| Loss  | -                               | -                         | -                           | -                          | -         |
|   | \$ 4,414                        | \$ 72,935                 | \$ 63,975                   | \$ 115,232                 | \$256,556 |
| Non-accrual                                 | 202                             | 3,908                     | 227                         | 1,064                      | 5,401     |
| Troubled debt restructures                  | -                               | 1,311                     | -                           | 832                        | 2,143     |
| Number of TDRs contracts                    | -                               | 1                         | -                           | 1                          | 2         |
| Non-performing TDRs                         | -                               | 1,311                     | -                           | 832                        | 2,143     |
| Number of TDR accounts                      | -                               | 1                         | -                           | 1                          | 2         |
|   |                                 |                           |                             |                            |           |
| December 31, 2012<br>(Dollars in Thousands) | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer<br>and<br>Indirect | Residential<br>Real Estate | Total     |
| Pass  | \$ 4,296                        | \$ 63,297                 | \$ 64,160                   | \$ 107,944                 | 239,697   |
| Special mention                             | 184                             | 5,971                     | 1,485                       | 1,189                      | 8,829     |
| Substandard                                 | 421                             | 3,611                     | 361                         | 1,013                      | 5,406     |
| Doubtful                                    | -                               | -                         | 90                          | -                          | 90        |
| Loss  | -                               | -                         | -                           | -                          | -         |
|   | \$ 4,901                        | \$ 72,879                 | \$ 66,096                   | \$ 110,146                 | \$254,022 |
| Non-accrual                                 | 17                              | 2,645                     | 237                         | 1,109                      | 4,008     |
| Troubled debt restructures                  | -                               | 1,370                     | -                           | 832                        | 2,202     |
| Number of TDRs contracts                    | -                               | 1                         | -                           | 1                          | 2         |
| Non-performing TDRs                         | -                               | 1,370                     | -                           | 832                        | 2,202     |
| Number of TDR accounts                      | -                               | 1                         | -                           | 1                          | 2         |

At March 31, 2013, the Bank has one modified residential loan (done in 2011) in the amount of \$832,500 which modifications qualify the loan as Troubled Debt Restructuring (TDR). The loan is included in the schedule above of

non-accruing impaired loans. This borrower is no longer in compliance with the modified term. The Bank has one modified commercial real estate loan (done in 2010) in the amount of \$1,311,293 which modifications qualify the loan as Troubled Debt Restructuring (TDR). The loan is included in the schedule above of non-accruing impaired loans. This borrower is not in compliance with the modified term and is not accruing interest. The reduction in the outstanding recorded amount is due to the sale of part of the building.

*Other Real Estate Owned.* At March 31, 2013, the Company had \$412,000 in real estate acquired in partial or total satisfaction of debt, compared to \$478,000 at December 31, 2012. This decrease for 2013 was the result of sales of units in a property acquired in 2011 along with the sale of a property acquired in the third quarter of 2012. All such properties are recorded at the lower of cost or fair value at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and expense of operation are included in non-interest expense. Gains and losses realized from the sale of other real estate owned are included in non-interest income or expense.

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

Transactions in the allowance for credit losses for the three months ended March 31, 2013 and the year ended December 31, 2012 were as follows:

| March 31, 2013<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                  | \$ 542                          | \$ 1,183                  | \$ 1,058                    | \$ 393                     | \$ 132      | \$3,308  |
| Provision for credit losses                 | (15 )                           | (146 )                    | (129 )                      | (5 )                       | 295         | -        |
| Recoveries                                  | 1                               | 22                        | 79                          | -                          | -           | 102      |
| Loans charged off                           | (12 )                           | -                         | (107 )                      | -                          | -           | (119 )   |
| Balance, end of quarter                     | \$ 516                          | \$ 1,059                  | \$ 901                      | \$ 388                     | \$ 427      | \$3,291  |
| Individually evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 408                          | \$ 705                    | \$ 90                       | \$ 35                      | \$ -        | \$1,238  |
| Related loan balance                        | 476                             | 4,885                     | 634                         | 1,484                      | -           | 7,479    |
| Collectively evaluated for impairment:      |                                 |                           |                             |                            |             |          |
| Balance in allowance                        | \$ 108                          | \$ 354                    | \$ 811                      | \$ 353                     | \$ 427      | \$2,053  |
| Related loan balance                        | 3,938                           | 68,050                    | 63,341                      | 113,748                    | -           | 249,077  |
| <br>  |                                 |                           |                             |                            |             |          |
| December 31, 2012<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                  | \$ 557                          | \$ 2,013                  | \$ 889                      | \$ 596                     | \$ (124 )   | \$3,931  |
| Provision for credit losses                 | 29                              | (919 )                    | 358                         | 526                        | 256         | 250      |
| Recoveries                                  | 11                              | 89                        | 286                         | 6                          | -           | 392      |
| Loans charged off                           | (55 )                           | -                         | (475 )                      | (735 )                     | -           | (1,265 ) |
| Balance, end of year                        | \$ 542                          | \$ 1,183                  | \$ 1,058                    | \$ 393                     | \$ 132      | \$3,308  |



Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

Individually evaluated for impairment:

|                      |        |        |       |       |      |         |
|----------------------|--------|--------|-------|-------|------|---------|
| Balance in allowance | \$ 451 | \$ 808 | \$ 20 | \$ 36 | \$ - | \$1,315 |
| Related loan balance | 796    | 4,981  | 77    | 1,545 | -    | 7,399   |

Collectively evaluated for impairment:

|                      |       |        |          |         |        |         |
|----------------------|-------|--------|----------|---------|--------|---------|
| Balance in allowance | \$ 91 | \$ 375 | \$ 1,038 | \$ 357  | \$ 132 | \$1,993 |
| Related loan balance | 4,105 | 67,898 | 66,019   | 108,601 | -      | 246,623 |

- 18 -

As of March 31, 2013 and December 31, 2012, the allowance for loan losses included an unallocated excess amount of \$427,000 and \$132,000, respectively. Management is comfortable with these amounts as they feel the amounts are adequate to absorb additional inherent potential losses in the loan portfolio.

|   | At<br>March<br>31,<br>2013<br>(Dollars in Thousands) | At<br>March 31,<br>2012<br>(Dollars in Thousands) |
|---|--|---|
| Average loans                                 | \$251,084  | \$234,177   |
| Net charge-offs to average loans (annualized) | 0.03 %   | 0.18 %  |

During 2013, loans to 14 borrowers and related entities totaling approximately \$119,000 were determined to be uncollectible and were charged off.

*Reserve for Unfunded Commitments.* As of March 31, 2013, the Bank had outstanding commitments totaling \$23,577,000. These outstanding commitments consisted of letters of credit, undrawn lines of credit, and other loan commitments. The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

|                                  | Three Months Ended March 31,<br>2013                      2012<br>(Dollars in Thousands) |        |
|----------------------------------|--|--------|
| Beginning balance                | \$ 200   | \$ 200 |
| Provisions charged to operations | -  | -      |
| Ending balance                   | \$ 200   | \$ 200 |

*Contractual Obligations and Commitments.* No material changes, outside the normal course of business, have been made during the first quarter of 2013.

#### **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.

- 19 -

The following table sets forth the Company's interest-rate sensitivity at March 31, 2013.

|   | 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                           | \$-                                     | \$-                    | \$-                          | \$-               | \$ 14,193         |
| Federal funds and overnight deposits              | 444                                     | -                      | -                            | -                 | 444               |
| Securities  | 125                                     | -                      | 569                          | 102,604           | 103,298           |
| Loans   | 13,492                                  | 12,926                 | 66,610                       | 159,042           | 252,070           |
| Fixed assets                                      | -                                       | -                      | -                            | -                 | 3,874             |
| Other assets                                      | -                                       | -                      | -                            | -                 | 14,988            |
| <b>Total assets</b>                               | <b>\$ 14,061</b>                        | <b>\$ 12,926</b>       | <b>\$ 67,179</b>             | <b>\$ 261,646</b> | <b>\$ 388,867</b> |
| <b>Liabilities:</b>                               |   |                        |                              |                   |                   |
| Demand deposit accounts                           | \$-                                     | \$-                    | \$-                          | \$-               | \$ 87,461         |
| NOW accounts                                      | 29,144                                  | -                      | -                            | -                 | 29,144            |
| Money market deposit accounts                     | 22,170                                  | -                      | -                            | -                 | 22,170            |
| Savings accounts                                  | 69,092                                  | 365                    | -                            | -                 | 69,457            |
| IRA accounts                                      | 3,173                                   | 17,318                 | 22,264                       | 1,853             | 44,608            |
| Certificates of deposit                           | 12,910                                  | 33,908                 | # 33,962                     | 521               | 81,301            |
| Long-term borrowings                              | -                                       | -                      | -                            | 20,000            | 20,000            |
| Other liabilities                                 | -                                       | -                      | -                            | -                 | 1,292             |
| Stockholders' equity:                             | -                                       | -                      | -                            | -                 | 33,434            |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 136,489</b>                       | <b>\$ 51,591</b>       | <b>\$ 56,226</b>             | <b>\$ 22,374</b>  | <b>\$ 388,867</b> |
| GAP   | \$(122,428)                             | \$(38,665 )            | \$ 10,953                    | \$ 239,272        |                   |
| Cumulative GAP                                    | \$(122,428)                             | \$(161,093 )           | \$(150,140)                  | \$ 89,132         |                   |
| Cumulative GAP as a % of total assets             | -31.48 %                                | -41.43 %               | -38.61 %                     | 22.92 %           |                   |

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

In addition to GAP analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The

Edgar Filing: GLEN BURNIE BANCORP - Form 10-Q

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 March 31, 2013, the model produced the following sensitivity profile for net interest income and the economic value of equity.

|                                      | Immediate Change in Rates |                      |                      |                      |
|--------------------------------------|---------------------------|----------------------|----------------------|----------------------|
|                                      | -200<br>Basis<br>Points   | -100<br>Basis Points | +100<br>Basis Points | +200<br>Basis Points |
| % Change in Net Interest Income      | -9.2 %                    | -5.7 %               | 0.4 %                | -0.1 %               |
| % Change in Economic Value of Equity | -19.3 %                   | -11.6 %              | 0.4 %                | -5.8 %               |

- 20 -

## 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 March 31, 2013, totaled \$14,637,000, a decrease of \$3,991,000 (21.43%) from the December 31, 2012 total of \$18,628,000.

As of March 31, 2013, the Bank was permitted to draw on a \$55,195,000 line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans. As of March 31, 2013, there were \$20.0 million in long-term convertible advances outstanding with various monthly and quarterly call features and with final maturities through August 2018. In addition, the Bank has two unsecured federal funds lines of credit in the amount of \$3.0 million from a commercial bank and a \$5.0 million from a financial bank, of which nothing was outstanding as of March 31, 2013.

The Company's stockholders' equity decreased \$154,000 (0.46%) during the three months ended March 31, 2013, due mainly to a decrease in other comprehensive gain, net of taxes, and an increase in retained net income from the period. The Company's accumulated other comprehensive gain, net of taxes decreased by \$409,000 (16.61%) from \$2,463,000 at December 31, 2012 to \$2,054,000 at September 30, 2012, as a result of a decrease in the market value of securities classified as available for sale. Retained earnings increased by \$255,000 (1.36%) as the result of the Company's net income for the three months, partially offset by dividends.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two

sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to “risk-weighted” assets. At March 31, 2013, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 8.09%, a Tier 1 risk-based capital ratio of 12.86% and a total risk-based capital ratio of 14.11%.

### **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, 2012 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 6. EXHIBITS

Exhibit

- No.
- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
  - 3.2 Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
  - 3.3 Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
  - 3.4 By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
  - 10.1 Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No.33-62280)
  - 10.2 The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
  - 10.3 Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
  - 31.1 Rule 15d-14(a) Certification of Chief Executive Officer
  - 31.2 Rule 15d-14(a) Certification of Chief Financial Officer
  - 32.1 Section 1350 Certifications
  - 99.1 Press release dated May 9, 2013
- Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, March 31, 2013 and December 31, 2012, (ii)
- 101 Condensed Consolidated Statements of Income for the three months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (v) Notes to Unaudited Condensed Consolidated Financial Statements

**SIGNATURES**

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

GLEN BURNIE BANCORP  
(Registrant)

Date: May 14, 2013 By: /s/ Michael G. Livingston.  
Michael G. Livingston  
President, Chief Executive Officer

By: /s/ John E. Porter  
John E. Porter  
Chief Financial Officer