

GLEN BURNIE BANCORP
Form 10-Q
November 14, 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 September 30, 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
(State or other jurisdiction of
incorporation or organization)

52-1782444
(I.R.S. Employer
Identification No.)

101 Crain Highway, S.E.
Glen Burnie, Maryland
(Address of principal executive offices)

21061
(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

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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 November 4, 2014, the number of shares outstanding of the registrant’s common stock was 2,760,964.

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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	September 30, 2014 (unaudited)	December 31, 2013 (audited)
Cash and due from banks	\$ 7,112	\$ 9,214
Interest-bearing deposits in other financial institutions	5,702	1,636
Federal funds sold	6,512	103
Cash and cash equivalents	19,326	10,953
Investment securities available for sale, at fair value	86,678	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 (September 30: \$2,511; December 31: \$2,972)	280,235	270,684
Premises and equipment, at cost, less accumulated depreciation	3,753	3,697
Other real estate owned	163	1,171
Cash value of life insurance	9,082	8,915
Other assets	4,649	5,977
Total assets	\$ 405,244	\$ 377,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 349,449	\$ 323,803
Long-term borrowings	20,000	20,000
Other liabilities	1,793	1,807
Total liabilities	371,242	345,610
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding: September 30: 2,757,490 shares; December 31: 2,747,370 shares	2,757	2,747
Surplus	9,820	9,714
Retained earnings	20,908	20,301
Accumulated other comprehensive gain (loss), net of taxes	517	(1,178)
Total stockholders' equity	34,002	31,584

Total liabilities and stockholders' equity	\$ 405,244	\$ 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest income on:				
Loans, including fees	\$3,108	\$3,251	\$9,237	\$9,302
U.S. Treasury and U.S. Government agency securities	171	241	562	643
State and municipal securities	357	429	1,026	1,273
Other	22	19	68	60
Total interest income	3,658	3,940	10,893	11,278
Interest expense on:				
Deposits	505	511	1,403	1,609
Short-term borrowings	-	3	-	3
Long-term borrowings	161	161	479	479
Total interest expense	666	675	1,882	2,091
Net interest income	2,992	3,265	9,011	9,187
Provision for credit losses	125	-	275	-
Net interest income after provision for credit losses	2,867	3,265	8,736	9,187
Other income:				
Service charges on deposit accounts	112	163	349	433
Other fees and commissions	241	251	602	612
Other non-interest income	(5) (11) 9	(1
Income on life insurance	56	59	167	175
Gains on investment securities	361	150	581	274
Total other income	765	612	1,708	1,493
Other expenses:				
Salaries and employee benefits	1,657	1,720	5,003	5,048
Occupancy	191	192	618	589
Impairment of securities and stocks	-	15	-	15
Other expenses	1,147	911	3,121	2,594
Total other expenses	2,995	2,838	8,742	8,246
Income before income taxes	637	1,039	1,702	2,434
Income tax expense	111	244	268	470
Net income	\$526	\$795	\$1,434	\$1,964

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Basic and diluted earnings per share of common stock	\$0.19	\$0.29	\$0.52	\$0.72
Weighted average shares of common stock outstanding	2,757,213	2,743,679	2,757,011	2,741,388
Dividends declared per share of common stock	\$0.10	\$0.10	\$0.30	\$0.30

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$526	\$795	\$1,434	\$1,964
Other comprehensive income, net of tax				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	83	(741)	2,045	(3,275)
Reclassification adjustment for gains included in net income	(217)	(90)	(350)	(165)
Comprehensive income (loss)	\$392	\$(36)	\$3,129	\$(1,476)

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$1,434	\$1,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	720	1,238
Provision for credit losses	275	-
Gains on disposals of assets, net	(364)	(250)
Provision on losses of other real estate owned	75	-
Income on investment in life insurance	(167)	(175)
Impairment losses on investment securities		15
Changes in assets and liabilities:		
Decrease in other assets	50	612
(Decrease) increase in other liabilities	(15)	79
Net cash provided by operating activities	2,008	3,483
Cash flows from investing activities:		
Maturities and proceeds of available for sale mortgage-backed securities	13,612	13,375
Proceeds from maturities and sales of other investment securities	5,966	13,572
Purchases of investment securities	(28,954)	(21,110)
Sale of Federal Home Loan Bank stock	125	(54)
Proceeds from sales of other real estate	917	273
Increase in loans, net	(9,826)	(12,680)
Purchases of premises and equipment	(411)	(179)
Net cash used by investing activities	(18,571)	(6,803)
Cash flows from financing activities:		
Increase (decrease) in deposits, net	25,646	(9,264)
Increase in short-term borrowings, net	-	3,100
Dividends paid	(826)	(548)
Common stock dividends reinvested	116	79
Net cash provided (used) by financing activities	24,936	(6,633)
Increase (decrease) in cash and cash equivalents	8,373	(9,953)
Cash and cash equivalents, beginning of year	10,953	18,628

Cash and cash equivalents, end of period	\$19,326	\$8,675
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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 and nine months ended September 30, 2014 and 2013.

Operating results for the three and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic and diluted:				
Net income	\$526,000	\$795,000	\$1,434,000	\$1,964,000
Weighted average common shares outstanding	2,757,213	2,743,679	2,757,011	2,741,388
Basic and dilutive net income per share	\$0.19	\$0.29	\$0.52	\$0.72

Diluted earnings per share calculations were not required for the three and nine months ended September 30, 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.

In May 2014, the FASB and the International Accounting Standards Board (the “IASB”) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards (“IFRS”). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract,

estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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

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 September 30, 2014 or December 31, 2013. The Company has assets measured by fair value measurements on a non-recurring basis during 2014. At September 30, 2014, these assets include 15 loans classified as impaired, which include nonaccrual, past due 90 days

or more and still accruing, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs and one property 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	-	28,954	-	28,954
Sales, calls and maturities of investment securities	-	(19,578)	-	(19,578)
Amortization/accretion of premium/discount	-	(407)	-	(407)
Increase (decrease) in market value	46	3,475	(126)	3,395
Loans				
New impaired loans	-	-	3,819	3,819
Payments and other loan reductions	-	-	(1,444)	(1,444)
Change in total provision	-	-	447	447
OREO				
Sales of OREO	-	(917)	-	(917)
Loss on disposal of OREO	-	(16)	-	(16)
Write-down of OREO	-	(75)	-	(75)
September 30, 2014				
Recurring:				
Investment securities AFS	620	85,960	98	86,678
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	7,567	7,567
OREO	-	163	-	163
	\$ 620	\$ 86,123	\$ 7,695	\$ 94,438

The estimated fair values of the Company's financial instruments at September 30, 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)	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 7,112	\$ 7,112	\$ 9,214	\$ 9,214
Interest-bearing deposits	5,702	5,702	1,636	1,636
Federal funds sold	6,512	6,512	103	103
Investment securities	86,678	86,678	74,314	74,314
Investments in restricted stock	1,328	1,328	1,453	1,453
Ground rents	169	169	169	169
Loans, net	280,235	274,896	270,684	270,684
Accrued interest receivable	1,211	1,211	1,509	1,509
Financial liabilities:				
Deposits	349,449	317,821	323,803	291,046
Long-term borrowings	20,000	20,924	20,000	21,032
Dividends payable	276	276	275	275
Accrued interest payable	40	40	29	29
Off-balance sheet commitments				
	23,551	23,551	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 September 30, 2014 are as follows:

Securities available for sale: (Dollars in Thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Govt Agencies	\$5,410	\$37	\$-	\$-	\$5,410	\$37
State and Municipal	-	-	5,113	79	5,113	79
Corporate Trust Preferred	-	-	98	149	98	149
Mortgage Backed	14,707	73	20,744	998	35,451	1,071

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\$20,117 \$110 \$25,955 \$1,226 \$46,072 \$1,336

At September 30, 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 September 30, 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 September 30, 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. No write-down was taken in the first nine months 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 September 30, 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 September 30, 2014, the Bank held 39 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgage-backed securities. The Bank has no mortgage-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Except as noted above, as of September 30, 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 September 30, 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

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 \$526,000 (\$0.19 basic and diluted earnings per share) for the third quarter of 2014, compared to the third quarter of 2013 consolidated net income of \$795,000 (\$0.29 basic and diluted income per share), a 33.84% decrease. Year-to-date net income was \$1,434,000 (\$0.52 basic and diluted earnings per share), compared to the 2013 consolidated net income of \$1,964,000 (\$0.72 basic and diluted income per share), a 26.99% decrease. The decrease in net income for the three and nine month periods was primarily due to the increase in the provision for loan losses and an increase in losses on other assets due to a write-down on loan fees receivable, net of taxes, of \$111,297 taken in the third quarter. These were partially offset by a decrease in deposit expense, income tax expense and the increase in gains on investment securities. During the nine months ended September 30, 2014, deposits increased by \$25,646,000 and net loans increased by \$9,551,000.

Results Of Operations

Net Interest Income. The Company's consolidated net interest income prior to provision for credit losses for the three and nine months ended September 30, 2014 was \$2,992,000 and \$9,011,000, compared to \$3,265,000 and \$9,187,000, respectively, for the same period in 2013, a decrease of \$273,000 (8.36%) for the three months and a decrease of \$176,000 (1.92%) for the nine months.

Interest income for the third quarter decreased from \$3,940,000 in 2013 to \$3,658,000 in 2014, a 7.16% decrease. Interest income for the nine months decreased from \$11,278,000 in 2013 to \$10,893,000 in 2014, a 3.41% decrease. The primary reason for the decline in interest income for the 2014 period when compared to the 2013 period was the recognition of \$182,000 in income in the 2013 period (absent in the 2014 period) when a large commercial loan was taken off non-accrual. The decrease in interest income for the 2014 nine month period was primarily due to a reversal of accrued interest for a loan that was classified as non-performing during the second quarter of 2014, and a decrease in income on investment securities.

Interest expense for the third quarter decreased from \$675,000 in 2013 to \$666,000 in 2014, a 1.33% decrease. Interest expense for the nine months decreased from \$2,091,000 in 2013 to \$1,882,000 in 2014, a 10.00% 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 and nine months ended September 30, 2014 was 3.36% and 3.48%, compared to 3.93% and 3.69% for the three and nine months ended September 30, 2013. The decrease of the net interest margin for the third quarter was primarily due to declining yields on earning assets.

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Provision for Credit Losses. The Company made a provision for credit losses of \$125,000 and \$275,000 during the three and nine month periods ending September 30, 2014 and \$0 during the three and nine month periods ending September 30, 2013. As of September 30, 2014, the allowance for credit losses equaled 99.60% of non-accrual and past due loans compared to 68.78% at December 31, 2013 and 55.14% at September 30, 2013. During the three and nine month periods ended September 30, 2014, the Company recorded a net charge-off of \$277,000 and \$736,000, compared to net charge-offs of \$154,000 and \$333,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2014 period represent 0.35% of the average loan portfolio.

Other Income. Other income increased from \$612,000 for the three month period ended September 30, 2013, to \$765,000 for the corresponding 2014 period, a \$153,000 (25.00%) increase. Other income increased from \$1,493,000 for the nine month period ended September 30, 2013, to \$1,708,000 for the corresponding 2014 period, a \$215,000 (14.40%) increase. The increase for the nine and three month periods were due to an increase in gains on investment securities, partially offset by a reduction in service charges and other fees and commissions.

Other Expenses. Other expenses increased from \$2,838,000 for the three month period ended September 30, 2013, to \$2,995,000 for the corresponding 2014 period, a \$157,000 (5.53%) increase. Other expenses increased from \$8,246,000 for the nine month period ended September 30, 2013, to \$8,742,000 for the corresponding 2014 period, a \$496,000 (6.02%) increase. The increase for the three month period was primarily due to an increase in losses of other assets of \$184,000 (write-off of loan fees receivable in September), an increase in promotions and other loan expense, partially offset by a decrease in salaries and employee benefits. The increase for the nine month period was primarily due to an increase in losses of other assets of \$184,000 (write-off of loan fees receivable in September), an increase in losses on other real estate of \$80,000, a \$49,000 increase in the FDIC assessment, a \$49,000 increase in credit report expense, a \$119,000 increase in other professional services, a \$27,000 increase in promotional expenses and a \$22,000 increase in other real estate owned expenses.

Income Taxes. During the three and nine months ended September 30, 2014, the Company recorded income tax expense of \$111,000 and \$268,000, compared to income tax expense of \$244,000 and \$470,000 for the same respective periods in 2013. The Company's effective tax rate for the three and nine month period in 2014 was 17.43% and 15.75%, respectively, compared to 23.48% and 19.31% for the prior year period. The decrease in the effective tax rate for the three and nine month periods was due to the increase in the proportion of 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 third quarter of 2014, comprehensive income, net of tax, totaled \$392,000, compared to the September 30, 2013 comprehensive loss, net of tax, of (\$36,000). Year-to-date, comprehensive income, net of tax, totaled \$3,129,000, compared to the September 30, 2013 comprehensive loss, net of tax, of (\$1,476,000). The increase for the three and nine month periods were due to an increase in the net unrealized gain on securities during those periods.

Financial Condition

General. The Company's assets increased to \$405,244,000 at September 30, 2014 from \$377,194,000 at December 31, 2013, primarily due to an increase in cash and cash equivalents, investment securities and an increase in loans funded primarily by deposit growth. The Bank's net loans totaled \$280,235,000 at September 30, 2014, compared to \$270,684,000 at December 31, 2013, an increase of \$9,551,000 (3.53%), 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 \$86,678,000 at September 30, 2014, a \$12,364,000 (16.64%) increase 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 September 30, 2014, totaled \$19,326,000, an increase of \$8,373,000 (76.44%) from the December 31, 2013 total of \$10,953,000. The increase in cash, cash equivalents and investments was a result of the excess in deposits available to fund loans.

Deposits as of September 30, 2014, totaled \$349,449,000, which is an increase of \$25,646,000 (7.92%) from \$323,803,000 at December 31, 2013. Demand deposits as of September 30, 2014, totaled \$91,020,000, which is an increase of \$4,272,000 (4.92%) from \$86,748,000 at December 31, 2013. NOW accounts as of September 30, 2014, totaled \$30,344,000, which is an increase of \$2,352,000 (8.40%) from \$27,992,000 at December 31, 2013. Money market accounts as of September 30, 2014, totaled \$20,167,000, which is an increase of \$947,000 (4.93%), from \$19,220,000 at December 31, 2013. Savings deposits as of September 30, 2014, totaled \$75,973,000, which is an increase of \$4,694,000 (6.59%) from \$71,279,000 at December 31, 2013. Certificates of deposit over \$100,000 totaled \$36,737,000 on September 30, 2014, which is an increase of \$7,820,000 (27.04%) 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 \$95,208,000 on September 30, 2014, which is a \$5,559,000 (6.20%) 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 nine months ended September 30, 2014 and the year ended December 31, 2013.

At September 30, 2014 (Dollars in Thousands)	30-89 Days		90 Days or More and Still	Nonaccrual	Total
	Current	Past Due	Accruing		
Commercial and industrial	\$3,505	\$-	\$-	\$-	\$3,505
Commercial real estate	65,254	153	-	1,131	66,538
Consumer and indirect	86,086	1,201	18	522	87,827
Residential real estate	124,304	873	50	800	126,027
	\$279,149	\$2,227	\$68	\$2,453	\$283,897

At December 31, 2013 (Dollars in Thousands)	30-89 Days		90 Days or More and Still	Nonaccrual	Total
	Current	Past Due	Accruing		
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 September 30, 2014, the allowance for loan loss is \$2,511,000 and the unearned income is \$1,151,000. 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 September 30, 2014		At December 31, 2013	
	(Dollars in Thousands)			
Restructured loans	\$	-	\$	-
Non-accrual and 90 days or more and still accruing loans to gross loans	0.88	%	1.58	%
Allowance for credit losses to non-accrual and 90 days or more and still accruing loans	99.60	%	68.78	%

At September 30, 2014, there was \$5,253,000 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.

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Non-accrual loans with specific reserves at September 30, 2014 are comprised of:

Consumer loans – Two loans to two borrowers in the amount of \$146,000 with a specific reserve of \$86,000 established for the loan.

Commercial Real Estate – Two loans to two borrowers in the amount of \$1,131,000, secured by commercial and/or residential properties with a specific reserve of \$149,000 established for the loans.

Residential Real Estate – Two loans to two borrowers in the amount of \$477,000, secured by residential property with a specific reserve of \$176,000 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 September 30, 2014 and December 31, 2013.

(Dollars in thousands)

September 30, 2014	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	\$651	651	18	206	662
Commercial	1,131	1,131	2	148	1,178
Consumer	220	220	14	106	220
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	256	256	8	256	260
Total impaired loans with specific reserves	\$2,258	2,258	42	716	2,320
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	\$715	912	2	n/a	448
Commercial	4,662	4,662	151	n/a	4,734
Consumer	208	208	-	n/a	-
Installment	353	353	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	87	87	3	n/a	89
Total impaired loans with no specific reserve	\$6,025	6,222	156	-	5,271

(Dollars in thousands)

December 31, 2013	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific
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