

GLEN BURNIE BANCORP  
Form 10-Q  
October 30, 2007

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**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 September 30, 2007

OR

**o 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 x No o

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

Large accelerated filer o Accelerated filer o Non-Accelerated Filer x

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

At October 17, 2007, the number of shares outstanding of the registrant's common stock was 2,493,435



**TABLE OF CONTENTS**

|                                       | <b>Page</b>   |
|---------------------------------------|---|
| <b>Part I - Financial Information</b> |   |
| <b><u>Item 1.</u></b>                 | Consolidated Financial Statements:  |
|                                       | Condensed Consolidated Balance Sheets, September 30, 2007 (unaudited) and December 31, 2006 (audited) 3                                 |
|                                       | Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited) 4               |
|                                       | Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited) 5 |
|                                       | Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited) 6           |
|                                       | Notes to Unaudited Condensed Consolidated Financial Statements 7  |
| <b><u>Item 2.</u></b>                 | Management's Discussion and Analysis of Financial Condition and Results of Operations 8   |
| <b><u>Item 3.</u></b>                 | Quantitative and Qualitative Disclosure About Market Risk 15  |
| <b><u>Item 4.</u></b>                 | Controls and Procedures 15  |
| <b>Part II - Other Information</b>    |   |
| <b><u>Item 6.</u></b>                 | Exhibits 16   |
|                                       | Signatures 17   |

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

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

|  | September 30,<br>2007<br>(unaudited) | December 31,<br>2006<br>(audited) |
|--|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                      |                                   |
| Cash and due from banks  | \$ 8,516                             | \$ 9,006                          |
| Interest-bearing deposits in other financial institutions  | 28                                   | 342                               |
| Federal funds sold   | 51                                   | 3,972                             |
| Cash and cash equivalents  | 8,595                                | 13,320                            |
| Investment securities available for sale, at fair value  | 76,434                               | 95,811                            |
| Investment securities held to maturity, at cost (fair value September 30: \$723; December 31: \$730)   | 684                                  | 683                               |
| Federal Home Loan Bank stock, at cost  | 1,044                                | 928                               |
| Maryland Financial Bank stock, at cost   | 100                                  | 100                               |
| Common Stock in the Glen Burnie Statutory Trust I  | 155                                  | 155                               |
| Loans, less allowance for credit losses (September 30: \$1,667; December 31: \$1,839)  | 206,942                              | 193,337                           |
| Premises and equipment, at cost, less accumulated depreciation   | 3,156                                | 3,406                             |
| Other real estate owned  | 50                                   | 50                                |
| Cash value of life insurance   | 7,091                                | 6,892                             |
| Other assets   | 3,056                                | 3,064                             |
| <b>Total assets</b>  | <b>\$ 307,307</b>                    | <b>\$ 317,746</b>                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                                   |
| Liabilities:   |                                      |                                   |
| Deposits   | \$ 259,461                           | \$ 274,833                        |
| Federal funds purchased  | 815                                  | -                                 |
| Short-term borrowings  | 3,982                                | 545                               |
| Long-term borrowings   | 7,116                                | 7,140                             |
| Junior subordinated debentures owed to unconsolidated subsidiary trust   | 5,155                                | 5,155                             |
| Other liabilities  | 1,560                                | 1,872                             |
| <b>Total liabilities</b>   | <b>278,089</b>                       | <b>289,545</b>                    |
| Commitments and contingencies  |                                      |                                   |
| Stockholders' equity:  |                                      |                                   |
| Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding: September 30: 2,493,465 shares; December 31: 2,484,633 shares | 2,493                                | 2,485                             |
| Surplus  | 11,852                               | 11,720                            |
| Retained earnings  | 15,499                               | 14,312                            |

|   |            |            |
|---|------------|------------|
| Accumulated other comprehensive loss, net of tax benefits | (626)      | (316)      |
| Total stockholders' equity                                | 29,218     | 28,201     |
| Total liabilities and stockholders' equity                | \$ 307,307 | \$ 317,746 |

*See accompanying notes to condensed consolidated financial statements.*

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

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2007                                | 2006     | 2007                               | 2006     |
| Interest income on:                                   |                                     |          |                                    |          |
| Loans, including fees                                 | \$ 3,411                            | \$ 2,917 | \$ 9,833                           | \$ 8,726 |
| U.S. Treasury and U.S. Government agency securities   | 604                                 | 930      | 1,997                              | 2,474    |
| State and municipal securities                        | 338                                 | 457      | 1,114                              | 1,229    |
| Other   | 123                                 | 188      | 406                                | 684      |
| Total interest income                                 | 4,476                               | 4,492    | 13,350                             | 13,113   |
| Interest expense on:                                  |                                     |          |                                    |          |
| Deposits  | 1,146                               | 1,291    | 3,651                              | 3,485    |
| Short-term borrowings                                 | 52                                  | 4        | 87                                 | 10       |
| Long-term borrowings                                  | 106                                 | 106      | 317                                | 319      |
| Junior subordinated debentures                        | 137                                 | 137      | 410                                | 410      |
| Total interest expense                                | 1,441                               | 1,538    | 4,465                              | 4,224    |
| Net interest income                                   | 3,035                               | 2,954    | 8,885                              | 8,889    |
| Provision for credit losses                           | -                                   | -        | 50                                 | -        |
| Net interest income after provision for credit losses | 3,035                               | 2,954    | 8,835                              | 8,889    |
| Other income:   |                                     |          |                                    |          |
| Service charges on deposit accounts                   | 205                                 | 210      | 604                                | 621      |
| Other fees and commissions                            | 249                                 | 272      | 690                                | 756      |
| Other non-interest income                             | 4                                   | 6        | 13                                 | 14       |
| Income on life insurance                              | 66                                  | 52       | 198                                | 157      |
| Gains on investment securities                        | 115                                 | 70       | 120                                | 70       |
| Total other income                                    | 639                                 | 610      | 1,625                              | 1,618    |
| Other expenses:                                       |                                     |          |                                    |          |
| Salaries and employee benefits                        | 1,575                               | 1,658    | 4,743                              | 4,956    |
| Occupancy   | 221                                 | 221      | 670                                | 638      |
| Other expenses  | 829                                 | 773      | 2,410                              | 2,409    |
| Total other expenses                                  | 2,625                               | 2,652    | 7,823                              | 8,003    |
| Income before income taxes                            | 1,049                               | 912      | 2,637                              | 2,504    |
| Income tax expense                                    | 264                                 | 140      | 555                                | 393      |
| Net income  | \$ 785                              | \$ 772   | \$ 2,082                           | \$ 2,111 |

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|   |    |           |    |           |    |           |    |           |
|---|----|-----------|----|-----------|----|-----------|----|-----------|
| Basic and diluted earnings per share<br>of common stock | \$ | 0.32      | \$ | 0.31      | \$ | 0.84      | \$ | 0.85      |
| Weighted average shares of common<br>stock outstanding  |    | 2,490,411 |    | 2,474,313 |    | 2,487,655 |    | 2,470,894 |
| Dividends declared per share of<br>common stock         | \$ | 0.12      | \$ | 0.12      | \$ | 0.36      | \$ | 0.36      |

*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>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2007                                | 2006     | 2007                               | 2006     |
| Net income   | \$ 785                              | \$ 772   | \$ 2,082                           | \$ 2,111 |
| Other comprehensive (loss) income, net of tax                |                                     |          |                                    |          |
| Unrealized gains (losses) securities:                        |                                     |          |                                    |          |
| Unrealized holding gains (losses) arising during the period  | 749                                 | 1,787    | (230)                              | 74       |
| Reclassification adjustment for gains included in net income | (70)                                | (43)     | (80)                               | (34)     |
| Comprehensive income   | \$ 1,464                            | \$ 2,516 | \$ 1,772                           | \$ 2,151 |

*See accompanying notes to condensed consolidated financial statements.*



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

|   | Nine Months Ended<br>September 30, |                 |
|---|------------------------------------|-----------------|
|   | 2007                               | 2006            |
| Cash flows from operating activities:   |                                    |                 |
| Net income  | \$ 2,082                           | \$ 2,111        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                 |
| Depreciation, amortization, and accretion   | 338                                | 693             |
| Provision for credit losses   | 50                                 | -               |
| Gains on disposals of assets, net   | (120)                              | (70)            |
| Income on investment in life insurance  | (199)                              | (157)           |
| Changes in assets and liabilities:  |                                    |                 |
| Decrease (increase) in other assets   | 149                                | (292)           |
| Decrease in other liabilities   | (202)                              | (33)            |
| <b>Net cash provided by operating activities</b>                                  | <b>2,098</b>                       | <b>2,252</b>    |
| Cash flows from investing activities:   |                                    |                 |
| Maturities of available for sale mortgage-backed securities                       | 8,857                              | 5,886           |
| Proceeds from maturities and sales of other investment securities                 | 15,500                             | 9,819           |
| Purchases of investment securities  | (5,310)                            | (45,434)        |
| Purchases of Federal Home Loan Bank stock   | (116)                              | (9)             |
| (Increase) decrease in loans, net   | (13,655)                           | 9,528           |
| Purchases of premises and equipment   | (90)                               | (88)            |
| <b>Net cash provided (used) by investing activities</b>                           | <b>5,186</b>                       | <b>(20,298)</b> |
| Cash flows from financing activities:   |                                    |                 |
| (Decrease) increase in deposits, net  | (15,372)                           | 14,675          |
| Increase in federal funds purchased, net  | 815                                | -               |
| Increase in short-term borrowings, net  | 3,437                              | 75              |
| Repayment of long-term borrowings   | (24)                               | (23)            |
| Dividends paid  | (1,005)                            | (985)           |
| Issuance of common stock  | 4                                  | 6               |
| Common stock dividends reinvested   | 136                                | 165             |
| <b>Net cash (used) provided by financing activities</b>                           | <b>(12,009)</b>                    | <b>13,913</b>   |
| Decrease in cash and cash equivalents   | (4,725)                            | (4,133)         |
| Cash and cash equivalents, beginning of year                                      | 13,320                             | 15,450          |
| Cash and cash equivalents, end of period  | \$ 8,595                           | \$ 11,317       |

*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, 2006, 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, 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, 2007 and 2006.

Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**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>September 30, |            | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|------------|------------------------------------|--------------|
|   | 2007                                | 2006       | 2007                               | 2006         |
| Basic and diluted:                          |                                     |            |                                    |              |
| Net income                                  | \$ 785,000                          | \$ 772,000 | \$ 2,082,000                       | \$ 2,111,000 |
| Weighted average common shares outstanding  | 2,490,411                           | 2,474,313  | 2,487,655                          | 2,470,894    |
| Dilutive effect of stock options            | 237                                 | 722        | 64                                 | 298          |
| Average common shares outstanding - diluted | 2,490,648                           | 2,475,035  | 2,487,719                          | 2,471,192    |
| Basic and dilutive net income per share     | \$ 0.32                             | \$ 0.31    | \$ 0.84                            | \$ 0.85      |

**NOTE 3 - EMPLOYEE STOCK PURCHASE BENEFIT PLANS**

The Company has an employee stock purchase compensation plan. During the third quarter of 2007, the Board of Directors granted 3,126 options under this plan at \$14.02 per share, exercisable for a period of four months and expiring December 10, 2007, of which 336 options have been exercised as of September 30, 2007. Management of the Company has not recorded any compensation expense relating to these options as there would be no material impact in reported net income, as determined under 123(R).

**NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS

will be applied prospectively and is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment of FASB Statement No. 115* which is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the fiscal year that begins on or after November 15, 2007, provided that the Company also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. Management is currently evaluating the impact of adopting this Statement on the Company's financial statements for future periods.

-7-

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

**OVERVIEW**

Net interest income before provision for credit losses, for the third quarter, was \$2,954,000 in 2006 compared to \$3,035,000 in 2007, a 2.74% increase. Interest income for the third quarter decreased from \$4,492,000 in 2006 to \$4,476,000 in 2007, a 0.36% decrease. Total interest expense for the quarter decreased from \$1,538,000 in 2006 to \$1,441,000 in 2007, a 6.31% decrease. The Company realized consolidated net income of \$785,000 for the third quarter of 2007 compared to \$772,000 for the third quarter of 2006, a 1.68% increase. Year-to-date net interest income before provision for credit losses was \$8,889,000 in 2006 compared to \$8,885,000 in 2007, a 0.05% decrease. Interest income year-to-date grew from \$13,113,000 in 2006 to \$13,350,000 in 2007, a 1.81% increase. Total interest expense increased from \$4,224,000 in 2006 to \$4,465,000 in 2007, a 5.71% increase. The Company realized consolidated net income of \$2,082,000 for the first nine months of 2007 compared to \$2,111,000 for the first nine months of 2006, a 1.37% decrease.

Net interest income is affected by the mix of loans in the Bank's loan portfolio and the rates of interest paid on deposits. As previously discussed, the Bank had initiated steps to increase net interest margins. Certain of these steps resulted in a reduction in the Bank's portfolio of above market rate 15 month certificates of deposit and a reduction in the rates of interest paid on other certificates of deposit, and, as a result, total interest expense for the third quarter of 2007 declined by \$97,000 as compared to the third quarter of 2006. At the same time, the Bank increased its higher yield commercial loans (primarily commercial loans secured by real estate) and indirect automobile loans resulting in increased loan volume and yields.

The Bank funded these deposit outflows and the increase in loans through the sale of investment securities, which provide lower yields than commercial loans, and short-term overnight borrowings. The Bank's investment securities portfolio and federal funds sold declined by approximately \$23 million as of September 30, 2007 from December 31, 2006, and the Bank's short-term overnight borrowings increased by approximately \$4 million as of September 30, 2007 from December 31, 2006. Total deposits declined by approximately \$15 million as of September 30, 2007 from December 31, 2006, and total loans increased by approximately \$14 million as of September 30, 2007 from December 31, 2006. As a result of the overall decrease in the Bank's interest earning assets, interest income for the third quarter of 2007 declined by \$16,000 from the third quarter of 2006. While interest income declined for third quarter of 2007, the Bank's yield earned improved as a result of the movement from lower yielding investment securities into more profitable loans.

As a result of these actions, the Bank has improved its cash flows and yields on earning assets, and the third quarter net interest margin has improved by \$81,000 from 2006 to 2007. Management anticipates that these steps will continue to improve net interest margins in future periods.

**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.

## **RESULTS OF OPERATIONS**

*General.* Glen Burnie Bancorp, a Maryland corporation (the “Company”), and its subsidiaries, The Bank of Glen Burnie (the “Bank”) and GBB Properties, Inc., both Maryland corporations, and Glen Burnie Statutory Trust I, a Connecticut business trust, had consolidated net income of \$785,000 (\$0.32 basic and diluted earnings per share) for the third quarter of 2007, compared to the third quarter 2006 consolidated net income of \$772,000 (\$0.31 basic and diluted earnings per share). The increase in consolidated net income for the three month period was due to increases in interest on loans, gains on investment securities, decreases in deposit expense resulting from the reduction in above market rate on the 15 month certificates of deposit and decreases in salaries and employee benefits partially offset by increases in other expenses and income tax expense. Year-to-date consolidated net income of \$2,082,000 (\$0.84 basic and diluted earnings per share) for the nine months ended September 30, 2007, compared to the nine months ended September 30, 2006 consolidated net income of \$2,111,000 (\$0.85 basic and diluted earnings per share). The decrease in consolidated net income was primarily due to an increase in interest expense, other occupancy expense and provisions for loan losses, partially offset by an increase in interest income and decreases in salaries and employee benefits and other expenses for the period.

-8-

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*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, 2007 was \$3,035,000 and \$8,885,000, respectively, compared to \$2,954,000 and \$8,889,000 for the same period in 2006, an increase of \$81,000 (2.74%) for the three month period and a decrease of \$4,000 (0.05%) for the nine month period.

Interest income decreased \$16,000 (0.36%) and increased \$237,000 (1.81%) for the respective three and nine month periods ended September 30, 2007, compared to the same periods in 2006, primarily due to an increase in loan income because of an increase in the average loan balance, offset by decreases in the other interest income categories for the three month period and an increase in loan income offset by lesser decreases in the other interest income categories for the nine month period.

Interest expense decreased \$97,000 (6.31%) and increased \$241,000 (5.71%) for the three and nine months ended September 30, 2007, compared to the same 2006 periods. The decrease in interest expense for the three month period ended September 30, 2007 was due to a decrease in deposit expense partially offset by an increase in short term borrowings. Interest expense increased for the nine month period ended September 30, 2007, primarily attributable to increases in interest rates on certificates of deposit and individual retirement accounts and an increase in short term borrowings.

Net interest margins for the three and nine months ended September 30, 2007 were 4.53% and 4.43%, compared to tax equivalent net interest margins of 4.30% and 4.32% for the three and nine months ended September 30, 2006.

*Provision for Credit Losses.* The Company made a provision for credit losses of \$0 and \$50,000 during the three and nine month periods ended September 30, 2007 and no provision for credit losses during the three and nine month periods ended September 30, 2006. As of September 30, 2007, the allowance for credit losses equaled 240.20% of non-accrual and past due loans compared to 3,116.95% at December 31, 2006 and 1,491.94% at September 30, 2006. During the three and nine month periods ended September 30, 2007, the Company recorded net charge-offs of \$93,000 and \$222,000, compared to net charge-offs of \$312,000 and \$351,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2007 period represent 0.15% of the average loan portfolio.

*Other Income.* Other income increased from \$610,000 for the three month period ended September 30, 2006, to \$639,000 for the corresponding 2007 period, a \$29,000 (4.75%) increase. For the nine month period, other income increased to \$1,625,000 at September 30, 2007 from \$1,618,000 at September 30, 2006, a \$7,000 (0.43%) increase. The increase for the three and nine month periods were primarily due to gains on investment securities and income on life insurance partially offset by a decrease in other fees and commissions. Included in the gains on investment securities was a \$120,000 gain on the redemption of a trust preferred security held in the investment portfolio.

*Other Expenses.* Other expenses decreased from \$2,652,000 for the three month period ended September 30, 2006, to \$2,625,000 for the corresponding 2007 period, a \$27,000 (1.02%) decrease. For the nine month period, other expenses decreased from \$8,003,000 at September 30, 2006 to \$7,823,000 at September 30, 2007, an \$180,000 (2.25%) decrease. The decrease for the three month period was primarily due to a decrease in salaries and employee benefits, partially offset by an increase in other expenses. The decrease for the nine month period was primarily due to a decrease in salaries and employee benefits, partially offset by an increase in occupancy expense.

*Income Taxes.* During the three and nine months ended September 30, 2007, the Company recorded income tax expense of \$264,000 and \$555,000, respectively, compared to income tax expense of \$140,000 and \$393,000, for the corresponding periods of the prior year. The Company's effective tax rate for the three and nine month periods in 2007 were 25.2% and 21.0%, respectively, compared to 15.4% and 15.7%, respectively for the prior year periods. The increase in the effective tax rate for the three and nine month periods were due to decreases in income on tax exempt securities and increased income on loans.

*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 2007, comprehensive income, net of tax, totaled \$1,464,000, compared to the September 30, 2006 total of \$2,516,000. Year-to-date comprehensive income, net of tax, totaled \$1,772,000, as of September 30, 2007, compared to the September 30, 2006 total of \$2,151,000. The decrease for the three and nine month periods are due primarily to the increase in unrealized losses on available for sale securities.



**FINANCIAL CONDITION**

*General.* The Company's assets decreased to \$307,307,000 at September 30, 2007 from \$317,746,000 at December 31, 2006, primarily due to a decrease in federal funds sold and in investment securities referred to above (see "Overview") used to fund the Bank's increase in loans and the Bank's deposit outflow resulting from the reduction in portfolio of above market rate 15-month certificates of deposit which the Bank had previously attracted in its promotion that began in January 2006. This decrease in investment securities was partially offset by an increase in loans and the cash value of life insurance. The Bank's net loans totaled \$206,942,000 at September 30, 2007, compared to \$193,337,000 at December 31, 2006, an increase of \$13,605,000 (7.04%), primarily attributable to an increase in refinanced mortgages, commercial construction, mortgage participations purchased, and secured personal and business installment loans. Management believes that these steps resulted in improvements in the Bank's net interest margins and in improvements in the Bank's overall financial results and condition during the first nine months of 2007, and management anticipates that these steps will continue to improve net interest margins in future periods.

The Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$77,118,000 at September 30, 2007, a \$19,376,000 (20.08%) decrease from \$96,494,000 at December 31, 2006. 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, 2007, totaled \$8,595,000, a decrease of \$4,725,000 (35.47%) from the December 31, 2006 total of \$13,320,000. The aggregate market value of investment securities held by the Bank as of September 30, 2007 was \$77,157,000 compared to \$96,541,000 as of December 31, 2006, a \$19,384,000 (20.08%) decrease.

Deposits as of September 30, 2007 totaled \$259,461,000, which is a decrease of \$15,372,000 (5.59%) from \$274,833,000 at December 31, 2006. Demand deposits as of September 30, 2007 totaled \$73,542,000, which is a decrease of \$1,187,000 (1.59%) from \$74,729,000 at December 31, 2006. NOW accounts as of September 30, 2007 totaled \$22,786,000, which is an increase of \$512,000 (2.30%) from \$22,274,000 at December 31, 2006. Money market accounts as of September 30, 2007 totaled \$15,884,000, which is an increase of \$543,000 (3.54%), from \$15,341,000 at December 31, 2006. Savings deposits as of September 30, 2007 totaled \$48,856,000, which is a decrease of \$1,378,000 (2.74%) from \$50,234,000 at December 31, 2006. Certificates of deposit over \$100,000 totaled \$19,829,000 on September 30, 2007, which is a decrease of \$2,551,000 (11.40%) from \$22,380,000 at December 31, 2006. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$78,564,000 on September 30, 2007, which is an \$11,310,000 (12.59%) decrease from the \$89,874,000 total at December 31, 2006.

*Asset Quality.* The following table sets forth the amount of the Bank's restructured loans, non-accrual loans and accruing loans 90 days or more past due at the dates indicated.

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|   | At September 30,<br>2007 | At December 31,<br>2006 |
|---|--------------------------|-------------------------|
|   | (Dollars in Thousands)   |                         |
| Restructured loans  | \$ 1,055                 | \$ -                    |
| Non-accrual loans:  |                          |                         |
| Real-estate - mortgage:                                       |                          |                         |
| Residential   | \$ -                     | \$ 3                    |
| Commercial  | -                        | -                       |
| Real-estate - construction                                    |                          |                         |
| Installment   | 49                       | 46                      |
| Credit card and related                                       | -                        | -                       |
| Commercial  | -                        | 8                       |
| Total non-accrual loans                                       | 49                       | 57                      |
| Accruing loans past due 90 days or more:                      |                          |                         |
| Real-estate - mortgage:                                       |                          |                         |
| Residential   | 510                      | 2                       |
| Commercial  | -                        | -                       |
| Real-estate - construction                                    |                          |                         |
| Installment   | 7                        | -                       |
| Credit card and related                                       | -                        | -                       |
| Commercial  | 128                      | -                       |
| Other   | -                        | -                       |
| Total accruing loans past due 90 days or more                 | 645                      | 2                       |
| Total non-accrual loans and past due loans                    | \$ 694                   | \$ 59                   |
| Non-accrual and past due loans to gross loans                 | 0.33%                    | 0.03%                   |
| Allowance for credit losses to non-accrual and past due loans | 240.20%                  | 3,116.95%               |

At September 30, 2007, there were no loans outstanding, other than those reflected 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. Reflected in the above table are \$0 of prior period troubled debt restructurings that are now not performing under the terms of their modified agreements.

*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 collectibility of the principal is unlikely. The allowance, based on evaluations of the collectibility 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 take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

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Transactions in the allowance for credit losses for the nine months ended September 30, 2007 and 2006 were as follows:

|   | Nine Months Ended September 30, |            |
|---|---------------------------------|------------|
|   | 2007                            | 2006       |
|   | (Dollars in Thousands)          |            |
| Beginning balance                             | \$ 1,839                        | \$ 2,201   |
| Charge-offs                                   | (457)                           | (583)      |
| Recoveries                                    | 235                             | 232        |
| Net charge-offs                               | (222)                           | (351)      |
| Provisions charged to operations              | 50                              | -          |
| Ending balance                                | \$ 1,667                        | \$ 1,850   |
| Average loans                                 | \$ 195,852                      | \$ 183,783 |
| Net charge-offs to average loans (annualized) | 0.15%                           | 0.25%      |

-11-

*Reserve for Unfunded Commitments.* As of September 30, 2007, the Bank had outstanding commitments totaling \$27,429,669. These outstanding commitments consisted of letters of credit, undrawn lines of credit, and other loan commitments. The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

|                                  | Nine Months Ended September 30, |        |
|----------------------------------|---------------------------------|--------|
|                                  | 2007                            | 2006   |
|                                  | (Dollars in Thousands)          |        |
| Beginning balance                | \$ 200                          | \$ 200 |
| Provisions charged to operations | -                               | -      |
| Ending balance                   | \$ 200                          | \$ 200 |

*Contractual Obligations and Commitments.* No material changes, outside the normal course of business, have been made during the third quarter of 2007.

## MARKET RISK AND INTEREST RATE SENSITIVITY

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

The following table sets forth the Company's interest-rate sensitivity at September 30, 2007.

|                                      | 0-3 Months             | Over 3 to<br>12 Months | Over 1<br>Through<br>5 Years | Over<br>5 Years | Total      |
|--------------------------------------|------------------------|------------------------|------------------------------|-----------------|------------|
|                                      | (Dollars in Thousands) |                        |                              |                 |            |
| <b>Assets:</b>                       |                        |                        |                              |                 |            |
| Cash and due from banks              | \$ -                   | \$ -                   | \$ -                         | \$ -            | \$ 8,516   |
| Federal funds and overnight deposits | 79                     | -                      | -                            | -               | 79         |
| Securities                           | -                      | 493                    | 9,030                        | 67,595          | 77,118     |
| Loans                                | 12,115                 | 12,015                 | 76,003                       | 106,809         | 206,942    |
| Fixed assets                         | -                      | -                      | -                            | -               | 3,156      |
| Other assets                         | -                      | -                      | -                            | -               | 11,496     |
| Total assets                         | \$ 12,194              | \$ 12,508              | \$ 85,033                    | \$ 174,404      | \$ 307,307 |

## Liabilities:

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|  |    |          |    |           |    |          |    |         |    |         |
|--|----|----------|----|-----------|----|----------|----|---------|----|---------|
| Demand deposit accounts                    | \$ | -        | \$ | -         | \$ | -        | \$ | -       | \$ | 73,542  |
| NOW accounts                               |    | 22,786   |    | -         |    | -        |    | -       |    | 22,786  |
| Money market deposit accounts              |    | 15,884   |    | -         |    | -        |    | -       |    | 15,884  |
| Savings accounts                           |    | 48,856   |    | -         |    | -        |    | -       |    | 48,856  |
| IRA accounts                               |    | 1,676    |    | 8,834     |    | 16,156   |    | 2,222   |    | 28,888  |
| Certificates of deposit                    |    | 14,313   |    | 29,001    |    | 26,044   |    | 147     |    | 69,505  |
| Federal funds purchased                    |    | 815      |    | -         |    | -        |    | -       |    | 815     |
| Short-term borrowings                      |    | 3,982    |    | -         |    | -        |    | -       |    | 3,982   |
| Long-term borrowings                       |    | 8        |    | 26        |    | 7,082    |    | -       |    | 7,116   |
| Other liabilities                          |    | -        |    | -         |    | -        |    | -       |    | 1,560   |
| Junior subordinated debenture              |    | -        |    | -         |    | 5,155    |    | -       |    | 5,155   |
| <b>Stockholders' equity:</b>               |    | -        |    | -         |    | -        |    | -       |    | 29,218  |
| Total liabilities and stockholders' equity | \$ | 108,320  | \$ | 37,861    | \$ | 54,437   | \$ | 2,369   | \$ | 307,307 |
| GAP  | \$ | (96,126) | \$ | (25,353)  | \$ | 30,596   | \$ | 172,035 |    |         |
| Cumulative GAP                             | \$ | (96,126) | \$ | (121,479) | \$ | (90,883) | \$ | 81,152  |    |         |
| Cumulative GAP as a % of total assets      |    | -31.28%  |    | -39.53%   |    | -29.57%  |    | 26.41%  |    |         |

-12-

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

In addition to GAP analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The model takes into consideration the effect of call features of investments as well as prepayments of loans in periods of declining rates. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing liabilities may differ from the assumptions used in the model. As of June 30, 2007, the model produced the following sensitivity profile for net interest income and the economic value of equity.

|                                      | Immediate Change in Rates |              |              |              |
|--------------------------------------|---------------------------|--------------|--------------|--------------|
|                                      | -200                      | -100         | +100         | +200         |
|                                      | Basis Points              | Basis Points | Basis Points | Basis Points |
| % Change in Net Interest Income      | -2.2%                     | 0.1%         | -1.3%        | -3.1%        |
| % Change in Economic Value of Equity | -5.0%                     | 0.8%         | -5.1%        | -11.0%       |

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold, certificates of deposit with other financial institutions that have an original maturity of three months or less and money market mutual funds. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. The Bank's cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of September 30, 2007, totaled \$8,595,000, a decrease of \$4,725,000 (35.47%) from the December 31, 2006 total of \$13,320,000.

As of September 30, 2007, the Bank was permitted to draw on a \$42,780,000 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 September 30, 2007, a \$7.0 million long-term convertible advance was outstanding. A short term advance of \$3.5 million from FHLB of Atlanta was outstanding at September 30, 2007. This advance was used to fund the 15 month certificate of deposits that were maturing in the second quarter and not being renewed. In addition the Bank has an unsecured federal funds line of credit in the amount of \$7.0 million from another commercial bank, which increased \$2.0 million during the third quarter, of which \$815,000 was outstanding at September 30, 2007. These funds were used for short term liquidity needs. Furthermore, as of September 30, 2007, the Company had outstanding \$5,155,000 of its 10.6% Junior Subordinated Deferrable Interest Debentures issued to Glen Burnie Statutory Trust I, a Connecticut statutory trust subsidiary of the Company.

The Company's stockholders' equity increased \$1,017,000 (3.60%) during the nine months ended September 30, 2007, due mainly to an increase in accumulated other comprehensive loss, net of tax benefits, offset by increases in all the other items. The Company's accumulated other comprehensive loss, net of tax benefits increased by \$310,000 (98.10%) from (\$316,000) at December 31, 2006 to (\$626,000) at September 30, 2007, as a result of a decrease in the market value of securities classified as available for sale. Retained earnings increased by \$1,187,000 (8.29%) as the result of the Company's earnings for the nine months, offset by dividends. In addition, \$136,524 was transferred within stockholders' equity in consideration for shares to be issued under the Company's dividend reinvestment plan in lieu of cash dividends.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets. At September 30, 2007, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 11.20%, a Tier 1 risk-based capital ratio of 15.93% and a total risk-based capital ratio of 16.80%.

## **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, 2006 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:

-14-

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*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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For information regarding the market risk of the Company's financial instruments, see "Market Risk and Interest Rate Sensitivity" in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

### **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 believe 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)
- 4.1 Rights Agreement, dated as of February 13, 1998, between Glen Burnie Bancorp and The Bank of Glen Burnie, as Rights Agent, as amended and restated as of December 27, 1999 (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, 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)
- 10.4 The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, 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 October 29, 2007

**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: October 29, 2007

By: /s/ F. William Kuethe, Jr.

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F. William Kuethe, Jr.  
President, Chief Executive Officer

By: /s/ John E. Porter

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John E. Porter  
Chief Financial Officer