GLEN BURNIE BANCORP
Form 10-K
March 18, 2014

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

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013 or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to ________.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Common Stock, $1.00 par value
Common Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer o   Accelerated Filer o   Non-Accelerated Filer o   Smaller Reporting Company 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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2013 was $27,013,712.

The number of shares of common stock outstanding as of March 3, 2014 was 2,750,876

DOCUMENTS INCORPORATED BY REFERENCE

To the extent specified, Part III of this Form 10-K incorporates information by reference to the Registrant's definitive proxy statement for its 2013 Annual Meeting of Shareholders (to be filed).

GLEN BURNIE BANCORP
2013 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

General

Glen Burnie Bancorp (the “Company”) is a bank holding company organized in 1990 under the laws of the State of Maryland. The Company owns all the outstanding shares of capital stock of The Bank of Glen Burnie (the “Bank”), a commercial bank organized in 1949 under the laws of the State of Maryland, serving northern Anne Arundel County and surrounding areas from its main office and branch in Glen Burnie, Maryland and branch offices in Odenton, Riviera Beach, Crownsville, Severn (two locations), Linthicum and Severna Park, Maryland. The Bank also maintains a remote Automated Teller Machine (“ATM”) location in Pasadena, Maryland. The Bank maintains a website at www.thebankofglenburnie.com. The Bank is the oldest independent commercial bank in Anne Arundel County. The Bank is engaged in the commercial and retail banking business as authorized by the banking statutes of the State of Maryland, including the acceptance of demand and time deposits, and the origination of loans to individuals, associations, partnerships and corporations. The Bank’s real estate financing consists of residential first and second mortgage loans, home equity lines of credit and commercial mortgage loans. Commercial lending consists of both secured and unsecured loans. The Bank also originates automobile loans through arrangements with local automobile dealers. The Bank’s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation (“FDIC”).

The Company’s principal executive office is located at 101 Crain Highway, S.E., Glen Burnie, Maryland 21061. Its telephone number at such office is (410) 766-3300.

Information on the Company and its subsidiary Bank may be obtained from the Company’s website www.thebankofglenburnie.com. Copies of the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto are available free of charge on the website as soon as they are filed with the SEC through a link to the SEC’s EDGAR reporting system. Simply select the “Investor Relations” menu item, then click on the “All SEC Filings” or “Insider Transactions” link.

Economic and Credit Turmoil from 2009 to 2013

As discussed in the media, the recovery which followed the 2007 economic downturn appears to have been less robust than recoveries from previous recessions, and the effects of the aggressive policies and actions of the Federal Reserve in battling the recession are still evolving. The Bank and, as a result, the Company, have not been immune to the impact of this challenging economic cycle which, among other effects, has put downward pressure on net interest margins. Despite the challenges, we realized net income of $1,262,462, $2,064,785, $2,993,093, $2,665,080 and $2,614,177 for 2009, 2010, 2011, 2012 and 2013, respectively. Due to conservative lending decisions, the Bank has no exposure to the credit issues affecting the sub-prime residential mortgage market. We remain well capitalized and did not need to apply for any funding from the U.S. Department of Treasury’s Troubled Asset Relief Program (TARP). We continue to lend money and, we believe, meet the needs of our customers and neighbors. We believe we are a sound, conservatively run financial institution that has been profitable each year during this turmoil despite the deterioration in the economic environment and the outside forces that have affected us these past five years.

Market Area

The Bank considers its principal market area for lending and deposit products to consist of Anne Arundel County, Maryland. Anne Arundel County includes mature suburbs of the City of Baltimore, which in recent years have experienced modest population growth and are characterized by an aging population. Management believes that the majority of the working population in its market area either commutes to Baltimore or is employed at businesses located at or around the nearby Baltimore Washington International Airport. Anne Arundel County is generally considered to have more affordable housing than other suburban Baltimore areas and attracts younger persons and minorities on this basis. This inflow, however, has not been sufficient to affect current population trends.

Lending Activities

The Bank offers a full range of consumer and commercial loans. The Bank's lending activities include residential and commercial real estate loans, construction loans, land acquisition and development loans, commercial loans and consumer installment lending including indirect automobile lending. Substantially all of the Bank's loan customers are residents of Anne Arundel County and surrounding areas of Central Maryland. The Bank solicits loan applications for commercial loans from small to medium sized businesses located in its market area. The Company believes that this is a market in which a relatively small community bank, like the Bank, has a competitive advantage in personal service and flexibility. The Bank's consumer lending currently consists primarily of indirect automobile loans originated through arrangements with local dealers.

The Company's total loan portfolio decreased in 2010 and increased during the 2013, 2012, 2011, and 2009, fiscal years. In 2013, the increase in the loan portfolio was primarily due to increases in indirect loans, refinance mortgage loans, non-home owner residential construction loans, home equity and purchase money mortgages, partially offset by decreases in secured business installment loans, home-owner residential construction, commercial and industrial mortgages, and demand secured business loans. In 2012, the increase in the loan portfolio was primarily due to increases in indirect loans, commercial and industrial mortgages, home equity and purchase money mortgages, partially offset by decreases in refinance mortgage loans, construction loans for commercial and industrial loans and demand secured business loans. In 2012, mortgage participations purchased also decreased. In 2011, the increase in the loan portfolio was primarily due to increases in indirect loans, residential mortgages, and installment loans, partially offset by a decrease in commercial mortgages. In 2011, mortgage participations purchased decreased but so did mortgage participations sold. In 2010, the decrease in the loan portfolio was primarily due to decreases in indirect loans, commercial mortgages, secured demand commercial loans and commercial loans, partially offset by increases in refinance and purchase money mortgage loans and land development loans. Mortgage participations purchased decreased but so did mortgage participations sold. In 2009, the increase in the loan portfolio was primarily due to increases in refinanced mortgage loans, purchase money mortgage loans, home equity and commercial mortgages, partially offset by a decrease in indirect loans and mortgage participations purchased.

The following table provides information on the composition of the loan portfolio at the indicated dates.

	At December 31,									
	2013		2012		2011		2010		2009	
(Dollars in Thousands)	$	%	$	%	$	%	$	%	$	%
Mortgage:										
Residential	$123,646	44.98 %	$107,729	42.41 %	$107,664	45.29 %	$102,199	43.62 %	$95,683	39.81
Commercial	67,196	24.45	71,381	28.10	67,656	28.46	72,670	31.02	79,845	33.23
Construction and land development	6,582	2.40	3,915	1.54	5,092	2.14	5,363	2.29	1,743	0.73
Consumer:										
Installment	17,669	6.43	18,504	7.28	18,048	7.59	16,407	7.00	15,965	6.64
Personal unsecured lines	161	0.06	165	0.06	163	0.07	168	0.07	166	0.07
Indirect automobile	55,400	20.16	47,427	18.67	31,907	13.42	30,286	12.93	37,092	15.44
Commercial	4,173	1.52	4,901	1.94	7,193	3.03	7,193	3.07	9,801	4.08
Gross loans	274,827	100.00%	254,022	100.00%	237,723	100.00%	234,286	100.00%	240,295	100.00
Unearned income on loans	(1,171)		(1,083)		(1,058)		(1,035)		(839)	
Gross loans net of unearned income	273,656		252,939		236,665		233,251		239,456	
Allowance for credit	(2,972)		(3,308)		(3,931)		(3,400)		(3,573)	

losses					
Loans, net	$270,684	$249,631	$232,734	$229,851	$235,883

The following table sets forth the maturities for various categories of the loan portfolio at December 31, 2013. Demand loans and loans which have no stated maturity, are treated as due in one year or less. At December 31, 2013, the Bank had $18,411,425 in loans due after one year with variable rates and $228,504,942 in such loans with fixed rates.

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	Due Within One Year	Due Over One To Five Years	Due Over Five Years	Total
		(In Thousands)		
Real Estate - mortgage:				
Residential	$ 11,254	$ 4,692	$ 107,700	$ 123,646
Commercial	8,605	18,250	40,341	67,196
Construction and land development	4,465	1,172	945	6,582
Installment	986	8,078	8,605	17,669
Personal unsecured lines	6	32	123	161
Indirect automobile	633	33,943	20,824	55,400
Commercial	1,962	-	2,211	4,173
	$ 27,911	$ 66,167	$ 180,749	$ 274,827

Real Estate Lending. The Bank offers long-term mortgage financing for residential and commercial real estate as well as shorter term construction and land development loans. Residential mortgage and residential construction loans are originated with fixed rates, while commercial mortgages may be originated on either a fixed or variable rate basis. Commercial construction loans may be originated on either a fixed or a variable rate basis. Substantially all of the Bank's real estate loans are secured by properties in Anne Arundel County, Maryland. Under the Bank's loan policies, the maximum permissible loan-to-value ratio for owner-occupied residential mortgages is 80% of the lesser of the purchase price or appraised value. For residential investment properties, the maximum loan-to-value ratio is 80%. The maximum permissible loan-to-value ratio for residential and residential construction loans is 80%. The maximum loan-to-value ratio for permanent commercial mortgages is 75%. The maximum loan-to-value ratio for land development loans is 70% and for unimproved land is 65%. The Bank also offers home equity loans secured by the borrower's primary residence, provided that the aggregate indebtedness on the property does not exceed 80% of its value. Because mortgage lending decisions are based on conservative lending policies, the Company has no exposure to the credit issues affecting the sub-prime residential mortgage market.

Commercial Lending. The Bank's commercial loan portfolio consists of demand, installment and time loans for commercial purposes. The Bank's business demand, installment and time lending includes various working capital loans, equipment, vehicles, lines of credit and letters of credit for commercial customers. Demand loans require the payment of interest until called, while installment loans require a monthly payment of principal and interest, and time loans require at maturity a single payment of principal and interest due monthly. Such loans may be made on a secured or an unsecured basis. All such loans are underwritten on the basis of the borrower's creditworthiness rather than the value of the collateral.

Installment Lending. The Bank makes consumer and commercial installment loans for the purchase of automobiles, boats, other consumer durable goods, capital goods and equipment. Such loans provide for repayment in regular installments and are secured by the goods financed. Also included in installment loans are other types of credit repayable in installments. As of December 31, 2013, approximately 51.96% of the installment loans in the Bank's portfolio (other than indirect automobile lending) had been originated for commercial purposes and 48.04% had been originated for consumer purposes.

Indirect Automobile Lending. The Bank commenced its indirect automobile lending program in January 1998. The Bank finances new and used automobiles for terms of up to 72 months. The Bank will lend a maximum of 110% of invoice on new vehicles. On used vehicles, the Bank will not lend more than 120% of the clean wholesale value as published in a nationally recognized used vehicle pricing guide. The Bank requires all borrowers to obtain vendor's single interest coverage protecting the Bank against loss in the case a borrower's automobile insurance lapses. The Bank originates indirect loans through a network of approximately 60 dealers which are primarily new car dealers located in Anne Arundel County and the surrounding counties. Participating dealers take loan applications from their customers and transmit them to the Bank for approval.

Personal Unsecured Lines. The Bank offers overdraft protection lines of credit, tied to checking accounts, as a convenience to qualified customers.

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Although the risk of non-payment for any reason exists with respect to all loans, certain other specific risks are associated with each type of loan. The primary risks associated with commercial loans, including commercial real estate loans, are the quality of the borrower's management and a number of economic and other factors which induce business failures and depreciate the value of business assets pledged to secure the loan, including competition, insufficient capital, product obsolescence, changes in the borrowers' cost, environmental hazards, weather, changes in laws and regulations and general changes in the marketplace. Primary risks associated with residential real estate loans include fluctuating land and property values and rising interest rates with respect to fixed-rate, long-term loans. Residential construction lending exposes the Company to risks related to builder performance. Consumer loans, including indirect automobile loans, are affected primarily by domestic economic instability and a variety of factors that may lead to the borrower's unemployment, including deteriorating economic conditions in one or more segments of a local or broader economy. Because the Bank deals with borrowers through an intermediary on indirect automobile loans, this form of lending potentially carries greater risks of defects in the application process for which claims may be made against the Bank. Indirect automobile lending may also involve the Bank in consumer disputes under state "lemon" or other laws. The Bank seeks to control these risks by following strict underwriting and documentation guidelines. In addition, dealerships are contractually obligated to indemnify the Bank for such losses for a limited period of time.

The Bank's lending activities are conducted pursuant to written policies approved by the Board of Directors intended to ensure proper management of credit risk. Loans are subject to a well defined credit process that includes credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances, as well as procedures for on-going identification and management of credit deterioration. Regular portfolio reviews are performed by the Bank's Senior Credit Officer to identify potential underperforming loans and other credit facilities, estimate loss exposure and to ascertain compliance with the Bank's policies. On a quarterly basis, the Bank's Internal Auditor performs, or causes to be performed, an independent loan review in accordance with the Bank's loan review policy. For significant problem loans, management review consists of evaluation of the financial strengths of the borrower and any guarantor, the related collateral, and the effects of economic conditions.

The Bank's loan approval policy provides for various levels of individual lending authority. The maximum aggregate lending authority granted by the Bank to any one Lending Officer is $750,000. A combination of approvals from certain officers may be used to lend up to an aggregate of $1,000,000. The Bank's Executive Committee is authorized to approve loans up to $3.0 million. Larger loans must be approved by the full Board of Directors.

Under Maryland law, the maximum amount which the Bank is permitted to lend to any one borrower and their related interests may generally not exceed 10% of the Bank's unimpaired capital and surplus, which is defined to include the Bank's capital, surplus, retained earnings and 50% of its allowance for possible loan losses. Under this authority, the Bank would have been permitted to lend up to $3.40 million to any one borrower at December 31, 2013. By interpretive ruling of the Commissioner of Financial Regulation, Maryland banks have the option of lending up to the amount that would be permissible for a national bank which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any loan loss allowances not included in regulatory capital). Under this formula, the Bank was permitted to lend up to $5.11 million to any one borrower from and after January 1, 2013. At December 31, 2013, the largest amount outstanding to any one borrower and its related interests was $4,742,000. From and after January 1, 2014, the Bank is permitted to lend up to $5.34 million to any one borrower.

Non-Performing Loans

It is the policy of The Bank that any loan that is ninety (90) days or more delinquent in the payment of principal and/or interest be placed into non-accrual status. Notwithstanding the aforementioned, if it is determined that there appears to be a substantial amount of risk of not collecting all of the agreed upon interest that would normally accrue to a loan, the loan is placed into Non-Accrual status even if the determination is made prior to ninety (90) days delinquent. A variance to this rule would be if the asset is both well secured and in the process of collection. An asset is “well secured” if it is secured by (1) collateral in the form of liens on or pledges of real or personal property, including securities that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) the guarantee of a financially responsible party. An asset is “in the process of collection” if collection of the asset is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in prepayment of the debt or in its restoration to a current status in the near future.

The Bank seeks to control delinquencies through diligent collection efforts. For consumer loans, the Bank sends out payment reminders on the seventh and twelfth days after a payment is due. If a consumer loan becomes 15 days past due, the account is transferred to the Bank’s collections department, which will contact the borrower by telephone and/or letter before the account becomes 30 days past due. If a consumer loan becomes more than 30 days past due, the Bank will continue its collection efforts and will move to repossession or foreclosure by the 45th day if the Bank has reason to believe that the collateral may be in jeopardy or the borrower has failed to respond to prior communications. The Bank may move to repossess or foreclose in all instances in which a consumer loan becomes more than 60 days delinquent. After repossession of a motor vehicle, the borrower has a 15-day statutory right to redeem the vehicle and is entitled to 10 days’ notice before the sale of a repossessed vehicle. The Bank sells the vehicle as promptly as feasible after the expiration of these periods. If the amount realized from the sale of the vehicle is less than the loan amount, the Bank may seek a deficiency judgment against the borrower. The Bank follows similar collection procedures with respect to commercial loans.

While the economy remained weak in 2012, the Bank remained strong and experienced a continued decrease in non-accrual loans as of December 31, 2013. 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:

	At December 31, 2013	2012	2011	2010	2009
	(Dollars In Thousands)				
Restructured Loans	$-	$2,202	$4,108	$2,844	$87
Non-accrual loans:					
Real estate – mortgage:					
Residential	$1,123	$1,109	$481	$976	$215
Commercial	-	1,370	3,192	4,522	2,626
Installment	338	237	75	125	176
Commercial	1,252	1,293	1,313	1,360	-
Total non-accrual loans	2,713	4,009	5,061	6,983	3,017
Accruing loans past due 90 days or more					
Real estate – mortgage:					
Residential	431	259	19	-	8
Real estate - construction	-	-	-	-	-
Installment	-	-	-	-	1
Commercial	1,177	1,354	-	-	12
Total accruing loans past due 90 days or more	1,608	1,613	19	-	21
Total non-accrual and past due loans	$4,321	$5,622	$5,080	$6,983	$3,038
Non-accrual and past due loans to gross loans	1.58%	2.22%	2.15%	2.99%	1.26%
Allowance for credit losses to non-accrual and past due loans	68.78%	58.84%	77.38%	48.69%	117.61%

For the year ended December 31, 2013, interest of $180,770 would have been accrued on non-accrual loans if such loans had been current in accordance with their original terms. During that period, interest on non-accrual loans was not included in income. $2,360,895, or 87.00%, of the Bank's total $2,713,393 non-accrual loans at December 31, 2013 were attributable to 6 borrowers. One of these borrowers was in bankruptcy at that date. Because of the legal protections afforded to borrowers in bankruptcy, collections on such loans are difficult and the Bank anticipates that such loans may remain delinquent for an extended period of time.

At December 31, 2013, there were loans outstanding, totaling $2,807,366, not reflected in the above table as to which known information about the borrower's possible credit problems caused management to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms. These 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.

At December 31, 2013, the Company had $1,171,000 in real estate acquired in partial or total satisfaction of debt, compared to $478,000 and $1,111,000 in such properties at each of December 31, 2012 and 2011. This increase for 2013 was the result of three properties being acquired in 2013, offset by the write-down of one of those properties, the sale of two of the properties acquired in 2012 and the write-off of the remaining balance, and the sale of units in the property acquired in 2011. This decrease for 2012 was the result of the sale of units in the property acquired in 2011, offset by properties acquired in 2012. One of the three properties acquired in 2012 was sold in 2012. All such properties are recorded at the lower of cost or fair value at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and expense of operation are included in non-interest expense. Gains and losses realized from the sale of other real estate owned are included in non-interest income or expense. For a description of the properties comprising other real estate owned at December 31, 2013, see “Item 2. -- Properties.”

Allowance For Credit Losses

The Bank's allowance for credit losses is based on the probable estimated losses that may be sustained in its loan portfolio. The allowance is based on two basic principles of accounting. (1) ASC Topic 450, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, and (2) ASC Topic 310, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on evaluations of the collectability of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral, and current economic conditions and trends that may affect the borrower's ability to pay. Because mortgage lending decisions are based on conservative lending policies, the Company has no exposure to the credit issues affecting the sub-prime residential mortgage market.

In 2013, the Bank slightly increased its provision for credit losses to cover loans put on non-accrual that did not previously have specific reserves.

Transactions in the allowance for credit losses during the last five fiscal years were as follows:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars In Thousands)				
Beginning Balance	$3,308	$3,931	$3,400	$3,573	$2,022
Loans charged off					
Real estate - mortgage:					
Residential	179	735	4	66	85
Commercial	-	-	-	825	-
Installment	652	475	606	959	1,070
Commercial	202	55	6	12	133
Total	1,033	1,265	616	1,862	1,288
Recoveries					
Real estate - mortgage:					
Residential	8	6	1	85	-
Commercial	89	89	70	11	-
Installment	313	287	409	497	359
Commercial	27	10	4	46	37
Total	437	392	484	639	396
Net charge offs	596	873	132	1,223	892
Provisions charged to operations	260	250	663	1,050	2,443
Ending balance	$2,972	$3,308	$3,931	$3,400	$3,573

Average loans	$256,821	$244,905	$233,011	$234,495	$239,788
Net charge-offs to average loans	0.23 %	0.36 %	0.06 %	0.53 %	0.37 %

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The following table shows the allowance for credit losses broken down by loan category as of December 31, 2013, 2012, 2011, 2010, and 2009:

Portfolio	At December 31, 2013 Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	2012 Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans
	(Dollars In Thousands)			
Real Estate - mortgage:				
Residential	$ 578	44.98 %	$ 382	42.41 %
Commercial	898	24.45	1,183	28.10
Real Estate -- construction	15	2.40	10	1.54
Installment	335	6.43	223	7.28
Personal unsecured lines	-	0.06	-	0.06
Indirect automobile	853	20.16	835	18.68
Commercial	413	1.52	542	1.93
Unallocated	(120)	-	133	-
Total	$ 2,972	100.00 %	$ 3,308	100.00 %

Portfolio	At December 31, 2011 Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	2010 Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	2009 Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans
	(Dollars In Thousands)					
Real Estate – mortgage:						
Residential	$584	45.29 %	$196	43.62 %	$162	39.81 %
Commercial	2,013	28.46	2,096	31.02	2,377	33.23
Real Estate – construction	12	2.14	12	2.29	4	0.73
Installment	228	7.59	196	7.00	146	6.64
Personal unsecured lines	-	0.07	-	0.07	-	0.07
Indirect automobile	661	13.42	634	12.93	697	15.44
Commercial	557	3.03	263	3.07	237	4.08
Unallocated	(124)	-	3	-	(50)	-
Total	$3,931	100.00 %	$3,400	100.00 %	$3,573	100.00 %

Investment Securities

The Bank maintains a substantial portfolio of investment securities to provide liquidity as well as a source of earnings. The Bank's investment securities portfolio consists primarily of securities issued by U.S. Government agencies including mortgage-backed securities, securities issued by certain states and their political subdivisions, and corporate trust preferred securities. The tax treatment of the Bank's portfolio of securities issued by certain states and their political subdivisions allows the Company to use the full tax advantage of this portfolio.

The following table presents at amortized cost the composition of the investment portfolio by major category at the dates indicated.

	At December 31,		
	2013	2012	2011
	(In Thousands)		
U.S. Treasury securities	$-	$-	$-
U.S. Government agencies and mortgage backed securities	43,541	57,523	62,001
Obligations of states and political subdivisions	32,396	38,528	37,165
Corporate trust preferred	333	350	635
Total investment securities	$76,270	$96,401	$99,801

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The following table sets forth the scheduled maturities, amortized costs and weighted average yields for the Company's investment securities portfolio at December 31, 2013:

	One Year Or Less		One To Five Years		Five to Ten Years		More Than Ten Years		Total	
	Amort. Cost	Weighted Average Yield	Amort. Cost	Weighted Average Yield	Amort. Cost	Weighted Average Yield	Amort. Cost	Weighted Average Yield	Amort. Cost	Weighted Average Yield
U.S. Treasury securities	$-	- %	$-	- %	$-	- %	$-	- %	$-	- %
U.S. Government agencies and mortgage backed securities	-	-	406	2.22	920	4.98	42,215	2.62	43,541	2.67
Obligations of states and political subdivisions	-	-	-	-	-	-	32,396	4.19	32,396	4.19
Corporate trust preferred	-	-	-	-	-	-	333	9.25	333	9.25
Total investment securities	$-	- %	$406	2.22 %	$920	4.98 %	$74,944	3.33 %	$76,270	3.35 %

At December 31, 2013, the Bank had no investments in securities of a single issuer (other than the U.S. Government securities and securities of federal agencies and government-sponsored enterprises), which aggregated more than 10% of stockholders' equity.

Deposits And Other Sources of Funds

The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities surrounding its branches in Anne Arundel County. Consolidated total deposits were $323,803,356 as of December 31, 2013. The Bank uses borrowings from the Federal Home Loan Bank ("FHLB") of Atlanta to supplement funding from deposits. The Bank was permitted to borrow up to $63.72 million under a line of credit from the FHLB of Atlanta as of December 31, 2013.

Deposits. The Bank's deposit products include regular savings accounts (statements), money market deposit accounts, demand deposit accounts, NOW checking accounts, IRA and SEP accounts, Christmas Club accounts and certificates of deposit. Variations in service charges, terms and interest rates are used to target specific markets. Ancillary products and services for deposit customers include safe deposit boxes, money orders, night depositories, automated clearinghouse transactions, wire transfers, ATMs, telephone banking, and internet banking. The Bank is a member of the Cirrus(R), Star(R), Pulse(R) and MoneyPass(R) ATM networks.

As stated above, the Bank obtains deposits principally through its network of branch offices. The Bank does not solicit brokered deposits. At December 31, 2013, the Bank had approximately $45.90 million in certificates of deposit and other time deposits of $100,000 or more, including IRA accounts. The following table provides information as to the maturity of all time deposits of $100,000 or more at December 31, 2013:

Amount

	(In Thousands)
Three months or less	$ 6,224
Over three through six months	4,151
Over six through 12 months	6,776
Over 12 months	28,750
Total	$ 45,901

Borrowings. In addition to deposits, the Bank from time to time obtains advances from the FHLB of Atlanta of which it is a member. FHLB of Atlanta advances may be used to provide funds for residential housing finance, for small business lending, and to meet specific and anticipated needs. The Bank may draw on a $63.72 million line of credit from the FHLB of Atlanta, which is secured by a floating lien on the Bank's residential first mortgage loans and various federal and agency securities. There was also a $10 million convertible advance with a 3.28% rate of interest (callable monthly and with a final maturity of November 1, 2017.) There was a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and was callable quarterly, starting July 23, 2009. There was a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly, starting August 22, 2011. The Bank also has three federal funds lines of credit in the amounts of $3 million, $5 million and $8 million, of which nothing was outstanding at December 31, 21013.

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Competition

The Bank faces competition for deposits and loans from other community banks, branches or affiliates of larger banks, savings and loan associations, savings banks and credit unions, which compete vigorously (currently, sixteen FDIC-insured depository institutions operate within two miles of the Bank's headquarters). With respect to indirect lending, the Bank faces competition from other banks and the financing arms of automobile manufacturers. The Bank competes in this area by offering competitive rates and responsive service to dealers.

The Bank's interest rates, loan and deposit terms, and offered products and services are impacted, to a large extent, by such competition. The Bank attempts to provide superior service within its community and to know, and facilitate services, to, its customers. It seeks commercial relationships with small to medium size businesses, which the Bank believes would welcome personal service and flexibility. The bank believes its greatest competition comes from larger intra- and inter-state financial institutions.

Other Activities

The Company also owns all outstanding shares of capital stock of GBB Properties, Inc. ("GBB"), another Maryland corporation which was organized in 1994 and which is engaged in the business of acquiring, holding and disposing of real property, typically acquired in connection with foreclosure proceedings (or deeds in lieu of foreclosure) instituted by the Bank or acquired in connection with branch expansions by the Bank.

Employees

At December 31, 2013, the Bank had 100 full-time equivalent employees. Neither the Company nor GBB currently has any employees.

Regulation of the Company

General. The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the "BHCA"). As such, the Company is registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and subject to Federal Reserve Board regulation, examination, supervision and reporting requirements. As a bank holding company, the Company is required to furnish to the Federal Reserve Board annual and quarterly reports of its operations at the end of each period and to furnish such additional information as the Federal Reserve Board may require pursuant to the BHCA. The Company is also subject to regular inspection by Federal Reserve Board examiners.

Under the BHCA, a bank holding company must obtain the prior approval of the Federal Reserve Board before: (1) acquiring direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company would directly or indirectly own or control more than 5% of such shares; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") authorizes the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state.

The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the Federal Reserve Board from approving such an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in the Riegle-Neal Act. Under Maryland law, a bank holding company is prohibited from acquiring control of any bank if the bank holding company would control more than 30% of the total deposits of all depository institutions in the State of Maryland unless waived by the Maryland Commissioner of Financial Regulation.

Additionally, the federal banking agencies are authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks opted out of the Riegle-Neal Act by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997 which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. The State of Maryland did not pass such a law during this period. Interstate acquisitions of branches will be permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions will also be subject to the nationwide and statewide insured deposit concentration amounts described above.

The BHCA also prohibits, with certain exceptions, a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of a company that is not a bank or a bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by Federal Reserve Board regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The activities of the Company are subject to these legal and regulatory limitations under the BHCA and the Federal Reserve Board's regulations thereunder. Notwithstanding the Federal Reserve Board's prior approval of specific nonbanking activities, the Federal Reserve Board has the power to order a holding company or its subsidiaries to terminate any activity, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that holding company.

Effective with the enactment of the Gramm-Leach-Bliley Act ("G-L-B Act") on November 12, 1999, bank holding companies whose financial institution subsidiaries are well capitalized and well managed and have satisfactory Community Reinvestment Act records can elect to become "financial holding companies" which will be permitted to engage in a broader range of financial activities than are currently permitted to bank holding companies. Financial holding companies are authorized to engage in, directly or indirectly, financial activities. A financial activity is an activity that is: (i) financial in nature; (ii) incidental to an activity that is financial in nature; or (iii) complementary to a financial activity and that does not pose a safety and soundness risk. The G-L-B Act includes a list of activities that are deemed to be financial in nature. Other activities also may be decided by the Federal Reserve Board to be financial in nature or incidental thereto if they meet specified criteria. A financial holding company that intends to engage in a new activity to acquire a company to engage in such an activity is required to give prior notice to the Federal Reserve Board. If the activity is not either specified in the G-L-B Act as being a financial activity or one that the Federal Reserve Board has determined by rule or regulation to be financial in nature, the prior approval of the Federal Reserve Board is required.

The Maryland Financial Institutions Code prohibits a bank holding company from acquiring more than 5% of any class of voting stock of a bank or bank holding company without the approval of the Commissioner of Financial Regulation except as otherwise expressly permitted by federal law or in certain other limited situations. The Maryland Financial Institutions Code additionally prohibits any person from acquiring voting stock in a bank or bank holding company without 60 days' prior notice to the Commissioner if such acquisition will give the person control of 25% or more of the voting stock of the bank or bank holding company or will affect the power to direct or to cause the direction of the policy or management of the bank or bank holding company. Any doubt whether the stock acquisition will affect the power to direct or cause the direction of policy or management shall be resolved in favor of reporting to the Commissioner. The Commissioner may deny approval of the acquisition if the Commissioner determines it to be anti-competitive or to threaten the safety or soundness of a banking institution. Voting stock acquired in violation of this statute may not be voted for five years.

Capital Adequacy. The Federal Reserve Board has adopted guidelines regarding the capital adequacy of bank holding companies, which require bank holding companies to maintain specified minimum ratios of capital to total assets and capital to risk-weighted assets. See “Regulation of the Bank -- Capital Adequacy.”

Dividends and Distributions. The Federal Reserve Board has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board’s view that a bank holding company should pay cash dividends only to the extent that the company’s net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the company’s capital needs, asset quality, and overall financial condition.

Bank holding companies are required to give the Federal Reserve Board notice of any purchase or redemption of their outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would violate any law, regulation, Federal Reserve Board order, directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Bank holding companies whose capital ratios exceed the thresholds for "well capitalized" banks on a consolidated basis are exempt from the foregoing requirement if they were rated composite 1 or 2 in their most recent inspection and are not the subject of any unresolved supervisory issues.

Regulation of the Bank

General. As a state-chartered bank with deposits insured by the FDIC but which is not a member of the Federal Reserve System (a "state non-member bank"), the Bank is subject to the supervision of the Maryland Commissioner of Financial Regulation and the FDIC. The Commissioner and FDIC regularly examine the operations of the Bank, including but not limited to capital adequacy, reserves, loans, investments and management practices. These examinations are for the protection of the Bank's depositors and not its stockholders. In addition, the Bank is required to furnish quarterly and annual call reports to the Commissioner and FDIC. The FDIC's enforcement authority includes the power to remove officers and directors and the authority to issue cease-and-desist orders to prevent a bank from engaging in unsafe or unsound practices or violating laws or regulations governing its business.

The Bank's deposits are insured by the FDIC to the legal maximum of $250,000 for each insured depositor. Some of the aspects of the lending and deposit business of the Bank that are subject to regulation by the Federal Reserve Board and the FDIC include reserve requirements and disclosure requirements in connection with personal and mortgage loans and savings deposit accounts. In addition, the Bank is subject to numerous Federal and state laws and regulations which set forth specific restrictions and procedural requirements with respect to the establishment of branches, investments, interest rates on loans, credit practices, the disclosure of customer information, the disclosure of credit terms and discrimination in credit transactions.

Patriot Act. The USA Patriot Act (the "Patriot Act"), includes provisions pertaining to domestic security, surveillance procedures, border protection, and terrorism laws to be administered by the Secretary of the Treasury. Title III of the Patriot Act entitled, "International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001" includes amendments to the Bank Secrecy Act which expand the responsibilities of financial institutions in regard to anti-money laundering activities with particular emphasis upon international money laundering and terrorism financing activities through designated correspondent and private banking accounts.

Section 313(a) of the Patriot Act prohibits any insured financial institution such as the Bank, from providing correspondent accounts to foreign banks which do not have a physical presence in any country (designated as "shell banks"), subject to certain exceptions for regulated affiliates of foreign banks. Section 313(a) also requires financial institutions to take reasonable steps to ensure that foreign bank correspondent accounts are not being used to indirectly provide banking services to foreign shell banks, and Section 319(b) requires financial institutions to maintain records of the owners and agent for service of process of any such foreign banks with whom correspondent accounts have been established.

Section 312 of the Patriot Act creates a requirement for special due diligence for correspondent accounts and private banking accounts. Under Section 312, each financial institution that establishes, maintains, administers, or manages a private banking account or a correspondent account in the United States for a non-United States person, including a foreign individual visiting the United States, or a representative of a non-United States person shall establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures, and controls that are reasonably designed to detect and record instances of money laundering through those accounts.

The Company and the Bank are not currently aware of any account relationships between the Bank and any foreign bank or other person or entity as described above under Sections 313(a) or 312 of the Patriot Act.

Since the September 11, 2001 terrorist attacks, governments worldwide have enacted and tightened regulations which can assist in fighting terrorism. It is reasonable to anticipate that the United States Congress may enact additional legislation in the future to combat terrorism including modifications to existing laws such as the Patriot Act to expand powers as deemed necessary. The enactment of the Patriot Act has increased the Bank's compliance costs, and the impact of any additional legislation enacted by Congress may have upon financial institutions is uncertain. However, such legislation would likely increase compliance costs and thereby potentially have an adverse effect upon the Company's results of operations.

Community Reinvestment Act. Community Reinvestment Act ("CRA") regulations evaluate banks' lending to low and moderate income individuals and businesses across a four-point scale from "outstanding" to "substantial noncompliance," and are a factor in regulatory review of applications to merge, establish new branch offices or form bank holding companies. In addition, any bank rated in "substantial noncompliance" with the CRA regulations may be subject to enforcement proceedings. The Bank has a current rating of "satisfactory" for CRA compliance.

Capital Adequacy. 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.

The regulations of the Federal Reserve Board and the FDIC require bank holding companies and state non-member banks, respectively, to maintain a minimum leverage ratio of "Tier 1 capital" (as defined in the risk-based capital guidelines discussed in the following paragraphs) to total assets of 3.0%. Although setting a minimum 3.0% leverage ratio, the capital regulations state that only the strongest bank holding companies and banks, with composite examination ratings of 1 under the rating system used by the Federal bank regulators, would be permitted to operate at or near such minimum level of capital. All other bank holding companies and banks are expected to maintain a leverage ratio of at least 1% to 2% above the minimum ratio, depending on the assessment of an individual organization's capital adequacy by its primary regulator. Any bank or bank holding company experiencing or anticipating significant growth would be expected to maintain capital well above the minimum levels. In addition, the Federal Reserve Board has indicated that whenever appropriate, and in particular when a bank holding company is undertaking expansion, seeking to engage in new activities or otherwise facing unusual or abnormal risks, it will consider, on a case-by-case basis, the level of an organization's ratio of tangible Tier 1 capital (after deducting all intangibles) to total assets in making an overall assessment of capital.

The risk-based capital rules of the Federal Reserve Board and the FDIC require bank holding companies and state non-member banks, respectively, to maintain minimum regulatory capital levels based upon a weighting of their assets and off-balance sheet obligations according to risk. Risk-based capital is composed of two elements: Tier 1 capital and Tier 2 capital. Tier 1 capital consists primarily of common stockholders' equity, certain perpetual preferred stock (which must be noncumulative in the case of banks), and minority interests in the equity accounts of consolidated subsidiaries; less all intangible assets, except for certain purchased mortgage servicing rights and credit card relationships. Tier 2 capital elements include, subject to certain limitations, the allowance for losses on loans and leases; perpetual preferred stock that does not qualify as Tier 1 capital and long-term preferred stock with an original maturity of at least 20 years from issuance; hybrid capital instruments, including perpetual debt and mandatory convertible securities; and subordinated debt and intermediate-term preferred stock.

The risk-based capital regulations assign balance sheet assets and credit equivalent amounts of off-balance sheet obligations to one of four broad risk categories based principally on the degree of credit risk associated with the obligor. The assets and off-balance sheet items in the four risk categories are weighted at 0%, 20%, 50% and 100%. These computations result in the total risk-weighted assets. The risk-based capital regulations require all banks and bank holding companies to maintain a minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to total risk-weighted assets of 8%, with at least 4% as Tier 1 capital. For the purpose of calculating these ratios: (i) Tier 2 capital is limited to no more than 100% of Tier 1 capital; and (ii) the aggregate amount of certain types of Tier 2 capital is limited. In addition, the risk-based capital regulations limit the allowance for loan losses includable as capital to 1.25% of total risk-weighted assets.

FDIC regulations and guidelines additionally specify that state non-member banks with significant exposure to declines in the economic value of their capital due to changes in interest rates may be required to maintain higher risk-based capital ratios. The Federal banking agencies, including the FDIC, have proposed a system for measuring and assessing the exposure of a bank's net economic value to changes in interest rates. The Federal banking agencies, including the FDIC, have stated their intention to propose a rule establishing an explicit capital charge for interest rate risk based upon the level of a bank's measured interest rate risk exposure after more experience has been gained with the proposed measurement process. Federal Reserve Board regulations do not specifically take into account interest rate risk in measuring the capital adequacy of bank holding companies.

The FDIC has issued regulations which classify state non-member banks by capital levels and which authorize the FDIC to take various prompt corrective actions to resolve the problems of any bank that fails to satisfy the capital standards. Under such regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a leverage ratio of 5%. An adequately capitalized bank is one that does not qualify as well-capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank not meeting these criteria is treated as undercapitalized, significantly undercapitalized, or critically undercapitalized depending on the extent to which the bank's capital levels are below these standards. A state non-member bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation will be subject to severe regulatory sanctions. As of December 31, 2013, the Bank was well capitalized as defined by the FDIC's regulations.

Branching. Maryland law provides that, with the approval of the Commissioner, Maryland banks may establish branches within the State of Maryland without geographic restriction and may establish branches in other states by any means permitted by the laws of such state or by federal law. The Riegle-Neal Act authorizes the FDIC to approve interstate branching de novo by state banks, only in states that specifically allow for such branching.

Dividend Limitations. Pursuant to the Maryland Financial Institutions Code, Maryland banks may only pay dividends from undivided profits or, with the prior approval of the Commissioner, their surplus in excess of 100% of required capital stock. The Maryland Financial Institutions Code further restricts the payment of dividends by prohibiting a Maryland bank from declaring a dividend on its shares of common stock until its surplus fund equals the amount of required capital stock or, if the surplus fund does not equal the amount of capital stock, in an amount in excess of 90% of net earnings. In addition, the Bank is prohibited by federal statute from paying dividends or making any other capital distribution that would cause the Bank to fail to meet its regulatory capital requirements. Further, the FDIC also has authority to prohibit the payment of dividends by a state non-member bank when it determines such payment to be an unsafe and unsound banking practice.

Deposit Insurance. The Bank is required to pay semi-annual assessments based on a percentage of its insured deposits to the FDIC for insurance of its deposits by the Bank Insurance Fund (“BIF”). Under the Federal Deposit Insurance Act, the FDIC is required to set semi-annual assessments for BIF-insured institutions to maintain the designated reserve ratio of the BIF at 1.25% of estimated insured deposits or at a higher percentage of estimated insured deposits that the FDIC determines to be justified for that year by circumstances raising a significant risk of substantial future losses to the BIF.

Under the risk-based deposit insurance assessment system adopted by the FDIC, the assessment rate for an insured depository institution depends on the assessment risk classification assigned to the institution by the FDIC, which is determined by the institution’s capital level and supervisory evaluations. Based on the data reported to regulators for the date closest to the last day of the seventh month preceding the semi-annual assessment period, institutions are assigned to one of three capital groups -- “well capitalized, adequately capitalized or undercapitalized.” Within each capital group, institutions are assigned to one of three subgroups on the basis of supervisory evaluations by the institution’s primary supervisory authority and such other information as the FDIC determines to be relevant to the institution’s financial condition and the risk posed to the deposit insurance fund. Under the current assessment schedule, well-capitalized banks with the best supervisory ratings are not required to pay any premium for deposit insurance. All BIF-insured banks, however, will be required to begin paying an assessment to the FDIC in an amount equal to 2.12 basis points times their assessable deposits to help fund interest payments on certain bonds issued by the Financing Corporation, an agency established by the federal government to finance takeovers of insolvent thrifts.

Transactions with Affiliates. A state non-member bank or its subsidiaries may not engage in “covered transactions” with any one affiliate in an amount greater than 10% of such bank’s capital stock and surplus, and for all such transactions with all affiliates a state non-member bank is limited to an amount equal to 20% of capital stock and surplus. All such transactions must also be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those provided to a non-affiliate. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. An affiliate of a state non-member bank is any company or entity which controls or is under common control with the state non-member bank and, for purposes of the aggregate limit on transactions with affiliates, any subsidiary that would be deemed a financial subsidiary of a national bank. In a holding company context, the parent holding company of a state non-member bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the state non-member bank. The BHCA further prohibits a depository institution from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain limited exceptions.

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Loans to Directors, Executive Officers and Principal Stockholders. Loans to directors, executive officers and principal stockholders of a state non-member bank must be made on substantially the same terms as those prevailing for comparable transactions with persons who are not executive officers, directors, principal stockholders or employees of the Bank unless the loan is made pursuant to a compensation or benefit plan that is widely available to employees and does not favor insiders. Loans to any executive officer, director and principal stockholder together with all other outstanding loans to such person and affiliated interests generally may not exceed 15% of the bank's unimpaired capital and surplus and all loans to such persons may not exceed the institution's unimpaired capital and unimpaired surplus. Loans to directors, executive officers and principal stockholders, and their respective affiliates, in excess of the greater of $100,000 or 5% of capital and surplus (up to $500,000) must be approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. State non-member banks are prohibited from paying the overdrafts of any of their executive officers or directors. In addition, loans to executive officers may not be made on terms more favorable than those afforded other borrowers and are restricted as to type, amount and terms of credit.

ITEM 2. PROPERTIES

The following table sets forth certain information with respect to the Bank's offices:

	Year Opened	Owned/ Leased	Book Value	Approximate Square Footage	Deposits
Main Office: 101 Crain Highway, S.E. Glen Burnie, MD 21061	1953	Owned	$ 514,014	10,000	$ 93,695,314
Branches:					
Odenton 1405 Annapolis Road Odenton, MD 21113	1969	Owned	183,432	6,000	38,021,691
Riviera Beach 8707 Ft. Smallwood Road Pasadena, MD 21122	1973	Owned	224,415	2,500	31,484,881
Crownsville 1221 Generals Highway Crownsville, MD 21032	1979	Owned	365,072	3,000	62,716,644
Severn 811 Reece Road Severn, MD 21144	1984	Owned	97,540	2,500	30,370,246
New Cut Road 740 Stevenson Road Severn, MD 21144	1995	Owned	1,231,694	2,600	27,815,203

Linthicum Burwood Village Shopping Center Glen Burnie, MD 21060	2005	Leased	80,569	2,500	19,383,892
Severna Park 534 Ritchie Highway Severna Park, MD 21146	2002	Leased	33,611	2,184	20,315,485
Operations Centers: 106 Padfield Blvd. Glen Burnie, MD 21061	1991	Owned	706,131	16,200	N/A
103 Crain Highway, S.E. Glen Burnie, MD 21061	2000	Owned	260,294	3,727	N/A

At December 31, 2013, the Bank owned four foreclosed real estate properties with a total book value of $1,171,000.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and the Bank are involved in various legal actions relating to their business activities. At December 31, 2013, there were no actions to which the Company or the Bank was a party which involved claims for money damages exceeding 10% of the Company's consolidated current assets in any one case or in any group of proceedings presenting in large degree the same legal and factual issues.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company's executive officers.

NAME	AGE	POSITIONS
Michael G. Livingston	60	President and Chief Executive Officer
Edward B. Connelly	47	Senior Vice President and Chief Operating Officer
John E. Porter	60	Senior Vice President and Chief Financial Officer
Barbara J. Elswick	62	Senior Vice President and Chief Lending Officer
Joyce A. Ohmer	60	Senior Vice President and Branch Administrator
Andrew J. Hines	52	Chief Lending Officer

MICHAEL G. LIVINGSTON was appointed President and Chief Executive Officer of the Company and the Bank effective January 1, 2008. Prior to that date, Mr. Livingston was Deputy Chief Executive Officer and Executive Vice President since August 2004, Chief Operating Officer since January 2004, Deputy Chief Operating Officer from February 2003 through December 2003, Senior Vice President from January 1998 until August 2004, and Chief Lending Officer of the Bank from 1996 until August 2004. Mr. Livingston was elected as a director of the Company and the Bank on January 1, 2005.

EDWARD B. CONNELLY was appointed Chief Operating Officer and Senior Vice President of the Bank effective August 2012.

JOHN E. PORTER was appointed Senior Vice President in January 1998. He has been Treasurer and Chief Financial Officer of the Company since 1995 and Vice President, Treasurer and Chief Financial Officer of the Bank since 1990.

BARBARA J. ELSWICK was appointed Senior Vice President in February 2005. She has been Chief Lending Officer of the Bank since 2004. Effective February 28, 2014, Ms. Elswick retired from the Bank after 39 years of service.

JOYCE A. OHMER was appointed Senior Vice President in November 2004. She has been Branch Administrator of the Bank since 2002.

ANDREW J. HINES was appointed Chief Lending Officer of the Bank effective March 1, 2014, upon the retirement of Barbara J. Elswick. From 2009 until joining the Bank in January 2014, Mr. Hines was Executive Vice President and Chief Credit Officer of Maryland Financial Bank in Towson, Maryland, where he was responsible for all lending functions and policies of a $100 million in assets commercial bank, and from 2011 through 2013 was President of its MFB Advisory Services LLC affiliate which provides Independent Loan Review for community-based financial institutions throughout the Mid-Atlantic region, and assists financial institutions in policy and procedure evaluations, loan portfolio due diligence, documentation exception review, credit analysis outsourcing and commercial credit training. From 2003 until 2009, he was Manager and Corporate Vice President of the Credit Department and

Commercial Credit Manager of BankAnnapolis, a commercial bank in Annapolis, Maryland (which was acquired by F.N.B. Corp. in 2012). Mr. Hines has 20 years of experience in the commercial lending industry. He served in the United States Navy from 1984 to 1993, and in the United States Navy Reserves from 1993 to 1999, achieving the rank of Lieutenant Commander. He received a Bachelor of Science degree from Cornell University in 1984, and a Masters of Business Administration from Rollins College in 1993.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Stock is traded on the Nasdaq Capital Market under the symbol "GLBZ". As of February 28, 2014, there were 408 record holders of the Common Stock. The closing price for the Common Stock on that date was $11.93.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2013 and 2012 as reported by Nasdaq. The quotations represent prices between dealers and do not reflect the retailer markups, markdowns or commissions, and may not represent actual transactions. Also shown are dividends declared per share for these periods.

	2013			2012		
Quarter Ended	High	Low	Dividends	High	Low	Dividends
March 31,	$ 12.00	$ 11.27	$ 0.10	$ 10.00	$ 8.10	$ 0.10
June 30,	12.69	11.48	0.10	11.23	10.00	0.10
September 30	12.73	12.01	0.10	11.49	10.30	0.10
December 31	12.25	10.58	0.10	11.44	10.96	0.10

A regular dividend of $0.10 was declared for stockholders' of record on December 27, 2013, payable on January 8, 2014.

The Company intends to pay dividends approximating forty percent (40%) of its profits for each quarter. However, dividends remain subject to declaration by the Board of Directors in its sole discretion and there can be no assurance that the Company will be legally or financially able to make such payments. Payment of dividends may be limited by federal and state regulations which impose general restrictions on a bank's and bank holding company's right to pay dividends (or to make loans or advances to affiliates which could be used to pay dividends). Generally, dividend payments are prohibited unless a bank or bank holding company has sufficient net (or retained) earnings and capital as determined by its regulators. See "Item 1. Business - Supervision and Regulation - Regulation of the Company - Dividends and Distributions" and "Item 1. Business -- Supervision and Regulation - Regulation of the Bank - Dividend Limitations." The Company does not believe that those restrictions will materially limit its ability to pay dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents consolidated selected financial data for the Company and its subsidiaries for each of the periods indicated.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars In Thousand Except Per Share Data)				
Operations Data:					
Net Interest Income	$ 12,620	$ 12,562	$ 13,449	$ 12,880	$ 12,102
Provision for Credit Losses	260	250	663	1,050	2,443
Other Income	2,001	1,822	2,090	1,899	2,365
Other Expense	11,113	10,795	11,115	11,178	10,995
Net Income	2,614	2,665	2,993	2,065	1,262
Share Data:					
Basic Net Income Per Share	$ 0.95	$ 0.98	$ 1.10	$ 0.76	$ 0.46
Diluted Net Income Per Share	0.95	0.98	1.10	0.76	0.46
Cash Dividends Declared Per Common Share	0.40	0.40	0.40	0.40	0.40
Weighted Average Common Shares Outstanding:					
Basic	2,742,003	2,728,072	2,710,455	2,690,218	2,734,524
Diluted	2,742,003	2,728,072	2,710,455	2,690,218	2,734,524
Financial Condition Data:					
Total Assets	$ 377,194	$ 387,438	$ 365,260	$ 347,067	$ 353,397
Loans Receivable, Net	270,684	249,631	232,734	229,851	235,883
Total Deposits	323,803	332,289	311,945	294,445	294,358
Long Term Borrowings	20,000	20,000	20,000	20,000	27,034
Junior Subordinated Debentures	-	-	-	-	5,155
Total Stockholders' Equity	31,583	33,588	31,211	26,333	25,149
Performance Ratios:					
Return on Average Assets	0.68%	0.71%	0.84%	0.58%	0.36%
Return on Average Equity	8.07	8.12	10.11	7.75	4.87
Net Interest Margin (1)	3.72	3.98	4.39	4.05	4.29
Dividend Payout Ratio	41.96	40.95	36.22	52.11	85.59
Capital Ratios:					
Average Equity to Average Assets	8.45%	8.71%	8.26%	7.45%	7.37%
	8.69	8.26	8.20	7.64	8.86

Leverage Ratio					
Total Risk-Based Capital Ratio	14.14	14.07	14.35	12.58	14.40
Asset Quality Ratios:					
Allowance for Credit Losses to Gross Loans	1.09%	1.31%	1.66%	1.45%	1.18%
Non-accrual and Past Due Loans to Gross Loans	1.58%	2.22%	2.15%	2.99%	1.26%
Allowance for Credit Losses to Non-Accrual and Past Due Loans	68.78%	58.84%	77.38%	48.69%	117.61%
Net Loan Charge-offs (Recoveries) to Average Loans	0.23%	0.36%	0.06%	0.53%	0.37%

(1) Presented on a tax-equivalent basis

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "intends", "estimate," "project" or similar expressions are intended 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, including regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory 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. 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

During 2013, net interest income before provision for credit losses increased to $12,620,060 from $12,562,134 in 2012, a 0.46% increase. Total interest income decreased from $15,817,230 in 2012 to $15,281,865 in 2013, a 3.38% decrease. Interest expense for 2013 totaled $2,661,805, an 18.23% decrease from $3,255,096 in 2012. Net income in 2013 was $2,614,177 compared to $2,665,080 in 2012. The decrease in the 2013 consolidated net income was mainly due to decreases in loan income, which was offset by a decrease in deposit expense and an increase in gains on investment securities, an increase in impairment of securities and an increase in other expenses.

In spite of the continued lackluster performance of the economy in general, and the continued low interest rate environment due to continued Federal Reserve stimulus, we believe that our continued conservative lending decisions led to a substantial increase in outstanding loans and continued improvement in asset quality as reflected in our Total Impaired Loans, which declined from $7,398,293 in 2012 to $5,908,796 in 2013.

Comparison of Results of Operations for the Years Ended December 31, 2013, 2012 and 2011

General. For the year ended December 31, 2013, the Company reported consolidated net income of $2,614,177 ($0.95 basic and diluted earnings per share) compared to consolidated net income of $2,665,080 ($0.98 basic and diluted earnings per share) for the year ended December 31, 2012 and consolidated net income of $2,993,093 ($1.10 basic and diluted earnings per share) for the year ended December 31, 2011. The decrease in the 2013 consolidated net income was mainly due to decreases in loan income, an increase in impairment of securities and an increase in other expenses, which was offset by a decrease in deposit expense and an increase in gains on investment securities. The decrease in the 2012 consolidated net income was mainly due to decreases in interest income on U.S. Government agency securities, loan income, and gains on investment securities. These decreases were partially offset by decreases in interest expense on deposits, other expenses and provision for loan losses, while employee benefits slightly increased.

Net Interest Income. The primary component of the Company's net income is its net interest income, which is the difference between income earned on assets and interest paid on the deposits and borrowings used to fund income producing assets. Net interest income is determined by the spread between the yields earned on the Company's interest-earning assets and the rates paid on interest-bearing liabilities as well as the relative amounts of such assets and liabilities. Net interest income, divided by average interest-earning assets, represents the Company's net interest margin.

Net interest income is affected by the mix of loans in the Bank's loan portfolio. Currently a majority of the Bank's loans are residential and commercial mortgage loans secured by real estate and indirect automobile loans secured by automobiles.

Consolidated net interest income for the year ended December 31, 2013 was $12,620,060 compared to $12,562,134 for the year ended December 31, 2012 and $13,449,385 for the year ended December 31, 2011. The $57,926 increase for the most recent year was primarily due to the decline in the interest expense on deposits being greater than the decline in interest income on loans and securities. The $887,251 decrease for 2012 compared to 2011 was primarily due to decreases in most areas of interest income, except for state and municipal securities and other income, partially offset by a decrease in interest expense on deposits. The interest income, net of tax, for 2013 was $13,481,000, a $199,000 or 1.50% increase from the after tax net interest income for 2012, which was $13,282,000, a $1,012,000 or 7.08% decrease from the after tax net interest income for 2011.

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Interest expense decreased from $3,255,096 in 2012 to $2,661,805 in 2013, a $593,291 or an 18.23% decrease, primarily due to a decrease in deposit rates. Interest expense decreased from $3,682,580 in 2011 to $3,255,096 in 2012, a $427,484 or an 11.61% decrease, primarily due to a decrease in deposit expense. Net interest margin for the year ended December 31, 2013 was 3.72% compared to 3.98% and 4.39% for the years ended December 31, 2012 and 2011, respectively.

The following table allocates changes in income and expense attributable to the Company's interest-earning assets and interest-bearing liabilities for the periods indicated between changes due to changes in rate and changes in volume. Changes due to rate/volume are allocated to changes due to volume.

	Year Ended December 31,					
	2013 VS. 2012			2012 VS. 2011		
		Change Due To:			Change Due To:	
	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume
	(In Thousands)					
ASSETS:						
Interest-earning assets:						
Federal funds sold	$ (1)	$ -	$ (1)	$ (2)	$ -	$ (2)
Interest-bearing deposits	12	14	(2)	13	15	(2)
Investment securities:						
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	(37)	1	(38)	(580)	(635)	55
Obligations of states and political subdivisions(1)	(73)	73	(146)	142	(368)	510
All other investment securities	(25)	(9)	(16)	(56)	5	(61)
Total investment securities	(135)	65	(200)	(494)	(998)	504
Loans, net of unearned income:						
Demand, time and lease	(130)	(5)	(125)	17	40	(23)
Mortgage and construction	146	(406)	552	(844)	(956)	112
Installment and personal unsecured lines	(286)	(2)	(284)	(129)	(1,111)	982
Total gross loans(2)	(270)	(413)	143	(956)	(2,027)	1,071
Allowance for credit losses	-	-	-	-	-	-
Total net loans	(270)	(413)	143	(956)	(2,027)	1,071
Total interest-earning assets	$ (394)	$ (334)	$ (60)	$ (1,439)	$ (3,010)	$ 1,571
LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	$ (68)	$ (80)	$ 12	$ (52)	$ (87)	$ 35
Money market	(15)	(17)	2	(28)	(36)	8
Other time deposits	(514)	(321)	(193)	(347)	(237)	(110)
	(597)	(418)	(179)	(427)	(360)	(67)

Total interest-bearing deposits						
Non-interest-bearing deposits	-	-	-	-	-	-
Borrowed funds	4	(3)	7	-	2	(2)
Total interest-bearing liabilities	$ (593)	$ (421)	$ (172)	$ (427)	$ (358)	$ (69)

(1) Tax equivalent basis.
(2) Non-accrual loans included in average balances.

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The following table provides information for the designated periods with respect to the average balances, income and expense and annualized yields and costs associated with various categories of interest-earning assets and interest-bearing liabilities.

	Year Ended December 31,						
	2013			2012			
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Avera Balan
	(Dollars In Thousands)						
ASSETS:							
Interest-earning assets:							
Federal funds sold	$1,197	$3	0.25 %	$1,760	$4	0.25 %	$2,258
Interest-bearing deposits	8,433	44	0.52	8,945	32	0.35	10,47
Investment securities:							
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	56,850	871	1.53	59,359	908	1.53	57,25
Obligations of states and political subdivisions(1)	38,644	2,519	6.52	40,959	2,592	6.33	35,602
All other investment securities	345	33	9.68	479	58	12.04	1,033
Total investment securities	95,839	3,423	3.57	100,797	3,558	3.53	93,89
Loans, net of unearned income:							
Demand, time and lease	4,478	240	5.37	6,744	370	5.48	7,195
Mortgage and construction	191,969	9,634	5.02	181,311	9,488	5.23	179,27
Installment and personal unsecured lines	63,519	2,799	4.41	60,725	3,085	5.08	46,544
Total gross loans(2)	259,966	12,673	4.87	248,780	12,943	5.20	233,01
Allowance for credit losses	(3,146)			(3,875)			(3,630
Total net loans	256,820	12,673	4.93	244,905	12,943	5.28	229,38
Total interest-earning assets	362,289	16,143	4.46	356,407	16,537	4.64	336,00
Cash and due from banks	2,936			2,920			3,097
Other assets	19,348			17,583			18,914
Total assets	$384,573			$376,910			$358,02
LIABILITIES AND STOCKHOLDERS' EQUITY:							
Interest-bearing deposits:							
Savings and NOW	$99,085	69	0.07 %	$90,813	137	0.15 %	$80,707
Money market	21,249	11	0.05	19,957	26	0.13	17,578
Other time deposits	120,574	1,934	1.60	131,047	2,448	1.87	135,7
Total interest-bearing deposits	240,908	2,014	0.84	241,817	2,611	1.08	234,04
Short-term borrowed funds	1,876	7	0.37	428	2	0.46	1,024
Long-term borrowed funds	20,000	641	3.20	20,000	642	3.21	20,00
Total interest-bearing liabilities	262,784	2,662	1.01	262,245	3,255	1.24	255,0
Non-interest-bearing deposits	86,542			80,373			72,280
Other liabilities	2,838			1,457			1,907

Stockholders’ equity	32,409			32,835			28,76
Total liabilities and equity	$384,573			$376,910			$358,02
Net interest income		$13,481			$13,282		
Net interest spread			3.45 %			3.40 %	
Net interest margin			3.72 %			3.98 %	

1 Tax equivalent basis. The incremental tax rate applied was 34.42% for 2013 and 37.11% for 2012.
2 Non-accrual loans included in average balance.

Provision for Credit Losses. During the year ended December 31, 2013, the Company made a provision of $260,000 for credit losses, compared to a provision of $250,000 and $663,000 for credit losses for the years ended December 31, 2012 and 2011, respectively. The increase in 2013 was primarily due to additional loans being put on non-accrual. At December 31, 2013, the allowance for credit losses equaled 68.78% of non-accrual and past due loans compared to 58.84% and 77.38% at December 31, 2012 and 2011, respectively. During the year ended December 31, 2013, the Company recorded net charge-offs of $596,000 compared to $873,000 and $132,000 in net charge-offs during the years ended December 31, 2012 and 2011, respectively.

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Other Income. Other income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities, and income on Bank owned life insurance (BOLI). Other income increased from $1,822,072 in 2012 to $2,001,216 in 2013, a $179,144, or 9.83% increase. The increase was primarily due to a increase in gains on securities with a lesser increase in service charges on deposit accounts. Other income decreased from $2,089,530 in 2011 to $1,822,072 in 2012, a $267,458, or 12.80% decrease. The decrease was primarily due to a decrease in gains on securities with a lesser decrease in service charges on deposit accounts.

Other Expenses. Other expenses, which consist of non-interest operating expenses, increased from $10,795,319 in 2012 to $11,113,244 in 2013, a $317,925 or 2.95% increase. This increase was primarily due to an increase in the FDIC Assessment and other professional expenses, with lesser increases in telephone and office supplies, furniture and equipment and impairment on securities, partially offset by decreases in salaries and wages, employee benefits, and occupancy. Other expenses decreased from $11,115,412 in 2011 to $10,795,319 in 2012, a $320,093 or 2.88% decrease. This decrease was primarily due to a decrease in the FDIC Assessment and the impairment on securities, partially offset by an increase in employee benefits.

Income Taxes. During the year ended December 31, 2013, the Company recorded an income tax expense of $633,855, compared to an income tax expense of $673,807 for the year ended December 31, 2012. This decrease was due to the decrease in net income before taxes. During the year ended December 31, 2012, the Company recorded an income tax expense of $673,807, compared to an income tax expense of $767,410 for the year ended December 31, 2011. This decrease was due to the increase in tax exempt income earned on state and municipal securities and a decrease in net interest income.

Comparison of Financial Condition at December 31, 2013, 2012 and 2011

The Company's total assets decreased to $377,193,573 at December 31, 2013 from $387,438,269 at December 31, 2012. The Company's total assets increased to $387,438,269 at December 31, 2012 from $365,260,263 at December 31, 2011.

The Company's net loan portfolio increased to $270,684,120 at December 31, 2013 compared to $249,631,525 at December 31, 2012 and $232,734,257 at December 31, 2011. In 2013, the increase in the loan portfolio was primarily due to increases in indirect loans, refinance mortgage loans, non-home owner residential construction loans, home equity and purchase money mortgages, partially offset by decreases in secured business installment loans, home-owner residential construction, commercial and industrial mortgages, and demand secured business loans. The increase in the loan portfolio during the 2012 period was primarily due to increases in indirect loans, commercial and industrial mortgages, home equity and purchase money mortgages, partially offset by decreases in refinance mortgage loans, construction loans for commercial and industrial loans and demand secured business loans. In 2012, mortgage participations purchased also decreased.

During 2013, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $74,313,682, a $26,176,585 or 26.05%, decrease from $100,490,267 at December 31, 2012. This decrease is primarily attributable to a decrease in mortgage backed securities and municipal securities in order to fund growth in the loan portfolio. During 2012, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $100,490,267, a $2,376,288 or 2.31%, decrease from $102,866,555 at December 31, 2011. This decrease is primarily attributable to a decrease in mortgage backed securities, partially offset by an increase in non-Maryland municipal bonds.

Deposits as of December 31, 2013 totaled $323,803,356, a decrease of $8,485,530, or 2.55%, from the $332,288,886 total as of December 31, 2012. Deposits as of December 31, 2012 totaled $332,288,886, an increase of $20,344,225, or 6.53%, from the $311,944,661 total as of December 31, 2011. Demand deposits as of December 31, 2013 totaled $86,747,525, a $2,459,040, or 2.92%, increase from $84,288,485 at December 31, 2012. NOW and Super NOW accounts, as of December 31, 2013, decreased by $3,708,181, or 11.70% from their 2012 level to $27,991,553. Money market accounts decreased by $1,515,296, or 7.31%, from their 2012 level, to total $19,219,579 at December 31, 2013. Savings deposits increased by $2,727,492, or 3.97%, from their 2012 level, to $71,404,572 at December 31, 2013. Time deposits over $100,000 totaled $45,901,474 on December 31, 2013, a decrease of $647,670, or 1.39% from December 31, 2012. Other time deposits (made up of certificates of deposit less than $100,000 and individual retirement accounts) totaled $72,538,653 on December 31, 2013, a $7,800,915 or 9.71% decrease from December 31, 2012.

Total stockholders' equity as of December 31, 2013 decreased by $2,004,503, or 5.97%, from the 2012 period. The decrease was attributed to an increase in accumulated other comprehensive loss and cash dividends paid, net of dividends reinvested, offset by the increase in earnings. Total stockholders' equity as of December 31, 2012 increased by $2,376,835, or 7.62%, from the 2011 period. The increase was attributed to an increase in earnings less the cash dividends paid, net of dividends reinvested and the increase in accumulated other comprehensive income.

Off-Balance Sheet Arrangements

Off-Balance Sheet Arrangements. The Bank is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements.

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other securities is deemed necessary.

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2013, the Bank has accrued $200,000 for unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Market Risk Management

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 Bank's interest-rate sensitivity at December 31, 2013.

	0-3 Months	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
			(Dollars in Thousands)		
Assets:					
Cash and due from banks	$-	$-	$-	$-	$9,215
Federal funds and overnight deposits	1,739	-	-	-	1,739
Securities	-	-	419	73,895	74,314
Loans	10,812	12,956	66,167	180,749	270,684
Fixed assets	-	-	-	-	3,697
Other assets	-	-	-	-	17,545
Total assets	$12,551	$12,956	$66,586	$254,644	$377,194
Liabilities:					
Demand deposit accounts	$-	$-	$-	$-	$86,747
NOW accounts	27,991	-	-	-	27,991
Money market deposit accounts	19,220	-	-	-	19,220
Savings accounts	71,279	126	-	-	71,405
IRA accounts	3,700	9,362	24,677	2,764	40,503
Certificates of deposit	11,712	24,625	39,468	2,132	77,937
Long-term borrowings	-	-	20,000	-	20,000
Other liabilities	-	-	-	-	1,808
Stockholders' equity:	-	-	-	-	31,583
Total liabilities and stockholders' equity	$133,902	$34,113	$84,145	$4,896	$377,194
GAP	$(121,351)	$(21,157)	$(17,559)	$249,748	
Cumulative GAP	$(121,351)	$(142,508)	$(160,067)	$89,681	
Cumulative GAP as a % of total assets	-32.17 %	-37.78 %	-42.44 %	23.78 %	

The foregoing analysis assumes that the Bank'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 and, in the Bank's experience, the changes historically realized have been narrower than those projected by the model. However, the Bank believes that the model is a prudent forecasting tool. As of December 31, 2013, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates			
	-200 Basis Points	-100 Basis Points	+100 Basis Points	+200 Basis Points
% Change in Net Interest Income	-5.5 %	-1.6 %	0.6 %	0.8 %
% Change in Economic Value of Equity	-12.3 %	-4.5 %	-3.7 %	-11.7 %

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 the primary source of funds supporting the Bank's lending and investment activities. The Bank also uses borrowings from the FHLB of Atlanta to supplement deposits, residential and small business lending, and to meet specific and anticipated needs.

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold 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.

Cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of December 31, 2013, totaled $10,953,469, a decrease of $7,675,113 or 41.20%, from the December 31, 2012 total of $18,628,582. This decrease was due to the funding of loans and the outflow of deposits.

As of December 31, 2013, the Bank was permitted to draw on a $63.72 million line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans and its portfolio of U.S. Government and agency securities. As of December 31, 2013, there was nothing outstanding under the daily rate credit. There was also a $10 million convertible advance (callable monthly and with a final maturity of November 1, 2017.) There was a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and was callable quarterly, starting July 23, 2009. There was a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly, starting August 22, 2011. In addition, the Bank has three unsecured lines of credit totaling $3 million, $5 million, and $8 million, on which there are no outstanding balances at December 31, 2013.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2013, the Company was in compliance with these requirements with a leverage ratio of 8.69%, a Tier 1 risk-based capital ratio of 12.89% and total risk-based capital ratio of 14.14%. At December 31, 2013, the Bank met the criteria for designation as a well capitalized depository institution under FDIC regulations.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, nearly all of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 of the Notes to the Consolidated Financial Statements, starting on page F-8 and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Management has used the best information available to make the estimations necessary to value the related assets and liabilities based on historical experience and on various assumptions which are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the financial statements. The Company reevaluates these variables as facts and circumstances change. Historically, actual results have not differed significantly from the Company's estimates. The following is a summary of the more judgmental accounting estimates and principles involved in the preparation of the Company's financial statements, including the identification of the variables most important in the estimation process:

Allowance for Credit Losses. The Bank's allowance for credit losses is determined based upon estimates that can and do change when the actual events occur, including historical losses as an indicator of future losses, fair market value of collateral, and various general or industry or geographic specific economic events. The use of these estimates and values is inherently subjective and the actual losses could be greater or less than the estimates. For further information regarding our allowance for credit losses, see "Allowance for Credit Losses" under Item 1- "Business" of this Annual Report.

Accrued Taxes. Management estimates income tax expense based on the amount it expects to owe various tax authorities. Income taxes are discussed in more detail in Note 10 to the consolidated financial statements. 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.

Recently Issued 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 an exposure draft 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 2013-02, "Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company's financial statements.

ASU 2013-08, "Financial Services – Investment Companies (Topic 946) – Amendments to the Scope, Measurement and Disclosure Requirements." ASU 2013-08 clarifies the characteristics of investment companies and sets forth a new approach for determining whether a company is an investment company. The fundamental characteristics of an investment company include (i) the company obtains funds from investors and provides the investors with investment management services; (ii) the company commits to its investors that its business purpose and only substantive activities are investing the funds for returns solely from capital appreciation, investment income, or both; and (iii) the company or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income. ASU 2013-08 also sets forth the scope, measurement and disclosure requirements for investment companies. ASU 2013-08 is effective for the Corporation on January 1, 2014 and is not expected to have any impact on the Company's financial statements.

ASU 2013-10, "Derivatives and Hedging (Topic 815) – Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." ASU 2013-10 permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate ("LIBOR"). ASU 2013-10 became effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and is not expected to have a significant impact on the Company's financial statements.

ASU 2013-12, "Definition of a Public Business Entity - An Addition to the Master Glossary." ASU 2013-12 amends the Master Glossary of the FASB Accounting Standards Codification to include one definition of public business entity for future use in U.S. GAAP and identifies the types of business entities that are excluded from the scope of the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. ASU 2013-12 did not have a significant impact on the Company's financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item 8 are included in the Company's Consolidated Financial Statements and set forth in the pages indicated in Item 15 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 Exchange Act 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 annual report, and have concluded that the system is effective.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management (with the participation of the Company's Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the identity and business experience of the directors of the Company and their remuneration set forth in the section captioned "Proposal I -- Election of Directors" in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A and issued in conjunction with the 2014 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference. The information with respect to the identity and business experience of executive officers of the Company is set forth in Part I of this Form 10-K. The information with respect to the Company's Audit Committee is incorporated herein by reference to the section captioned "Meetings and Committees of the Board of Directors" in the Proxy Statement. The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement. The information with respect to the Company's Code of Ethics is incorporated herein by reference to the section captioned "Code of Ethics" in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections captioned "Director Compensation" and "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the sections captioned "Voting Securities and Principal Holders Thereof" and "Securities Ownership of Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the section captioned "Election of Directors" and "Transactions with Management" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned "Authorization for Appointment of Auditors – Disclosure of Independent Auditor Fees" in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

(a) 2. Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements and related notes thereto.

(a) 3. Exhibits required to be filed by Item 601 of Regulation S-K.

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 September 30, 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 September 30, 2003, File No. 0-24047)

10.1 Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No.33-62280)

10.2 The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)

10.3 Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)

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)

21 Subsidiaries of the Registrant (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)

23 Consent of TGM Group LLC

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

March 13, 2014	By:	/s/ Michael G. Livingston Michael G. Livingston President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael G. Livingston Michael G. Livingston	President, Chief Executive Officer and Director	March 13, 2014
/s/ F. William Kuethe, Jr. F. William Kuethe, Jr.	President Emeritus and Director	March 13, 2014
/s/ John E. Porter John E. Porter	Senior Vice President and Chief Financial Officer	March 13, 2014
/s/ John E. Demyan John E. Demyan	Chairman of the Board and Director	March 13, 2014
/s/ Thomas Clocker Thomas Clocker	Director	March 13, 2014
/s/ Norman E. Harrison, Jr. Norman E. Harrison, Jr.	Director	March 13, 2014
/s/ F. W. Kuethe, III F. W. Kuethe, III	Director	March 13, 2014

/s/ Charles Lynch Charles Lynch	Director	March 13, 2014
/s/ Edward L. Maddox Edward L. Maddox	Director	March 13, 2014
/s/ William N. Scherer, Sr. William N. Scherer, Sr.	Director	March 13, 2014
/s/ Karen B. Thorwarth Karen B. Thorwarth	Director	March 13, 2014
/s/ Mary Lou Wilcox Mary Lou Wilcox	Director	March 13, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Glen Burnie Bancorp and Subsidiaries
Glen Burnie, Maryland

We have audited the accompanying consolidated balance sheets of Glen Burnie Bancorp and subsidiaries as of December 31, 2013, 2012, and 2011, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. Glen Burnie Bancorp and subsidiaries' management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2013, 2012, and 2011, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2013 in conformity with accounting principles general accepted in the United States of America.

Salisbury, Maryland
March 6, 2014

Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,		2013		2012		2011
Assets						
Cash and due from banks	$	9,214,503	$	9,332,087	$	6,877,110
Interest-bearing deposits in other financial institutions		1,636,194		6,627,394		2,422,579
Federal funds sold		102,772		2,669,101		653,901
Cash and cash equivalents		10,953,469		18,628,582		9,953,590
Investment securities available for sale, at fair value		74,313,682		100,490,267		102,866,555
Federal Home Loan Bank stock, at cost		1,452,900		1,448,000		1,520,400
Maryland Financial Bank stock		30,000		30,000		30,000
Ground rents, at cost		169,200		175,200		175,200
Loans, less allowance for credit losses 2013 $2,972,019; 2012 $3,307,920; 2011 $3,930,924;		270,684,120		249,631,525		232,734,257
Premises and equipment, at cost, less accumulated depreciation		3,696,772		3,873,002		4,107,707
Accrued interest receivable on loans and investment securities		1,509,238		1,450,321		1,541,519
Deferred income tax benefits		3,604,461		1,235,255		1,680,899
Other real estate owned		1,170,773		478,190		1,110,696
Cash value of life insurance		8,914,817		8,680,519		8,433,155
Other assets		694,142		1,317,408		1,106,285
Total assets	$	377,193,574	$	387,438,269	$	365,260,263
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits:						
Noninterest-bearing	$	86,747,525	$	84,288,485	$	73,339,463
Interest-bearing		237,055,831		248,000,401		238,605,198
Total deposits		323,803,356		332,288,886		311,944,661
Short-term borrowings		-		-		254,749
Long-term borrowings		20,000,000		20,000,000		20,000,000
Dividends payable		274,737		-		271,791
Accrued interest payable on deposits		28,523		28,365		48,101
Other liabilities		1,503,797		1,533,353		1,530,131
Total liabilities		345,610,413		353,850,604		334,049,433
Commitments and contingencies						

Stockholders' equity:						
Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding 2013 2,747,370 shares; 2012 2,736,978; 2011 2,717,909 shares;		2,747,370		2,736,978		2,717,909
Surplus		9,713,335		9,604,906		9,437,605
Retained earnings		20,300,531		18,783,164		17,209,386
Accumulated other comprehensive (loss) income, net of tax		(1,178,075)		2,462,617		1,845,930
Total stockholders' equity		31,583,161		33,587,665		31,210,830
Total liabilities and stockholders' equity	$	377,193,574	$	387,438,269	$	365,260,263

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

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Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2013	2012	2011
Interest income on:			
Loans, including fees	$ 12,673,230	$ 13,123,595	$ 13,898,411
U.S. Government agency securities	871,287	894,024	1,488,467
State and municipal securities	1,656,670	1,705,789	1,605,648
Corporate trust preferred securities	33,428	57,660	114,312
Federal funds sold	3,027	4,438	5,705
Other	44,223	31,724	19,422
Total interest income	15,281,865	15,817,230	17,131,965
Interest expense on:			
Deposits	2,014,327	2,610,906	3,038,340
Short-term borrowings	7,004	1,962	3,764
Long-term borrowings	640,474	642,228	640,476
Total interest expense	2,661,805	3,255,096	3,682,580
Net interest income	12,620,060	12,562,134	13,449,385
Provision for credit losses	260,000	250,000	663,000
Net interest income after provision for credit losses	12,360,060	12,312,134	12,786,385
Other income:			
Service charges on deposit accounts	595,729	575,049	626,935
Other fees and commissions	825,859	837,065	814,425
Gains on investment securities, net	345,331	162,594	408,646
Income on life insurance	234,297	247,364	239,524
Total other income	2,001,216	1,822,072	2,089,530
Other expenses:			
Salaries and wages	4,963,600	4,996,518	4,931,266
Employee benefits	1,788,995	1,815,599	1,643,581
Occupancy	785,850	804,012	846,591
Furniture and equipment	842,099	792,725	814,006
Other expenses	2,717,119	2,386,465	2,788,040
Total impairment losses on investment securities	124,984	-	291,943
Portion of impairment losses recognized in other comprehensive income (before taxes)	(109,403)	-	(200,015)
Net impairment loss on investment securities	15,581	-	91,928

Total other expenses		11,113,244		10,795,319		11,115,412
Income before income taxes		3,248,032		3,338,887		3,760,503
Federal and state income taxes		633,855		673,807		767,410
Net income	$	2,614,177	$	2,665,080	$	2,993,093
Basic and diluted earnings per share of common stock	$	0.95	$	0.98	$	1.10

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31,		2013		2012		2011
Net income	$	2,614,177	$	2,665,080	$	2,993,093
Other comprehensive income (loss), net of tax						
Unrealized holding (losses) gains arising during the period (net of deferred (benefits) taxes 2013 ($2,167,273); 2012 $472,938; 2011 $2,008,578);		(3,281,559)		716,095		3,041,273
Reclassification adjustment for impairment loss included in net income (net of deferred tax benefits 2013 $6,197; 2012 $0; 2011 $8,722);		9,384		-		13,206
Reclassification adjustment for gains included in net income (net of deferred taxes 2013 $243,383; 2012 $65,653; 2011 $134,696);		(368,517)		(99,408)		(203,950)
Total other comprehensive (loss) income		(3,640,692)		616,687		2,850,529
Comprehensive (loss) income	$	(1,026,515)	$	3,281,767	$	5,843,622

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2013, 2012, and 2011

	Common Stock Shares	Common Stock Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balances, December 31, 2010	2,702,091	$ 2,702,091	$ 9,334,810	$ 15,300,344	$ (1,004,599)	$ 26,332,646
Net income	-	-	-	2,993,093	-	2,993,093
Cash dividends, $.40 per share	-	-	-	(1,084,051)	-	(1,084,051)
Dividends reinvested under dividend reinvestment plan	15,818	15,818	102,795	-	-	118,613
Other comprehensive income, net of tax	-	-	-	-	2,850,529	2,850,529
Balances, December 31, 2011	2,717,909	2,717,909	9,437,605	17,209,386	1,845,930	31,210,830
Net income	-	-	-	2,665,080	-	2,665,080
Cash dividends, $.40 per share	-	-	-	(1,091,302)	-	(1,091,302)
Dividends reinvested under dividend reinvestment plan	19,069	19,069	167,301	-	-	186,370
Other comprehensive income, net of tax	-	-	-	-	616,687	616,687
Balances, December 31, 2012	2,736,978	2,736,978	9,604,906	18,783,164	2,462,617	33,587,665
Net income	-	-	-	2,614,177	-	2,614,177
Cash dividends, $.40 per share	-	-	-	(1,096,810)	-	(1,096,810)
Dividends reinvested under dividend reinvestment plan	10,392	10,392	108,429	-	-	118,821

Other comprehensive loss, net of tax	-	-	-	-	(3,640,692)	(3,640,692)
Balances, December 31, 2013	2,747,370	$ 2,747,370	$ 9,713,335	$ 20,300,531	$ (1,178,075)	$ 31,583,161

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

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Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 2,614,177	$ 2,665,080	$ 2,993,093
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	1,187,689	1,716,701	1,310,578
Provision for credit losses	260,000	250,000	663,000
Deferred income tax benefits, net	35,252	38,359	(214,529)
Gains on disposals of assets, net	(321,443)	(161,999)	(421,217)
Provision on losses of other real estate owned	5,695	-	40,000
Impairment losses on investment securities	15,581	-	91,928
Income on investment in life insurance	(234,298)	(247,364)	(479,093)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(58,917)	91,198	(2,636)
Decrease (increase) in other assets	637,425	(246,288)	632,311
Increase (decrease) in accrued interest payable	158	(19,736)	(7,030)
(Decrease) increase in other liabilities	(29,556)	3,222	(199,013)
Net cash provided by operating activities	4,111,763	4,089,173	4,407,392
Cash flows from investing activities:			
Maturities of available for sale mortgage-backed securities	15,171,085	18,762,583	14,206,384
Sales of available for sale debt securities	25,626,845	18,656,622	21,796,185
Purchases of available for sale mortgage-backed securities	(16,920,333)	(26,023,938)	(39,052,520)
Purchases of other available for sale investment securities	(4,185,719)	(9,097,291)	(8,306,325)
Purchase of FHLB stock	(4,900)	72,400	224,700
(Increase) decrease in loans, net	(22,295,595)	(17,401,804)	(4,853,572)
Proceeds from sales of other real estate	273,121	887,042	371,507
Proceeds from sales of premises and equipment	-	-	15,932
Purchases of premises and equipment	(262,598)	(182,548)	(411,804)
Net cash used by investing activities	(2,598,094)	(14,326,934)	(16,009,513)
Cash flows from financing activities:			
Increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	2,459,040	10,949,022	5,283,304
Increase (decrease) in time deposits, net	(10,944,570)	9,395,203	12,216,529
(Decrease) increase in short-term borrowings	-	(254,749)	(4,019,199)
Cash dividends paid	(822,073)	(1,363,093)	(1,043,839)
Common stock dividends reinvested	118,821	186,370	118,613

Net cash (used) provided by financing activities	(9,188,782)	18,912,753	12,555,408
(Decrease) increase in cash and cash equivalents	(7,675,113)	8,674,992	953,287
Cash and cash equivalents, beginning of year	18,628,582	9,953,590	9,000,303
Cash and cash equivalents, end of year	$ 10,953,469	$ 18,628,582	$ 9,953,590

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(Continued)

Years Ended December 31,	2013	2012	2011
Supplementary Cash Flow Information:			
Interest paid	$2,661,647	$3,274,832	$3,689,610
Income taxes paid	525,000	925,000	900,000
Total (increase) decrease in unrealized depreciation on available for sale securities	(6,045,150)	1,023,972	4,733,133
Supplementary Noncash Investing Activities:			
Loans converted to other real estate	983,000	254,536	1,307,203

The Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Bank of Glen Burnie (the "Bank") provides financial services to individuals and corporate customers located in Anne Arundel County and surrounding areas of Central Maryland, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and State of Maryland (the "State") agencies and undergoes periodic examinations by those regulatory authorities. The accounting and financial reporting policies of the Bank conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the banking industry.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

Principles of Consolidation:

The consolidated financial statements include the accounts of Glen Burnie Bancorp and its subsidiaries, The Bank of Glen Burnie and GBB Properties, Inc., a company engaged in the acquisition and disposition of other real estate. Intercompany balances and transactions have been eliminated. The Parent Only financial statements (see Note 19) of the Company account for the subsidiaries using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities, in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIE's) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interest, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiary, Glen Burnie Statutory Trust I, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

Accounting Standards Codification:

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") became effective for interim and annual periods ending after September 15, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF") and related literatures. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Use of Estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Securities Held to Maturity:

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the effective interest rate method over the period to maturity. Securities transferred into held to maturity from the available for sale portfolio are recorded at fair value at time of transfer with unrealized gains or losses reflected in equity and amortized over the remaining life of the security.

Securities Available for Sale:

Marketable debt securities not classified as held to maturity are classified as available for sale. Securities available for sale may be sold in response to changes in interest rates, loan demand, changes in prepayment risk, and other factors. Changes in unrealized appreciation (depreciation) on securities available for sale are reported in other comprehensive income, net of tax. Realized gains (losses) on securities available for sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The gains and losses on securities sold are determined by the specific identification method. Premiums and discounts are recognized in interest income using the effective interest rate method over the period to maturity. Additionally, declines in the fair value of individual investment securities below their cost that are other than temporary are reflected as realized losses in the consolidated statements of income.

Other Securities:

Federal Home Loan Bank (“FHLB”) and Maryland Financial Bank (“MFB”) stocks are equity interests that do not necessarily have readily determinable fair values for purposes of the ASC Topic 320, Accounting for Certain Investments in Debt and Equity Securities, because their ownership is restricted and they lack a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLB or another member institution.

Loans and Allowance for Credit Losses:

Loans are generally carried at the amount of unpaid principal, adjusted for deferred loan fees, which are amortized over the term of the loan using the effective interest rate method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank’s policy to discontinue the accrual of interest when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. When a loan is placed on nonaccrual status all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote.

Cash collections on such loans are applied as reductions of the loan principal balance and no interest income is recognized on those loans until the principal balance has been collected. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. The carrying value of impaired loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary.

The allowance for loan losses typically consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either ASC Topic 450, Accounting for Contingencies, or ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio.

Reserve for Unfunded Commitments:

The reserve for unfunded commitments is established through a provision for unfunded commitments charged to other expenses. The reserve is calculated by utilizing the same methodology and factors as the allowance for credit losses. The reserve, based on evaluations of the collectibiltiy of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

Troubled Debt Restructurings:

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches non-accrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Other Real Estate Owned (“OREO”):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or expenses. Loans converted to OREO through foreclosure proceedings totaled $983,000, $254,536, and $1,307,203 for the years ended December 31, 2013, 2012, and 2011, respectively. The Bank financed no sales of OREO for 2013, 2012, or 2011, respectively.

Bank Premises and Equipment:

Bank premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements that extend the life of an asset are capitalized and depreciated over the asset’s remaining useful life. Gains or losses realized on the disposition of premises and equipment are reflected in the consolidated statements of income. Expenditures for repairs and maintenance are charged to other expenses as incurred. Computer software is recorded at cost and amortized over three to five years.

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASC Topic 360, Accounting for the Impairment or Disposal of Long-Lived Asset. As of December 31, 2013, 2012, and 2011, certain loans existed which management considered impaired (See Note 4). During the years ended December 31, 2013 and 2011, management deemed certain investment securities were impaired and recorded an impairment loss on these securities (See Note 3).

Income Taxes:

The provision for Federal and state income taxes is based upon the results of operations, adjusted for tax-exempt income. Deferred income taxes are provided by applying enacted statutory tax rates to temporary differences between financial and taxable bases.

Temporary differences which give rise to deferred tax benefits relate principally to accrued deferred compensation, accumulated impairment losses on investment securities, allowance for credit losses, non-accrual interest, unused alternative minimum tax credits, net unrealized depreciation on investment securities available for sale, accumulated depreciation, OREO, and reserve for unfunded commitments.

Temporary differences which give rise to deferred tax liabilities relate principally to accumulated securities discount accretion and net unrealized appreciation on investment securities available for sale.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Credit Risk:

The Bank has unsecured deposits and Federal funds sold with several other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC").

Cash and Cash Equivalents:

The Bank has included cash and due from banks, interest-bearing deposits in other financial institutions, and Federal funds sold as cash and cash equivalents for the purpose of reporting cash flows.

Accounting for Stock Options:

The Company follows ASC Topic 718, Share-Based Payments, for accounting and reporting for stock-based compensation plans. ASC Topic 718 defines a fair value at grant date based method of accounting for measuring compensation expense for stock-based plans to be recognized in the statement of income.

Earnings per share:

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

Financial Statement Presentation:

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Note 2. Restrictions on Cash and Due from Banks

The Federal Reserve requires the Bank to maintain noninterest-bearing cash reserves against certain categories of average deposit liabilities. Such reserves averaged approximately $5,387,000, $4,713,000, and $4,573,000 during the years ended December 31, 2013, 2012, and 2011, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				

U.S. Government agencies	$ 28,360	$ 575,000	$ -	$ 603,360
State and municipal	32,395,630	360,384	1,746,943	31,009,071
Corporate trust preferred	333,395	-	109,403	223,992
Mortgage-backed	43,512,419	688,095	1,723,255	42,477,259
	$ 76,269,804	$ 1,623,479	$ 3,579,601	$ 74,313,682

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 28,360	$ -	$ 320	$ 28,040
State and municipal	38,528,451	2,623,768	14,797	41,137,422
Corporate trust preferred	349,646	-	65,116	284,530
Mortgage-backed	57,494,784	1,597,567	52,076	59,040,275
	$ 96,401,241	$ 4,221,335	$ 132,309	$ 100,490,267

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 28,360	$ -	$ -	$ 28,360
State and municipal	37,165,358	1,808,576	46,811	38,927,123
Corporate trust preferred	635,239	-	200,015	435,224
Mortgage-backed	61,972,542	1,606,338	103,032	63,475,848
	$ 99,801,499	$ 3,414,914	$ 349,858	$ 102,866,555

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 December 31, 2013 are as follows:

	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. Government agencies	$ -	$ -	$ -	$ -	$ -	$ -
State and Municipal	15,166,247	1,702,555	255,612	44,388	15,421,859	1,746,943
Corporate trust preferred	-	-	224,275	109,403	224,275	109,403
Mortgaged-backed	21,834,878	1,212,205	6,738,723	511,050	28,573,601	1,723,255
	$ 37,001,125	$ 2,914,760	$ 7,218,610	$ 664,841	$ 44,219,735	$ 3,579,601

At December 31, 2013, the Company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior notes with a Fitch credit rating of C, which is included in the securities described above. The market for these securities at December 31, 2013 was not active and markets for similar securities were also not active. As a result, the Company had cash flow testing performed as of December 31, 2013 by an unrelated third party in order to measure the possible extent of other-than-temporary-impairment ("OTTI"). This testing assumed future defaults on the currently performing financial institutions of 150 basis points applied annually with a 0% recovery on both current and future defaulting financial institutions. As a result of this testing, no write-down was required in 2012. Write-downs of $15,581 and $21,928 were taken on this security during 2013 and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

The market values for these securities (and any securities other than those issued or guaranteed by the U.S. Treasury) are very depressed relative to historical levels. Therefore, a low market price for a particular security may only provide evidence of stress in the credit markets overall rather than being an indicator of credit problems with a particular issuer.

As noted above, during the first quarter of 2011, the Company took an additional write down of $21,928 on the trust preferred securities to bring the book value into alignment with the net present value of $635,228 which was arrived at as the result of cash flow testing performed by an unrelated third party in order to measure the extent of other-than-temporary-impairment (“OTTI”). This testing assumed future defaults on the currently performing financial institutions of 75 basis points applied annually with a 15% recovery after a two year lag on both current and future defaulting financial institutions. At year-end, the Company retested for possible OTTI by using a more stringent test by recalculating the net present value using a default rate of 150 basis points applied annually with a 0% recovery. The testing resulted in a net present value above the current book value.

The stock of Maryland Financial Bank is not readily marketable. During 2011, the stock was written down $70,000 due to the price of a new stock offering, which price was a discount to par.

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 December 31, 2013, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On December 31, 2013, the Bank held 10 investment securities having continuous unrealized loss positions for more than 12 months. Except as noted above, 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 mortgaged-backed securities. The Bank has no mortgaged-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 remaining securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2013, management believes the impairments detailed in the table above are temporary and no additional impairment loss is required to be realized in the Company’s consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

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

	2013	2012	2011
Estimated credit losses, beginning of year	$ 3,246,915	$ 3,246,915	$ 3,154,987
Credit losses - no previous OTTI recognized	-	-	70,000
Credit losses - previous OTTI recognized	15,581	-	21,928
Estimated credit losses, end of year	$ 3,262,496	$ 3,246,915	$ 3,246,915

Contractual maturities of investment securities at December 31, 2013, 2012, and 2011 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

	Available for Sale	
December 31, 2013	Amortized Cost	Fair Value
Due within one year	$ -	$ -
Due over one to five years	-	-
Due over five to ten years	-	-
Due over ten years	32,729,025	31,233,063
Mortgage-backed, due in monthly installments	43,540,779	43,080,619
	$ 76,269,804	$ 74,313,682

	Available for Sale	
December 31, 2012	Amortized Cost	Fair Value
Due within one year	$ 125,021	$ 125,745
Due over one to five years	-	-
Due over five to ten years	400,000	415,028
Due over ten years	38,353,076	40,881,179
Mortgage-backed, due in monthly installments	57,523,144	59,068,315

	$ 96,401,241	$ 100,490,267

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

	Available for Sale			
December 31, 2011		Amortized Cost		Fair Value
Due within one year	$	-	$	-
Due over one to five years		1,032,792		1,046,248
Due over five to ten years		300,838		329,884
Due over ten years		36,466,967		37,986,215
Mortgage-backed, due in monthly installments		62,000,902		63,504,208
	$	99,801,499	$	102,866,555

Proceeds from sales of available for sale securities prior to maturity totaled $25,626,845, $18,656,622, and $21,796,185 for the years ended December 31, 2013, 2012, and 2011, respectively. The Bank realized gains of $664,269 and losses of $318,938 on those sales for 2013. The Bank realized gains of $282,069 and losses of $119,475 on those sales for 2012. The Bank realized gains of $434,113 and losses of $25,467 on those sales for 2011. Realized gains and losses were calculated based on the amortized cost of the securities at the date of trade. Income tax expense relating to net gains on sales of investment securities totaled $136,216, $64,135, and $161,190 for the years ended December 31, 2013, 2012, and 2011, respectively.

The Bank has no derivative financial instruments required to be disclosed under ASC Topic 815, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments.

Note 4. Loans and Allowance

Major categories of loans are as follows:

		2013		2012		2011
Mortgage:						
Residential	$	123,645,939	$	107,728,972	$	107,664,598
Commercial		67,195,806		71,381,029		67,655,908
Construction and land development		6,582,553		3,915,299		5,091,870
Demand and time		4,172,747		4,901,107		7,193,074
Installment		73,230,433		66,096,285		50,118,030
		274,827,478		254,022,692		237,723,480
Unearned income on loans		(1,171,339)		(1,083,247)		(1,058,299)
		273,656,139		252,939,445		236,665,181
Allowance for credit losses		(2,972,019)		(3,307,920)		(3,930,924)
	$	270,684,120	$	249,631,525	$	232,734,257

The Bank has an automotive indirect lending program where vehicle collateralized loans made by dealers to consumers are acquired by the Bank. The Bank's installment loan portfolio included approximately

$55,400,000, $47,427,000, and $31,907,000 of such loans at December 31, 2013, 2012, and 2011, respectively.

The Bank makes loans to customers located primarily in Anne Arundel County and surrounding areas of Central Maryland. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

Executive officers, directors, and their affiliated interests enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. They do not involve more than normal risk of collectibility or present other unfavorable terms. At December 31, 2013, 2012, and 2011, the amounts of such loans outstanding totaled $1,078,577, $354,257, and $4,887,753, respectively. During 2013, loan additions and repayments totaled $1,711,000 and $986,681, respectively.

Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented the loan portfolio into the following classifications:

Commercial and Industrial;
Commercial Real Estate;
Consumer and Indirect;
Residential Real Estate.

Each of these segments are reviewed and analyzed quarterly using the average historical charge-offs over a current three year period for their respective segments as well as the following qualitative factors:

Changes in the levels and trends in delinquencies, nonaccruals, classified assets and troubled debt restructurings
Changes in the nature and volume of the portfolio
Effects of any changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices
Changes in the experience, ability, and depth of management and staff
Changes in national and local economic conditions and developments, including the condition of various market segments
Changes in the concentration of credits within each pool
Changes in the quality of the Bank's loan review system and the degree of oversight by the Board
Changes in external factors such as competition and the legal environment including Regulation B (Equal Opportunity Credit)
Changes in the underlying collateral for collateral dependent loans

The above factors result in a FAS 5, as codified in FASB ASC 450-10- 20, calculated reserve for environmental factors.

All credit exposures graded at or above a rating of "4" with outstanding balances (see ratings on page 21) are to be reviewed no less than quarterly for the purpose of determining if a specific allocation is needed for that credit. The determination for a specific reserve is evaluated relative to the general reserve factor for assets of the same type and grade. If a specific reserve is appropriate and exceeds the general reserve factor, a specific reserve is to be established. Otherwise, the asset is included in the portfolio of assets that comprise the base upon which the general reserve is calculated. The establishment of a specific reserve does not necessarily mean that the credit with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

The following table presents the total allowance by loan segment:

2013	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 541,916	$ 1,183,240	$ 1,057,531	$ 392,506	$ 132,727	$ 3,307,920
Provision for credit losses	46,303	(374,067)	468,559	372,251	(253,046)	260,000
Recoveries	26,804	89,189	313,795	7,714	-	437,502
Loans charged off	(202,114)	-	(652,281)	(179,008)	-	(1,033,403)
Balance, end of year	$ 412,909	$ 898,362	$ 1,187,604	$ 593,463	$ (120,319)	$ 2,972,019
Individually evaluated for impairment:						
Balance in allowance	$ 278,786	$ 550,794	$ 178,657	$ 155,330	$ -	$ 1,163,567
Related loan balance	278,786	3,364,193	636,174	1,629,643	-	5,908,796
Collectively evaluated for impairment:						
Balance in allowance	$ 134,123	$ 347,568	$ 1,008,947	$ 438,133	$ (120,319)	$ 1,808,452
Related loan balance	3,893,961	65,414,415	72,594,259	127,016,047	-	268,918,682

2012	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 557,169	$ 2,012,962	$ 888,614	$ 595,812	$ (123,633)	$ 3,930,924
Provision for credit losses	29,282	(919,161)	357,622	525,897	256,360	250,000
Recoveries	10,558	89,439	286,564	5,714	-	392,275
Loans charged off	(55,093)	-	(475,269)	(734,917)	-	(1,265,279)
Balance, end of year	$ 541,916	$ 1,183,240	$ 1,057,531	$ 392,506	$ 132,727	$ 3,307,920
Individually evaluated for impairment:						
	$ 451,126	$ 807,735	$ 20,000	$ 35,916	$ -	$ 1,314,777

Balance in allowance												
Related loan balance		796,511		4,980,503		76,251		1,545,028		-		7,398,293
Collectively evaluated for impairment:												
Balance in allowance	$	90,790	$	375,505	$	1,037,531	$	356,590	$	132,727	$	1,993,143
Related loan balance		4,104,596		67,898,601		66,020,034		108,601,168		-		246,624,399

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2011	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$263,251	$2,108,223	$829,517	$196,275	$2,250	$3,399,516
Provision for credit losses	295,525	(165,691)	256,886	402,163	(125,883)	663,000
Recoveries	4,010	70,430	408,889	1,475	-	484,804
Loans charged off	(5,617)	-	(606,678)	(4,101)	-	(616,396)
Balance, end of year	$557,169	$2,012,962	$888,614	$595,812	$(123,633)	$3,930,924
Individually evaluated for impairment:						
Balance in allowance	$455,735	$1,641,711	$44,235	$411,423	$-	$2,553,104
Related loan balance	1,248,279	7,538,638	125,455	1,963,886	-	10,876,258
Collectively evaluated for impairment:						
Balance in allowance	$101,434	$371,251	$844,379	$184,389	$(123,633)	$1,377,820
Related loan balance	5,944,795	63,535,256	49,992,575	107,374,596	-	226,847,222

As of December 31, 2013 and 2011, the allowance for loan losses included an unallocated shortfall of $120,319 and $123,633, respectively. The 2013 shortfall is well within the internal Bank policy of 5% tolerance for actual to required reserves. The 2011 shortfall was due to a special reserve on a commercial real estate property that was based on an old appraisal. Management is comfortable with this shortfall as they believe the appraisal value is low based on sales of a portion of the property.

As of December 31, 2012 the allowance for loan losses included an unallocated excess amount of $132,727. Management is comfortable with this amount as they feel the amount is adequate to absorb additional inherent potential losses in the loan portfolio.

Credit Quality Information

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

The Bank's internal risk ratings are as follows:

1 Superior – minimal risk. (normally supported by pledged deposits, United States government securities, etc.)
2 Above Average – low risk. (all of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)

3 Average – moderately low risk. (most of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
4 Acceptable – moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)
5 Other Assets Especially Mentioned – moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)
6 Substandard – (the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

7 Doubtful – (weaknesses make collection or liquidation in full, based on currently existing facts, improbable)
8 Loss – (of little value; not warranted as a bankable asset)

Loans rated 1-4 are considered "Pass" for purposes of the risk rating chart below.

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

2013	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$ 3,594,809	$ 59,914,422	$ 71,554,400	$ 126,774,441	$ 261,838,072
Special mention	299,152	5,499,993	1,102,091	1,312,103	8,213,339
Substandard	278,786	3,364,193	508,243	559,146	4,710,368
Doubtful	-	-	65,699	-	65,699
Loss	-	-	-	-	-
	$ 4,172,747	$ 68,778,608	$ 73,230,433	$ 128,645,690	$ 274,827,478
Non-accrual	14,286	1,237,647	338,212	1,123,248	2,713,393
Troubled debt restructures	-	-	-	-	-
Number of TDRs contracts	-	-	-	-	-
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

2012	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$ 4,296,139	$ 63,297,427	$ 64,160,355	$ 107,943,667	$ 239,697,588
Special mention	183,507	5,970,942	1,485,366	1,189,613	8,829,428
Substandard	421,461	3,610,735	360,672	1,012,916	5,405,784
Doubtful	-	-	89,892	-	89,892
Loss	-	-	-	-	-
	$ 4,901,107	$ 72,879,104	$ 66,096,285	$ 110,146,196	$ 254,022,692
Non-accrual	17,286	2,645,320	237,193	1,108,866	4,008,665
Troubled debt restructures	-	1,369,768	-	832,500	2,202,268
Number of TDRs accounts	-	1	-	1	2
Non-performing TDRs	-	1,369,768	-	832,500	2,202,268

Number of TDR accounts	-	1	-	1	2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2011	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$ 5,882,615	$ 58,798,799	$ 48,528,582	$ 106,301,944	$ 219,511,940
Special mention	327,048	4,736,458	1,324,580	1,333,217	7,721,303
Substandard	983,411	7,538,637	190,044	1,703,321	10,415,413
Doubtful	-	-	74,824	-	74,824
Loss	-	-	-	-	-
	$ 7,193,074	$ 71,073,894	$ 50,118,030	$ 109,338,482	$ 237,723,480
Non-accrual	20,286	4,484,260	74,824	481,323	5,060,693
Troubled debt restructures	9,491	2,818,295	-	1,280,423	4,108,209
Number of TDRs accounts	1	1	-	1	3
Non-performing TDRs	-	2,818,295	-	-	2,818,295
Number of TDR accounts	-	1	-	-	1

At December 31, 2013, the recorded investment in new 2013 troubled debt restructuring totaled $0. The TDR from 2011 that was at a balance of $832,500 at year-end 2012, is now on the books as OREO. The TDR from 2010 that was at a balance of $1,369,768 at year-end 2012, was paid off in the fourth quarter of 2013.

At December 31, 2012, the recorded investment in new 2012 troubled debt restructurings totaled $0. The TDR of $1,280,423 from 2011 did not perform under the terms of the 2011 restructuring and is now included in impaired and non-accrual loans. The remaining recorded balance after a recent charge-off was $832,500. In addition, during 2012, a loan that had been classified as being a TDR in the amount of $9,491 was paid off and another non-performing TDR from 2010 was paid down to $1,369,768 by the partial sale of collateral.

At December 31, 2011, the recorded investment in new troubled debt restructurings totaled $1,280,423. During 2011, this troubled debt restructuring continued to perform under the terms of the modified agreement.

The Bank has no commitments to loan additional funds to the borrowers of restructured, impaired, or non-accrual loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

Current, past due, and nonaccrual loans by categories of loans are as follows:

2013	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,158,461	$-	$ -	$14,286	$4,172,747
Commercial real estate	66,191,062	173,000	1,176,899	1,237,647	68,778,608
Consumer and indirect	71,755,109	1,137,112	-	338,212	73,230,433
Residential real estate	126,934,475	157,123	430,844	1,123,248	128,645,690
	$269,039,107	$1,467,235	$ 1,607,743	$2,713,393	$274,827,478

2012	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,678,297	$205,524	$ -	$17,286	$4,901,107
Commercial real estate	68,879,791	-	1,353,993	2,645,320	72,879,104
Consumer and indirect	64,427,468	1,431,624	-	237,193	66,096,285
Residential real estate	108,545,538	233,045	258,747	1,108,866	110,146,196
	$246,531,094	$1,870,193	$ 1,612,740	$4,008,665	$254,022,692

2011	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$7,134,672	$38,116	$ -	$20,286	$7,193,074
Commercial real estate	66,589,634	-	-	4,484,260	71,073,894
Consumer and indirect	48,744,945	1,298,261	-	74,824	50,118,030
Residential real estate	108,703,963	134,591	18,605	481,323	109,338,482
	$231,173,214	$1,470,968	$ 18,605	$5,060,693	$237,723,480

Loans on which the accrual of interest has been discontinued totaled $2,713,393, $4,008,665, and $5,060,693 at December 31, 2013, 2012, and 2011, respectively. Interest that would have been accrued under the terms of these loans totaled $180,770, $273,974, and $268,407 for the years ended December 31, 2013, 2012, and 2011, respectively. Loans past due 90 days or more and still accruing interest totaled $1,607,743, $1,612,740, and $18,605 at December 31, 2013, 2012 and 2011, respectively.

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

Commercial loans – Two loans to one borrower totaling $14,286 with $14,286 of specific reserves established for the loans.

Commercial Real Estate – Two loans to two borrowers in the amount of $1,237,647 secured by commercial and/or residential properties with specific reserves of $268,647 established for the loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

Residential Real Estate – Two loans to two borrowers in the amount of $382,058 secured by residential properties with specific reserves of $122,742 established for the loans.

Consumer and Indirect Loans – Four loans to four borrowers in the amount of $319,158 with $158,658 of specific reserves established for the loans.

Impaired Loans

When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management used the current fair value of the collateral, less selling cost when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific reserve in the allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2013	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$559,146	$559,146	$ 15,768	$155,330	$563,961
Commercial	2,187,294	2,187,294	55,535	550,794	2,271,949
Consumer	393,740	393,740	20,767	178,657	394,356
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	278,786	278,786	11,541	278,786	286,433
Total impaired loans with specific reserves	$3,418,966	$3,418,966	$ 103,611	$1,163,567	$3,516,699
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$1,070,497	$1,070,497	$ 39,257	n/a	$1,071,479
Commercial	1,176,899	1,176,899	46,583	n/a	1,231,505
Consumer	10,602	10,602	-	n/a	-
Installment	180,204	180,204	-	n/a	-
Home Equity	51,628	51,628	-	n/a	50,999
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$2,489,830	$2,489,830	$ 85,840	-	$2,353,983

2012	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$180,416	$ 180,416	$ 11,838	$ 35,916	$ 182,019
Commercial	3,610,735	4,210,735	99,079	807,735	3,642,095
Consumer	75,513	75,513	7,759	20,000	76,098
Installment	147,301	147,301	7,806	29,666	147,574
Home Equity	-	-	-	-	-
Commercial	421,460	421,460	20,463	421,460	432,174
Total impaired loans with specific reserves	$4,435,425	$ 5,035,425	$ 146,945	$ 1,314,777	$ 4,479,960
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$1,364,612	$ 1,812,535	$ 75,050	n/a	$ 1,794,861
Commercial	1,369,768	1,369,768	-	n/a	2,440,982

Consumer	738	-	-	n/a	-
Installment	227,750	-	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$2,962,868	$ 3,182,303	$ 75,050	-	$ 4,235,843

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2011	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$1,703,322	$1,703,322	$62,320	$411,423	$1,708,158
Commercial	6,502,986	7,102,986	218,564	1,641,711	6,559,298
Consumer	100,455	100,455	10,423	44,235	103,733
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	730,061	730,061	40,445	455,735	755,371
Total impaired loans with specific reserves	$9,036,824	$9,636,824	$331,752	$2,553,104	$9,126,560
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$260,564	$260,564	$7,149	n/a	$245,128
Commercial	1,035,652	1,035,652	50,036	n/a	1,051,139
Consumer	25,000	25,000	-	n/a	-
Installment	264,868	264,868	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	253,350	253,350	20,937	n/a	303,606
Total impaired loans with no specific reserve	$1,839,434	$1,839,434	$78,122	-	$1,599,873

Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	2013	2012	2011
Land		$ 684,977	$ 684,977	$ 684,977
Buildings	5-50 years	6,142,509	6,083,675	5,962,830
Equipment and fixtures	5-30 years	5,187,984	5,126,477	5,182,979
Construction in progress		61,155	4,150	19,232
		12,076,625	11,899,279	11,850,018
Accumulated depreciation		(8,379,853)	(8,026,277)	(7,742,311)
		$ 3,696,772	$ 3,873,002	$ 4,107,707

Depreciation expense totaled $392,146, $409,032, and $392,493 for the years ended December 31, 2013, 2012, and 2011, respectively. Amortization of software and intangible assets totaled $26,236, $42,791, and $40,154 for the years ended December 31, 2013, 2012, and 2011, respectively.

The Bank leases its Severna Park and Linthicum branches. Minimum lease obligations under the Severna Park branch are $30,000 per year through September 2012 and $33,000 through September 2014. Minimum lease obligations under the Linthicum branch are $104,335 per year through December 2014, adjusted annually on a pre-determined basis, with one ten year extension option. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled $137,232, $141,170, and $137,204 for the years ended December 31, 2013, 2012, and 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-term Borrowings

Short-term borrowings are as follows:

	2013	2012	2011
Notes payable - U.S. Treasury	$ -	$ -	$ 254,749
	$ -	$ -	$ 254,749

Notes payable to the U.S. Treasury represented Federal treasury tax and loan deposits accepted by the Bank from its customers to be remitted on demand to the Federal Reserve Bank. The Bank paid interest on these balances at or below the Federal funds rate.

The Bank owned 14,529 shares of common stock of the FHLB at December 31, 2013. The Bank is required to maintain an investment of 0.2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 20% of the Bank's total assets, or approximately $63,716,000 at December 31, 2013. Long-term advances totaled $20,000,000 under this credit arrangement at December 31, 2013 (see Note 7). This credit facility is secured by a floating lien on the Bank's residential mortgage loan portfolio. Average short-term borrowings under this facility approximated $1,838,000, $399,000 and $811,000 for 2013, 2012, and 2011, respectively.

The Bank also had available $3,000,000 at December 31, 2013, 2012, and 2011, in a short-term credit facility, an unsecured line of credit, from another bank for short-term liquidity needs, if necessary. No outstanding borrowings existed under this credit arrangement at December 31, 2013, 2012, and 2011.

The Bank has an $8,000,000 and $5,000,000 federal funds lines of credit from two financial banks with nothing outstanding as of December 31, 2013.

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2013	2012	2011
Federal Home Loan Bank of Atlanta, convertible advances	$ 20,000,000	$ 20,000,000	$ 20,000,000

The Federal Home Loan Bank of Atlanta, convertible advances total includes the following:

A $10,000,000 convertible advance issued in 2007, which has a final maturity of November, 1, 2017, but is callable monthly. This advance has a 3.28% interest rate, with interest payable monthly. The proceeds of the convertible advance were used to fund loans and purchase investment securities.

A $5,000,000 convertible advance issued in 2008, which has a final maturity of July 23, 2018, but is callable quarterly starting July 23, 2009. This advance has a 2.73% interest rate, with interest payable quarterly. The proceeds of the convertible advance were used to fund loans.

A $5,000,000 convertible advance issued in 2008, which has a final maturity of August 22, 2018, but is callable quarterly starting August 22, 2011. This advance has a 3.34% interest rate, with interest payable quarterly. The proceeds of the convertible advance were used to fund loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-term Borrowings (continued)

At December 31, 2013, the scheduled maturities of long-term borrowings are approximately as follows:

	2013
2017	10,000,000
2018	10,000,000
	$ 20,000,000

Note 8. Deposits

Major classifications of interest-bearing deposits are as follows:

	2013	2012	2011
NOW and SuperNOW	$ 27,991,553	$ 31,699,734	$ 24,039,056
Money Market	19,219,579	20,734,875	18,084,117
Savings	71,278,801	68,516,141	60,063,518
Certificates of Deposit, $100,000 or more	28,916,597	28,213,893	31,414,705
Other time deposits	89,649,301	98,835,758	105,003,802
	$ 237,055,831	$ 248,000,401	$ 238,605,198

Interest expense on deposits is as follows:

	2013	2012	2011
NOW and SuperNOW	$ 11,300	$ 15,754	$ 28,819
Money Market	10,618	25,914	54,006
Savings	55,591	106,424	160,446
Certificates of Deposit, $100,000 or more	373,880	459,130	558,538
Other time deposits	1,562,938	2,003,684	2,236,531
	$ 2,014,327	$ 2,610,906	$ 3,038,340

At December 31, 2013, the scheduled maturities of time deposits are approximately as follows:

	2013
2014	$ 49,524,000
2015	24,996,000
2016	14,748,000
2017	5,719,000

2018	18,683,000
2019 and thereafter	4,896,000
	$ 118,566,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately $2,147,000, $2,188,000, and $2,053,000 at December 31, 2013, 2012, and 2011, respectively.

The Bank had no brokered deposits at December 31, 2013, 2012, and 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes

The components of income tax expense for the years ended December 31, 2013, 2012, and 2011 are as follows:

	2013	2012	2011
Current:			
Federal	$ 400,931	$ 448,832	$ 720,259
State	197,671	186,616	261,679
Total current	598,602	635,448	981,938
Deferred income taxes (benefits):			
Federal	(9,542)	(5,130)	(156,652)
State	44,795	43,489	(57,876)
Total deferred taxes (benefits)	35,252	38,359	(214,528)
Income tax expense	$ 633,855	$ 673,807	$ 767,410

A reconciliation of income tax expense computed at the statutory rate of 34% to the actual income tax expense for the years ended December 31, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
Income before income tax expense (benefit)	$ 3,248,032	$ 3,338,887	$ 3,760,503
Taxes computed at Federal income tax rate	$ 1,104,331	$ 1,135,222	$ 1,278,569
Increase (decrease) resulting from:			
Tax-exempt income	(630,710)	(644,546)	(600,429)
State income taxes, net of Federal income tax benefit	160,027	151,869	134,510
Other	207	31,262	(45,240)
Income tax expense	$ 633,855	$ 673,807	$ 767,410

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes (continued)

The components of the net deferred income tax benefits as of December 31, 2013, 2012, and 2011 are as follows:

	2013	2012	2011
Deferred income tax benefits:			
Accrued deferred compensation	$ 129,101	$ 120,695	$ 108,861
Impairment loss on investment securities	1,218,497	1,212,351	1,212,351
Allowance for credit losses	458,303	816,722	1,275,889
Nonaccrual interest	339,765	283,045	69,103
Alternative minimum tax credits	485,444	306,523	136,952
Accumulated depreciation	60,627	75,650	62,144
Other real estate owned	14,940	-	-
Reserve for unfunded commitments	78,890	78,890	78,890
Other temporary differences	1,332	-	-
Accumulated securities premium accretion	39,514	-	-
Net unrealized depreciation on investment securities available for sale	778,048	-	-
Total deferred income tax benefits	3,604,461		