

GLEN BURNIE BANCORP
Form 10-Q
May 15, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly period ended March 31, 2014

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. 21061
Glen Burnie, Maryland (Zip Code)
(Address of principal executive
offices)

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

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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 6, 2014, the number of shares outstanding of the registrant’s common stock was 2,754,305.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS	March 31, 2014 (unaudited)	December 31, 2013 (audited)
Cash and due from banks	\$8,237	\$9,214
Interest-bearing deposits in other financial institutions	6,948	1,636
Federal funds sold	4,194	103
Cash and cash equivalents	19,379	10,953
Investment securities available for sale, at fair value	73,464	74,314
Federal Home Loan Bank stock, at cost	1,328	1,453
Maryland Financial Bank stock	30	30
Loans, less allowance for credit losses (March 31: \$2,976; December 31: \$2,972)	278,548	270,684
Premises and equipment, at cost, less accumulated depreciation	3,723	3,697
Other real estate owned	863	1,171
Cash value of life insurance	8,970	8,915
Other assets	5,080	5,977
Total assets	\$391,385	\$377,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$336,923	\$323,803
Long-term borrowings	20,000	20,000
Other liabilities	1,466	1,807
Total liabilities	358,389	345,610
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding: March 31: 2,750,876 shares; December 31: 2,747,370 shares	2,751	2,747
Surplus	9,750	9,714
Retained earnings	20,498	20,301
Accumulated other comprehensive loss, net of taxes	(3) (1,178)
Total stockholders' equity	32,996	31,584

Total liabilities and stockholders' equity	\$391,385	\$377,194
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See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Interest income on:		
Loans, including fees	\$3,106	\$3,003
U.S. Treasury and U.S. Government agency securities	216	187
State and municipal securities	330	418
Other	23	22
Total interest income	3,675	3,630
Interest expense on:		
Deposits	430	559
Long-term borrowings	158	158
Total interest expense	588	717
Net interest income	3,087	2,913
Provision for credit losses	38	-
Net interest income after provision for credit losses	3,049	2,913
Other income:		
Service charges on deposit accounts	124	138
Other fees and commissions	171	175
Other non-interest income	4	6
Income on life insurance	55	58
Gains on investment securities	79	2
Total other income	433	379
Other expenses:		
Salaries and employee benefits	1,677	1,655
Occupancy	222	202
Other expenses	1,016	828
Total other expenses	2,915	2,685
Income before income taxes	567	607
Income tax expense	94	78
Net income	\$473	\$529
Basic and diluted earnings per share of common stock	\$0.17	\$0.19

Weighted average shares of common stock outstanding	2,750,603	2,736,978
Dividends declared per share of common stock	\$0.10	\$0.10

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$473	\$529
Other comprehensive income, net of tax		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	1,223	(408)
Reclassification adjustment for gains included in net income	(48)	(1)
Comprehensive income	\$1,648	\$120

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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$473	\$529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	144	383
Provision for credit losses	38	-
Gains on disposals of assets, net	(1) (2
Income on investment in life insurance	(55) (58
Changes in assets and liabilities:		
Decrease (increase) in other assets	116	(6
Decrease in other liabilities	(342) (543
Net cash provided by operating activities	373	303
Cash flows from investing activities:		
Maturities of available for sale mortgage-backed securities	1,820	4,871
Proceeds from maturities and sales of other investment securities	2,263	282
Purchases of investment securities	(1,244) (8,910
Sales of Federal Home Loan Bank stock	125	85
Proceeds from sales of other real estate	230	66
Increase in loans, net	(7,902) (2,438
Purchases of premises and equipment	(124) (102
Net cash used by investing activities	(4,832) (6,146
Cash flows from financing activities:		
Increase in deposits, net	13,120	1,852
Dividends paid	(275) -
Common stock dividends reinvested	40	-
Net cash provided by financing activities	12,885	1,852
Increase (decrease) in cash and cash equivalents	8,426	(3,991
Cash and cash equivalents, beginning of year	10,953	18,628
Cash and cash equivalents, end of period	\$19,379	\$14,637

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, 2013, 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, 2014 and 2013.

Operating results for the three months ended March 31, 2014 is not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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 March 31,	
	2014	2013
Basic and diluted:		
Net income	\$ 473,000	\$ 529,000
Weighted average common shares outstanding	2,750,603	2,736,978
Basic and dilutive net income per share	\$ 0.17	\$ 0.19

Diluted earnings per share calculations were not required for the three months ended March 31, 2014 and 2013, 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 did not have a material effect on the Company’s results of operations or financial condition.

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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 and did not have a material effect on the Company’s results of operations or financial condition.

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.

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

NOTE 4 – FAIR VALUE

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

Fair Value Hierarchy

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

- o Level 1 – Quoted prices in active markets for identical securities
- o Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)
- o Level 3 – Significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments)

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

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. Two assets are valued under Level 1 inputs at March 31, 2014 or December 31, 2013. The Company has assets measured by fair value measurements on a non-recurring basis during 2014. At March 31, 2014, these assets include 20 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 two properties classified as OREO valued under Level 2 inputs.

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

	(Dollars in Thousands)			Fair Value
	Level 1	Level 2	Level 3	
December 31, 2013				
Recurring:				
Investment securities available for sale (AFS)	\$ 574	\$ 73,516	\$ 224	\$ 74,314
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	4,745	4,745
OREO	-	1,171	-	1,171
	574	74,687	4,999	80,260
Activity:				
Investment securities AFS				
Purchases of investment securities	-	1,244	-	1,244
Sales, calls and maturities of investment securities	-	(4,083)	-	(4,083)
Amortization/accretion of premium/discount	-	(41)	-	(41)
Increase (decrease) in market value	124	2,004	(98)	2,030
Loans				
Payments and other loan reductions	-	-	(179)	(179)
Change in total provision	-	-	(85)	(85)
Loans converted to OREO	-	-	-	-
OREO				
OREO converted from loans	-	-	-	-
Sales of OREO	-	(230)	-	(230)
Loss on disposal of OREO	-	(78)	-	(78)
March 31, 2014				
Recurring:				
Investment securities AFS	698	72,640	126	73,464
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	4,481	4,481
OREO	-	863	-	863
	\$ 698	\$ 73,503	\$ 4,637	\$ 78,838

The estimated fair values of the Company's financial instruments at March 31, 2014 and December 31, 2013 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.

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(In Thousands)	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 8,237	\$ 8,237	\$ 9,214	\$ 9,214
Interest-bearing deposits	6,948	6,948	1,636	1,636
Federal funds sold	4,194	4,194	103	103
Investment securities	73,464	73,464	74,314	74,314
Investments in restricted stock	1,328	1,328	1,453	1,453
Ground rents	172	172	169	169
Loans, net	278,548	270,332	270,684	270,684
Accrued interest receivable	1,347	1,347	1,509	1,509
Financial liabilities:				
Deposits	336,923	303,257	323,803	291,046
Long-term borrowings	20,000	21,021	20,000	21,032
Dividends payable	275	275	275	275
Accrued interest payable	37	37	29	29
Off-balance sheet commitments				
	24,761	24,761	23,901	23,901

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, 2014 are as follows:

Securities available for sale:	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(Dollars in Thousands)						
Obligations of U.S.						
Govt Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State and Municipal	7,275	404	3,251	353	10,526	757

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Corporate Trust						
Preferred	-	-	126	120	126	120
Mortgage Backed	18,559	793	8,679	554	27,238	1,347
	\$ 25,834	\$ 1,197	\$ 12,056	\$ 1,027	\$ 37,890	\$ 2,224

At March 31, 2014, the company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior Notes with a Moody's rating of Ca. The market for this security (two different portions) at March 31, 2014 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, 2014 by an unrelated third party specialist in order to measure the possible extent of other-than-temporary-impairment ("OTTI"). This testing assumed future defaults on the currently performing financial institutions of 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 2014. There was a write-down of \$15,312 done on the larger portion of the security during the third quarter of 2013 and a write-down of \$269 done on the larger portion of the security during the fourth quarter of 2013.

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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, 2014, 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, 2014, the Bank held 19 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, 2014, 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 March 31, 2014	At December 31, 2013
	(Dollars in Thousands)	
Estimated credit losses, beginning of year	\$ 3,262	\$ 3,247
Credit losses - no previous OTTI recognized	-	-
Credit losses - previous OTTI recognized	-	15
Estimated credit losses, end of period	\$ 3,262	\$ 3,262

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. 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 \$473,000 (\$0.17 basic and diluted earnings per share) for the first quarter of 2014, compared to the first quarter of 2013 consolidated net income of \$529,000 (\$0.19 basic and diluted income per share), a 10.59% decrease. The decrease in net income for the first quarter was primarily due to increases in other expenses and provision for loan loss, partially offset by decreases in interest expense and an increase in gains on investment securities. During the three months ended March 31, 2014, deposits increased by \$13,120,000 and net loans increased by \$7,864,000.

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, 2014 was \$3,087,000, compared to \$2,913,000 for the same period in 2013, an increase of \$174,000 (5.98%) for the three months.

Interest income for the first quarter increased from \$3,630,000 in 2013 to \$3,675,000 in 2014, a 1.24% increase. This increase was primarily due to the increased volume of loans during the quarter.

Interest expense for the first quarter decreased from \$717,000 in 2013 to \$588,000 in 2014, an 18.00% decrease. The decrease was due to the lower interest rates paid on deposit balances.

Net interest margins on a tax equivalent basis for the three months ended March 31, 2014 was 3.74%, compared to 3.56% for the three months ended March 31, 2013. The increase of the net interest margin for the first quarter was primarily due to improvement in the yields on earning assets and a decline in the rates paid on deposits.

Provision for Credit Losses. The Company made a provision for credit losses of \$38,000 during the three month period ending March 31, 2014 and \$0 during the three month period ending March 31, 2013. As of March 31, 2014,

the allowance for credit losses equaled 71.33% of non-accrual and past due loans compared to 68.78% at December 31, 2013 and 57.82% at March 31, 2013. During the three month period ended March 31, 2014, the Company recorded a net charge-off of \$34,000, compared to net charge-offs of \$17,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2014 period represent 0.04% of the average loan portfolio.

Other Income. Other income increased from \$379,000 for the three month period ended March 31, 2013, to \$433,000 for the corresponding 2014 period, an \$54,000 (14.25%) increase. The increase for the three month period was due to an increase in gains on investment securities, partially offset by a reduction in service charges.

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Other Expenses. Other expenses increased from \$2,685,000 for the three month period ended March 31, 2013, to \$2,915,000 for the corresponding 2014 period, a \$230,000 (8.57%) increase. The increase for the three month period was primarily due to an increase in losses on other real estate of \$78,000, a \$56,000 increase in the FDIC assessment and a \$33,000 increase in other professional services along with increases in other loan expenses and salaries and employee benefits.

Income Taxes. During the three months ended March 31, 2014, the Company recorded income tax expense of \$94,000, compared to income tax expense of \$78,000 for the same respective period in 2013. The Company's effective tax rate for the three month period in 2014 was 16.58%, compared to 12.85% for the prior year period. The increase in the effective tax rate for the three month period was due to a decrease in state and municipal 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 2014, comprehensive income, net of tax, totaled \$1,648,000, compared to the March 31, 2013 comprehensive income of \$120,000. The increase was due to an increase in the net unrealized gain on securities during the three month period.

Financial Condition

General. The Company's assets increased to \$391,385,000 at March 31, 2014 from \$377,194,000 at December 31, 2013, primarily due to an increase in cash and cash equivalents and an increase in loans funded primarily by deposit growth. The Bank's net loans totaled \$278,548,000 at March 31, 2014, compared to \$270,684,000 at December 31, 2013, an increase of \$7,864,000 (2.91%), primarily attributable to an increase in purchase money mortgages and indirect lending, offset by decreases primarily in commercial and industrial mortgages and refinance loans.

The Company's total investment securities portfolio (investment securities available for sale) totaled \$73,464,000 at March 31, 2014, an \$850,000 (1.15%) decrease from \$74,314,000 at December 31, 2013. 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, 2014, totaled \$19,379,000, an increase of \$8,426,000 (76.93%) from the December 31, 2013 total of \$10,953,000. The increase in cash and cash equivalents was a result of the excess in deposits not used to fund loans.

Deposits as of March 31, 2014, totaled \$336,923,000, which is an increase of \$13,120,000 (4.05%) from \$323,803,000 at December 31, 2013. Demand deposits as of March 31, 2014, totaled \$90,437,000, which is an increase of \$3,689,000 (4.25%) from \$86,748,000 at December 31, 2013. NOW accounts as of March 31, 2014, totaled \$29,219,000, which is an increase of \$1,227,000 (4.38%) from \$27,992,000 at December 31, 2013. Money market accounts as of March 31, 2014, totaled \$20,309,000, which is an increase of \$1,089,000 (5.67%), from \$19,220,000 at December 31, 2013. Savings deposits as of March 31, 2014, totaled \$72,658,000, which is an increase of \$1,379,000 (1.93%) from \$71,279,000 at December 31, 2013. Certificates of deposit over \$100,000 totaled \$32,541,000 on March 31, 2014, which is an increase of \$3,624,000 (12.53%) from \$28,917,000 at December 31, 2013. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$91,759,000 on March 31, 2014, which is a \$2,110,000 (2.35%) increase from the \$89,649,000 total at December 31, 2013.

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, 2014 and the year ended December 31, 2013.

	At March 31, 2014 (Dollars in Thousands)		90 Days or More and Still Accruing		Total
	Current	30-89 Days Past Due	Nonaccrual		
Commercial and industrial	\$3,740	\$171	\$-	\$14	\$3,925
Commercial real estate	65,725	15	1,167	1,191	68,098
Consumer and indirect	78,734	699	-	309	79,742
Residential real estate	127,791	1,646	43	1,448	130,928
	\$275,990	\$2,531	\$1,210	\$2,962	\$282,693
	At December 31, 2013 (Dollars in Thousands)		90 Days or More and Still Accruing		
	Current	30-89 Days Past Due	Nonaccrual		Total
Commercial and industrial	\$4,159	\$-	\$-	\$14	\$4,173
Commercial real estate	66,191	173	1,177	1,238	68,779
Consumer and indirect	71,755	1,137	-	338	73,230
Residential real estate	126,934	157	431	1,123	128,645
	\$269,039	\$1,467	\$1,608	\$2,713	\$274,827

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, 2014, the allowance for loan loss is \$2,976,000 and the unearned income is \$1,170,000. For the period ending December 31, 2013, the allowance for loan loss is \$2,972,000 and the unearned income is \$1,171,000.

	At March 31, 2014 (Dollars in Thousands)		At December 31, 2013	
Restructured loans	\$	-	\$	-
Non-accrual and 90 days or more and still accruing loans to gross loans	1.48	%	1.58	%
Allowance for credit losses to non-accrual and 90 days or more and still accruing loans	71.33	%	68.78	%

At March 31, 2014, there was \$2,623,000 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, 2014 are comprised of:

Consumer loans – Four loans to four borrowers in the amount of \$319,000 with a specific reserve of \$159,000 established for the loan.

Commercial loans - Two loans to one borrower totaling \$14,000 with \$14,000 of specific reserves established.

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Commercial Real Estate – Two loans to two borrowers in the amount of \$1,191,000, secured by commercial and/or residential properties with a specific reserve of \$241,000 established for the loans.

Residential Real Estate – Six loans to five borrowers in the amount of \$1,398,000, secured by residential property with a specific reserve of \$522,000 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, 2014 and December 31, 2013.

(Dollars in thousands)

March 31, 2014	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	\$1,574	1,574	8	553	1,578
Commercial	1,191	1,191	-	241	1,213
Consumer	393	393	6	179	393
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	276	276	3	276	277
Total impaired loans with specific reserves	\$3,434	3,434	17	1,249	3,461
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	\$43	43	-	n/a	50
Commercial	2,112	2,112	48	n/a	2,118
Consumer	-	-	-	n/a	-
Installment	141	141	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	\$2,296	2,296	48	-	2,168

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(Dollars in thousands)

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	\$559	559	16	155	564
Commercial	2,187	2,187	56	551	2,272
Consumer	394	394	21	179	394
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	279	279	11	279	287
Total impaired loans with specific reserves	\$3,419	3,419	104	1,164	3,517
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	\$1,070	1,070	39	n/a	1,071
Commercial	1,177	1,177	47	n/a	1,232
Consumer	11	11	-	n/a	-
Installment	180	180	-	n/a	-
Home Equity	52	52	-	n/a	51
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	\$2,490	2,490	86	-	2,354

Credit Quality Information

The following tables represent credit exposures by creditworthiness category for the quarter ending March 31, 2014 and the year ended December 31, 2013. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank's internal risk ratings are as follows:

- 1 Superior – minimal risk (normally supported by pledged deposits, United States government securities, etc.)
- 2 Above Average – low risk. (all of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
- 3 Average – moderately low risk. (most of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
- 4 Acceptable – moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)
- 5 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)

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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.

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

March 31, 2014 (Dollars in Thousands)	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	\$ 3,544	\$ 59,354	\$ 78,136	\$ 129,207	\$ 270,241
Special mention	15	1,299	1,032	476	2,822
Substandard	366	7,445	508	1,245	9,564
Doubtful	-	-	66	-	66
Loss	-	-	-	-	-
	\$ 3,925	\$ 68,098	\$ 79,742		