

GLEN BURNIE BANCORP  
Form 10-K  
March 09, 2007

**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, 2006 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 52-1782444  
(State or other (I.R.S.  
jurisdiction Employer  
of Identification  
incorporation No.)  
or  
organization)

101 Crain 21061  
Highway,  
S.E., Glen  
Burnie,  
Maryland  
(Address of (Zip Code)  
principal  
executive  
offices)

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**

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark 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.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 6, 2007 was \$35,666,554.

The number of shares of common stock outstanding as of February 6, 2007 was 2,484,673.

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 2007 Annual Meeting of Shareholders (to be filed).

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**GLEN BURNIE BANCORP**  
2006 ANNUAL REPORT ON FORM 10-K

Table of Contents

<b>PART I</b>		
Item 1.	Business	3
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	20
Item 3.	Legal Proceedings	20
Item 4.	Submission of Matters to Vote of Security Holders	20
	Executive Officers of the Registrant	21
<b>PART II</b>		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	23
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 7A.	Quantitative And Qualitative Disclosures About Market Risk	32
Item 8.	Financial Statements and Supplementary Data	32
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	32
Item 9A.	Controls and Procedures	32
Item 9B.	Other Information	32
<b>PART III</b>		
Item 10.	Directors and Executive Officers of the Registrant	33
Item 11.	Executive Compensation	33
Item 12.	Security Ownership of Certain Beneficial Owners and Management and related Stockholder Matters	33
Item 13.	Certain Relationships and Related Transactions	33
Item 14.	Principal Accountant Fees and Services	33
<b>PART IV</b>		
Item 15.	Exhibits and Financial Statement Schedules	34
Signatures		35

## **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. It presently 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 Glen Burnie (South Crain location) Odenton, Riviera Beach, Crownsville, Severn, Linthicum and Severna Park, Maryland. The Bank also maintains two remote Automated Teller Machine (“ATM”) locations in Ferndale and Pasadena, Maryland. The Bank maintains a website at [www.thebankofglenburnie.com](http://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](http://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.

#### **Market Area**

The Bank considers its principal market area for lending and deposit products to consist of Northern Anne Arundel County, Maryland, which consists of those portions of the county north of U.S. Route 50. Northern 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 increased during the 2006, 2005, 2004, and 2003 fiscal years, while declining in 2002. In 2006, the increases were primarily due to an increase in commercial mortgages (due to an increase in participations), offset by decreases in residential mortgages and indirect automobile loans. In 2005, the increases were primarily due to an increase in commercial and industrial mortgages and indirect automobile loans. In 2003 and 2004, the increases in loans were primarily due to increases in residential mortgages. The commercial mortgage portfolio declined in 2003 as a result of softening loan demand and increased competition from large financial institutions. From 2002 to 2004, the residential mortgage portfolio achieved steady increases due to a strong housing market environment.

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

(Dollars in Thousands)	2006		2005		At December 31, 2004		2003		2002	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>Mortgage:</b>										
Residential	\$ 68,341	34.88%	\$ 71,841	37.17%	\$ 71,039	38.27%	\$ 64,471	36.62%	\$ 49,572	30.67%
Commercial	53,164	27.13	37,666	19.50	31,983	17.23	28,525	16.20	31,584	19.54
Construction and land development	1,609	0.83	1,402	0.73	2,080	1.12	3,112	1.77	2,338	1.45
<b>Consumer:</b>										
Installment	15,044	7.67	15,748	8.15	19,019	10.25	19,767	11.23	19,758	12.22
Credit card	144	0.08	128	0.07	180	0.10	175	0.10	228	0.14
Indirect automobile	52,539	26.81	60,510	31.31	55,703	30.00	53,883	30.61	52,795	32.66
Commercial	5,077	2.60	5,932	3.07	5,618	3.03	6,113	3.47	5,374	3.32
Gross loans	195,918	100.00%	193,227	100.00%	185,622	100.00%	176,046	100.00%	161,649	100.00%
Unearned income on loans	(743)		(821)		(919)		(981)		(847)	
Gross loans net of unearned income	195,175		192,406		184,703		175,065		160,802	
Allowance for credit losses	(1,839)		(2,201)		(2,412)		(2,246)		(2,515)	
Loans, net	\$ 193,336		\$ 190,205		\$ 182,291		\$ 172,819		\$ 158,287	

The following table sets forth the maturities for various categories of the loan portfolio at December 31, 2006. Demand loans and loans which have no stated maturity, are treated as due in one year or less. At December 31, 2006, the Bank had \$27,492,893 in loans due after one year with variable rates and \$151,031,411 in such loans with fixed rates.

	Due Within One Year	Due Over One To Five Years (In Thousands)	Due Over Five Years	Total
<b>Real Estate - mortgage:</b>				
Residential	\$ 4,887	\$ 2,425	\$ 61,029	\$ 68,341
Commercial	8,646	24,476	20,042	53,164
Construction and land development	346	527	736	1,609
Installment	1,085	10,443	3,516	15,044
Credit Card	144	-	-	144
Indirect automobile	999	45,611	5,929	52,539
Commercial	5,077	-	-	5,077
	\$ 21,184	\$ 83,482	\$ 91,252	\$ 195,918

**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 are generally originated on 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. The Bank, however, will make loans secured by owner-occupied residential real estate with loan-to-value ratios up to 95% (some restrictions may apply), provided the borrower obtains private mortgage insurance for the portion of the loan in excess of 80%. 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.

**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 overdraft loans and other credit repayable in installments. As of December 31, 2006, approximately 68.7% of the installment loans in the Bank's portfolio (other than indirect automobile lending) had been originated for commercial purposes and 31.3% had been originated for consumer purposes.

**Indirect Automobile Lending.** The Bank commenced its indirect automobile lending program in January 1998. The Bank finances new automobiles for terms of up to 72 months and used automobiles for terms of up to 60 months. For used vehicles, the age of the vehicle plus the term of the loan cannot exceed eight years. The Bank does not lend more than the MSRP on new vehicles. On used vehicles, the Bank will not lend more than 110% of the average wholesale 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 48 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.

**Other Loans.** The Bank offers overdraft protection lines of credit, tied to checking accounts, as a convenience to qualified customers.

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 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 \$2.0 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 \$3.42 million to any one borrower at December 31, 2006. 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 would have been permitted to lend up to \$5.28 million to any one borrower at December 31, 2006. It is currently the Bank's policy to limit its exposure to any one borrower to no more than \$3.16 million in the aggregate unless any borrowings exceeding this amount are approved by a 75% vote of the Board of Directors. At December 31, 2006, the largest amount outstanding to any one borrower and its related interests was \$4,140,000.

**Non-Performing Loans**

It is the policy of the Bank to reverse accrued, and discontinue the accrual of, interest when a loan becomes 90 days or more delinquent and circumstances indicate that collection is doubtful.

The Bank seeks to control delinquencies through diligent collection procedures. 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 will 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 will seek a deficiency judgment against the borrower. The Bank follows similar collection procedures with respect to commercial loans.

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,					
	2006	2005	2004	2003	2002	
	(Dollars In Thousands)					
Restructured Loans	\$ -	\$ -	\$ 95	\$ -	\$ 41	
Non-accrual loans:						
Real estate - mortgage:						
Residential	\$ 3	\$ 14	\$ 122	\$ 34	\$ 264	
Commercial	-	-	255	265	178	
Real estate - construction	-	-	-	-	7	
Installment	46	159	205	250	112	
Commercial	8	12	16	23	10	
Total non-accrual loans	57	185	598	572	571	
Accruing loans past due 90 days or more						
Real estate - mortgage:						
Residential	2	1	1	5	1	
Commercial	-	-	-	-	-	
Real estate - construction	-	3	6	6	-	
Installment	-	-	-	-	13	
Credit card & related	-	-	-	-	-	
Total accruing loans past due 90 days or more	2	4	7	11	15	
Total non-accrual and past due loans	\$ 59	\$ 189	\$ 605	\$ 583	\$ 586	
Non-accrual and past due loans to gross loans	0.03%	0.10%	0.33%	0.33%	0.36%	
	3,116.95%	1,164.55%	398.68%	385.25%	429.13%	

Allowance for credit  
losses to non-accrual and past  
due loans

For the year ended December 31, 2006, interest of \$10,658 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. \$50,872, or 88.6%, of the Bank's total \$57,429 non-accrual loans at December 31, 2006 were attributable to 4 borrowers. No charge-offs have previously been taken on these loans. One of these borrowers with a loan totaling \$2,551 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. Each of these loans is secured by collateral with a value well in excess of the current active balance of the Bank's loan.

At December 31, 2006, there were no loans outstanding 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, 2006, the Company had \$50,000 in real estate acquired in partial or total satisfaction of debt, compared to \$50,000 and \$171,882 in such properties at December 31, 2005 and 2004, respectively. 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, 2006, 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) Statement of Financial Accounting Standards (SFAS) No. 5 "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, and (2) SFAS No. 114, "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 collectibility of the principal is unlikely. The allowance, based on evaluations of the collectibility of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral, and current economic conditions and trends that may affect the borrower's ability to pay.

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

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars In Thousands)				
Beginning Balance	\$ 2,201	\$ 2,412	\$ 2,246	\$ 2,515	\$ 2,939
<b>Loans charged off</b>					
Real estate - mortgage:					
Residential	1	-	-	-	1
Commercial	-	-	-	-	-
Real estate - construction					
Installment	528	495	502	687	594
Credit card & related	-	-	-	42	95
Commercial	253	127	49	29	80
Total	782	622	551	758	730
<b>Recoveries</b>					
Real estate - mortgage:					
Residential	1	-	35	1	1
Commercial	-	-	-	-	1
Real estate - construction					
Installment	335	276	293	369	215
Credit card & related	-	-	-	30	30
Commercial	22	185	49	49	59
Total	358	461	377	449	306
Net charge offs/(recoveries)	424	161	174	308	424
Provisions (credited) charged to operations	62	(50)	340	40	-
Ending balance	\$ 1,839	\$ 2,201	\$ 2,412	\$ 2,246	\$ 2,515
Average loans	\$ 186,706	\$ 191,706	\$ 181,881	\$ 166,786	\$ 164,818
Net charge-offs to average loans	0.23%	0.09%	0.10%	0.18%	0.18%

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The following table shows the allowance for credit losses broken down by loan category as of December 31, 2006, 2005, 2004, 2003, and 2002:

Portfolio	At December 31,						
	2006		2005		2004		
	Allowance For	Percentage Of	Allowance For	Percentage Of	Allowance For	Percentage Of	
	Each Category	Loans In Each	Each Category	Loans In Each	Each Category	Loans In Each	
		Category To		Category To		Category To	
		Total Loans		Total Loans		Total Loans	
		(Dollars In Thousands)					
Real Estate - mortgage:							
Residential	\$ 149	34.88%	\$ 153	37.17%			
Commercial	314	27.13	277	19.50			
Real Estate -- construction	14	0.83	8	0.73			
Installment	103	7.67	103	8.15			
Credit Card	-	0.08	-	0.07			
Indirect automobile	1,119	26.81	1,260	31.31			
Commercial	260	2.60	264	3.07			
Unallocated	120	-	136	-			
Total	\$ 1,839	100.00%	\$ 2,201	100.00%			

Portfolio	At December 31,						
	2004		2003		2002		
	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	
			(Dollars In Thousands)				
Real Estate - mortgage:							
Residential	\$ 153	38.27%	\$ 143	36.62%	\$ 131	30.67%	
Commercial	328	17.23	314	16.20	349	19.54	
Real Estate - construction	13	1.12	29	1.77	48	1.45	
Installment	136	10.25	137	11.23	152	12.22	
Credit Card	-	0.10	-	0.10	-	0.14	
Indirect automobile	1,254	30.00	1,357	30.61	1,461	32.66	
Commercial	343	3.03	271	3.47	168	3.32	
Unallocated	185	-	(5)	-	206	-	
Total	\$ 2,412	100.00%	\$ 2,246	100.00%	\$ 2,515	100.00%	

**Investment Securities**

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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 U.S. Treasury securities, 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.

	2006	At December 31, 2005		2004
		(In Thousands)		
U.S. Treasury securities	\$ -	\$ -	\$ -	\$ -
U.S. Government agencies and mortgage backed securities	57,119	52,402		52,020
Obligations of states and political subdivisions	36,811	30,277		36,640
Corporate trust preferred	3,080	4,976		5,008
Total investment securities	\$ 97,010	\$ 87,655		\$ 93,668

The following table sets forth the scheduled maturities, book values and weighted average yields for the Company's investment securities portfolio at December 31, 2006:

	One Year Or Less Weighted Book Average Value Yield		One To Five Years Weighted Book Average Value Yield		Five to Ten Years Weighted Book Average Value Yield		More Than Ten Years Weighted Book Average Value Yield		Total Weighted Book Average Value Yield	
U.S. Treasury securities	\$ -	-%	\$ -	-%	\$ -	-%	\$ -	-%	\$ -	-%
U.S. Government agencies and mortgage backed securities	-	-	4,993	4.27	7,661	5.11	44,465	5.07	57,119	5.01
Obligations of states and political subdivisions	301	3.00	5,363	3.36	7,941	3.60	23,206	4.58	36,811	4.18
Corporate trust preferred	-	-	-	-	-	-	3,080	8.33	3,080	8.33
Total investment securities	\$ 301	3.00%	\$ 10,356	3.79%	\$ 15,602	4.34%	\$ 70,751	4.73%	\$ 97,010	4.81%

At December 31, 2006, 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 northern Anne Arundel County. Consolidated total deposits were \$274,833,457 as of December 31, 2006. 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 \$38.0 million under a line of credit from the FHLB of Atlanta as of December 31, 2006.

**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 and travelers checks, night depositories, automated clearinghouse transactions, wire transfers, ATMs, telephone banking, and a customer call center. The Bank is a member of the Cirrus(R) and Star(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, 2006, the Bank had approximately \$30.2 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, 2006:

	Amount (In Thousands)	
Three months or less	\$	4,942
Over three through six months		9,451



Over six through 12 months		6,795
Over 12 months		8,991
Total	\$	30,179

**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 \$38.0 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 \$7 million in a long-term convertible advance under this credit arrangement at December 31, 2006. The advance matures in September 2010 and bears a 5.84% rate of interest. On September 7, 2000, the Company issued \$5,155,000 of its 10.6% Junior Subordinated Deferrable Interest Debentures to Glen Burnie Statutory Trust I, a Connecticut statutory trust wholly owned by the Company. The Trust, in turn, issued \$5 million of its 10.6% capital securities to institutional investors. The debentures are scheduled to mature on September 7, 2030, unless called by the Company not earlier than September 7, 2010. It is the Company's intention to call these debentures at the earliest opportunity. The Bank also has an unsecured line of credit in the amount of \$5 million from another commercial bank but currently has no balance outstanding. The Bank has a mortgage note on the 103 Crain Highway address with a balance of \$140,170 as of December 31, 2006. This note is payable monthly through October 2010 and has a 7% interest rate.

## **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, 2006, the Bank had 119 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") 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 \$100,000 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.** On October 26, 2001, President Bush signed the USA Patriot Act (the "Patriot Act"), which 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.

Effective December 25, 2001, 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.

Effective July 23, 2002, 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. The terrorist attacks on September 11, 2001 have realigned national security priorities of the United States and 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 effects which the Patriot Act and 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 “outstanding” 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, 2006, 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. The Riegle-Neal Act also requires the appropriate federal banking agencies to prescribe regulations by June 1, 1997 that prohibit any out-of-state bank from using the interstate branching authority primarily for the purpose of deposit production. These regulations must include guidelines to ensure that interstate branches operated by an out-of-state bank in a host state are reasonably helping to meet the credit needs of the communities that they serve.

**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.

**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 1A. RISK FACTORS**

**An investment in the Common Stock is subject to risks inherent to the Bank's business. The material risk and uncertainties that management believes affect the Bank are described below. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations.**

### **RISK FACTORS RELATING TO OUR BUSINESS GENERALLY**

*Fluctuations in interest rates could reduce the Bank's profitability and affect the value of its assets.*

Like other financial institutions, the Bank is subject to interest rate risk. The Company's income and cash flow depend to a great extent on the difference between the interest rates earned on the Bank's interest-earning assets such as loans and investment securities, and the interest rates paid on the Bank's interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and the policies of various government agencies, in particular the Federal Reserve Bank. Changes in interest rates will influence the origination of loans, the prepayment speed of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits or other sources of funding. The impact of these changes may be magnified if the Company does not effectively manage the relative sensitivity of its assets and liabilities to changes in market interest rates. Fluctuations in these areas may adversely affect the Company and its shareholders.

Until recently, interest rates have been at historically low levels. However, since June 30, 2004, the Federal Reserve has increased its target for Federal funds rate numerous times. While these short-term market interest rates (which are used as a guide for pricing deposits) have increased, longer-term market interest rates (which are used as a guide for pricing longer-term loans and leases) have not. This "flattening" of the market yield curve has had a negative impact on the Bank's interest rate spread and net interest margin to date. If short-term interest rates continue to rise, and if rates on its deposits and borrowings continue to reprice upwards faster than the rates on long-term loans and investments, the Bank could experience compression of its interest rate spread and net interest margin, which could have a negative effect on the Bank's profitability.

*The Bank is subject to credit risks relating to its loan portfolio.*

The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan

production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations and economic conditions.

The Bank maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

In the financial services industry, there is always a risk that certain borrowers may not repay borrowings. The Bank's allowance for credit losses may not be sufficient to cover the loan losses that it may actually incur. If the Bank experiences defaults by borrowers in any of its businesses, the Bank's earnings could be negatively affected. Changes in local economic conditions could adversely affect credit quality, particularly in its local business loan portfolio. Changes in national economic conditions could also adversely affect the quality of its loan portfolio.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Bank seeks to minimize these risks through its underwriting standards. The Bank obtains financial information and performs credit risk analysis on its customers. Underwriting standards are designed to promote relationship banking rather than transactional banking. Most commercial and industrial loans are secured by the assets being financed or other business assets; however, some loans may be made on an unsecured basis. The Bank's credit policy sets different maximum exposure limits both by business sector and its current and historical relationship and previous experience with each customer.

The Bank offers both fixed-rate and adjustable-rate consumer mortgage loans secured by properties, substantially all of which are located in the Bank's primary market area. Adjustable-rate mortgage loans help reduce the Bank's exposure to changes in interest rates; however, during periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase as a result of repricing and the increased payments required from the borrower.

Consumer loans are primarily all other non-real estate loans to individuals in the Bank's regional market area. Consumer loans can entail risk, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets. In these cases, any repossessed collateral may not provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

***General economic conditions nationally and in the Bank's market are less than favorable.***

The Company is affected by general economic conditions in the United States and, in particular, in the Bank's market area. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, and the strength of both the U.S. economy and the local economy in which the Bank operates, all of which are beyond the Company's control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the bank's products and services, any of which could have a material adverse impact on the Company's financial condition and results of operations.

***The financial services industry is very competitive.***

The Bank faces competition in attracting and retaining deposits, making loans, and providing other financial services throughout the Bank's market area. The Bank's competitors include other community banks, larger banking institutions, and wide range of other financial institutions such as credit unions, government sponsored enterprises, mutual fund companies, insurance companies and other non-bank enterprises. Many of these competitors have substantially greater resources than the Company. If the Bank is unable to compete effectively, it will lose market share and income from deposits, loans, and other products may be reduced.

***Legislative or regulatory changes or actions, or significant litigation, could adversely impact the Company or the businesses in which the Company is engaged.***

The Company and the Bank are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of operations. Law and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact the Company or its ability to increase the value of its business. Additionally, actions by regulatory agencies or significant litigation against the Company or the Bank may cause the Company to devote significant time and resources to defending itself and may lead to penalties that materially affect the Company and its shareholders. Future changes in the laws or regulations or their interpretations or enforcement could be materially adverse to the Company and its stockholders.

***The Company is subject to environmental liability risk associated with lending activities.***

A portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

***The Bank's information systems may experience an interruption or breach in security.***

The Bank relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Bank's customer relationship management, general ledger, deposit, loan and other system. While the Bank has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur, or if they do occur, that they will be adequately addressed. The occurrence, of any failures, interruptions or security breaches of the Bank's information systems could damage the Bank's reputation, result in a loss of customer business, subject the Bank to additional regulatory scrutiny, or expose the Bank to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operation.

***Financial services companies depend on the accuracy and completeness of information about customers and counterparties.***

In deciding whether to extend credit or enter into other transactions, the Bank may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Bank may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Bank's business and, in turn, the Company's financial condition and results of operations.

***The inability to hire or retain certain key professionals, management and staff could adversely affect the Company's revenues and net income.***

The Bank relies on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect the Bank's ability to maintain and manage these portfolios effectively, which could negatively affect the Company's revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Company's net income.

***Severe weather, acts of war and terrorism and other adverse external events could significantly impact the Company's business***

Severe weather, acts of war or terrorism and other adverse external events could have a significant impact on the Bank's ability to conduct business. Such events could affect the stability of the Bank's deposit base, impair the ability



of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such event could have a material adverse effect on the Bank's business, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations. The close proximity of the all of the Company's branch locations to Washington, D.C. may put it at an especially high risk of being impacted by terrorism.

**RISK FACTORS RELATING TO THE COMPANY'S ARTICLES OF INCORPORATION AND THE COMMON STOCK**

*The liability of our directors is limited.*

Our Articles of Incorporation limit the liability of directors to the maximum extent permitted by Maryland law.

*The trading volume in the Common Stock is less than that of other larger services companies.*

Although the Common Stock is listed for trading on the Nasdaq SmallCap Market, the trading volume in the Common Stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Common Stock, significant sales of the Common Stock, or the expectation of these sales, could negatively impact the Company's stock price.

*It may be difficult for a third party to acquire the Company, which could affect the price of the Common Stock.*

Our charter and Bylaws contain certain anti-takeover provisions pursuant to the Maryland General Corporation Law. In addition, the Company has a shareholders rights plan that could make it more difficult to acquire the Company. As a result, we may be a less attractive target to a potential acquirer who otherwise may be willing to pay a premium for our common stock above its market price. These provisions effectively inhibit a non-negotiated merger or other business combination, even if doing so would be perceived to be beneficial to the Company's stockholders and could adversely affect the market price of the Common Stock.

**ITEM 1B.UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

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

	<b>Year Opened</b>	<b>Owned/ Leased</b>	<b>Book Value</b>	<b>Approximate Square Footage</b>	<b>Deposits</b>
<b><u>Main Office:</u></b>					
101 Crain Highway, S.E. Glen Burnie, MD 21061	1953	Owned	\$668,641	10,000	\$87,092,950
<b><u>Branches:</u></b>					
Odenton 1405 Annapolis Road Odenton, MD 21113	1969	Owned	203,934	6,000	37,849,403
Riviera Beach 8707 Ft. Smallwood Road Pasadena, MD 21122	1973	Owned	150,590	2,500	31,871,974
Crownsville 1221 Generals Highway Crownsville, MD 21032	1979	Owned	337,292	3,000	46,687,399
Severn 811 Reece Road Severn, MD 21144	1984	Owned	225,593	2,500	27,313,105
South Crain 7984 Crain Highway Glen Burnie, MD 21061	1995	Leased	65,027	2,600	22,819,320
Linthicum Burwood Village Shopping Center Glen Burnie, MD 21060	2005	Leased	230,139	2,500	9,084,044
Severna Park 534 Ritchie Highway Severna Park, MD 21146	2002	Leased	188,849	2,184	12,115,262
<b><u>Operations Centers:</u></b>					
106 Padfield Blvd. Glen Burnie, MD 21061	1991	Owned	1,046,123	16,200	N/A
103 Crain Highway, S.E. Glen Burnie, MD 21061	2000	Owned	289,823	3,727	N/A

At December 31, 2006, the Bank owned one foreclosed real estate property with a total book value of \$ 50,000. The Bank is holding this commercial property for sale.

**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, 2006, 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.

**ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS**

Not applicable.

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**EXECUTIVE OFFICERS OF THE REGISTRANT**

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

<b>NAME</b>	<b>AGE</b>	<b>POSITIONS</b>
F . W i l l i a m Kuethe, Jr.	74	President and Chief Executive Officer
M i c h a e l G . Livingston	53	Deputy Chief Executive Officer, Executive Vice President and Chief Operating Officer
John E. Porter	53	Senior Vice President and Chief Financial Officer

F. WILLIAM KUETHE, JR. has been President and Chief Executive Officer of the Company and the Bank since 1995. He also was director of the Bank from 1963 through 1989. He was President of Glen Burnie Mutual Savings Bank from 1960 through 1995. Mr. Kuethe is a former licensed appraiser and real estate broker with banking experience from 1960 to present, at all levels. He is the father of Frederick W. Kuethe, III, a director of the Company.

MICHAEL G. LIVINGSTON was appointed Deputy Chief Executive Officer and Executive Vice President in August 2004 and became a Director on January 1, 2005. Mr. Livingston was a Senior Vice President from January 1998 until August 2004 and had been Chief Lending Officer of the Bank from 1996 until August 2004. He served as Deputy Chief Operating Officer from February 14, 2003 through December 31, 2003 and was appointed the Chief Operating Officer effective January 1, 2004.

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. He has been Secretary/Treasurer of GBB since 1995.

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

The Common Stock is traded on the Nasdaq SmallCap Market under the symbol "GLBZ". As of February 22, 2007, there were 476 record holders of the Common Stock. The closing price for the Common Stock on that date was \$17.50. A 20% stock dividend was paid on January 23, 2006 to stockholders' of record on January 9, 2006.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2006 and 2005 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. The 2005 market prices have been adjusted to reflect the 20% stock dividend paid on January 23, 2006.

Quarter Ended	High	2006 Low	Dividends	High	2005 Low	Dividends
March 31,	\$ 17.61	\$ 16.42	\$ 0.12	\$ 19.44	\$ 16.80	\$ 0.10
June 30,	17.22	16.32	0.12	17.58	15.20	0.10
September 30	17.49	16.49	0.12	17.04	16.11	0.12
December 31	17.25	17.00	0.18	17.54	14.40	0.17

A regular dividend of \$0.12 and a bonus dividend of \$0.06 were declared for stockholders' of record on December 29, 2006, payable on January 8, 2007 and January 11, 2007, respectively.

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. Dividends and earnings per share have been adjusted to give retroactive effect to a 20% stock dividend paid on January 23, 2006 and a six-for-five stock split effected through a stock dividend paid on January 6, 2004.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars In Thousand Except Per Share Data)				
<b>Operations Data:</b>					
Net Interest Income	\$ 11,821	\$ 11,966	\$ 12,016	\$ 11,263	\$ 11,368
Provision for Credit Losses	62	(50)	340	40	-
Other Income	2,244	2,114	2,372	2,289	2,485
Other Expense	10,682	10,625	10,360	9,748	9,957
Net Income	2,720	2,775	3,056	3,077	2,811
<b>Share Data:</b>					
Basic Net Income Per Share	\$ 1.10	\$ 1.13	\$ 1.25	\$ 1.27	\$ 1.17
Diluted Net Income Per Share	1.10	1.13	1.25	1.27	1.17
Cash Dividends Declared Per Common Share	0.54	0.49	0.43	0.36	0.34
Weighted Average Common Shares Outstanding:					
Basic	2,472,803	2,456,723	2,442,944	2,430,603	2,416,703
Diluted	2,472,803	2,456,723	2,442,944	2,430,603	2,420,087
<b>Financial Condition Data:</b>					
Total Assets	\$ 317,746	\$ 306,561	\$ 302,312	\$ 302,252	\$ 279,406
Loans Receivable, Net	193,337	190,205	182,291	172,819	158,287
Total Deposits	274,833	265,248	261,674	256,908	241,420
Long Term Borrowings	7,140	7,171	7,200	7,227	7,251
Junior Subordinated Debentures	5,155	5,155	5,155	5,155	5,155
Total Stockholders' Equity	28,201	26,625	25,744	23,948	21,789
<b>Performance Ratios:</b>					
Return on Average Assets	0.84%	0.89%	1.00%	1.05%	1.05%
Return on Average Equity	10.00	10.50	12.51	13.56	14.49
Net Interest Margin (1)	4.31	4.46	4.61	4.48	4.76
Dividend Payout Ratio	49.18	43.52	34.67	29.53	29.70
<b>Capital Ratios:</b>					
Average Equity to Average Assets	8.36%	8.47%	8.16%	7.76%	9.03%
Leverage Ratio	10.30	10.17	9.85	9.25	9.07
Total Risk-Based Capital Ratio	17.07	16.98	16.40	15.79	15.28
<b>Asset Quality Ratios:</b>					
Allowance for Credit Losses to Gross Loans	0.94%	1.14%	1.30%	1.28%	1.56%

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Non-accrual and Past Due Loans to Gross Loans	0.03%	0.10%	0.33%	0.33%	0.36%
Allowance for Credit Losses to Non- Accrual and Past Due Loans	3,116.95%	1,164.55%	398.68%	385.25%	429.13%
Net Loan Charge-offs (Recoveries) to Average Loans	0.23%	0.09%	0.10%	0.18%	0.26%

(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 to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors, 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 2006, net interest income before provision for credit losses declined to \$11,821,431 from \$11,966,103 in 2005, and net income decreased to \$2,720,045 from \$2,774,741 in 2005. In 2006, the Company saw continued growth in both deposits and the loan portfolio. Non-interest bearing deposits decreased by \$4,584,623, and interest bearing deposits increased by \$14,169,812. The loan portfolio increased by \$3,131,606, primarily due to an increase in commercial mortgage participation loans.

All per share amounts throughout this report have been adjusted to give retroactive effect to a six-for-five stock dividend paid on January 6, 2004 and a 20% stock dividend paid on January 23, 2006.

### **Comparison of Results of Operations for the Years Ended December 31, 2006, 2005 and 2004**

**General.** For the year ended December 31, 2006, the Company reported consolidated net income of \$2,720,045 (\$1.10 basic and diluted earnings per share) compared to consolidated net income of \$2,774,741 (\$1.13 basic and diluted earnings per share) for the year ended December 31, 2005 and consolidated net income of \$3,055,501 (\$1.25 basic and diluted earnings per share) for the year ended December 31, 2004.

**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 mortgage and construction loans secured by real estate and indirect automobile loans secured by automobiles. These types of loans are made at interest rates lower than unsecured loans. While the Bank's loan volume increased in 2004 and 2005, this loan mix produced lower yields on the Company's interest-earning assets. Meanwhile, market forces resulted in higher rates of interest being paid by the Bank on deposits and borrowings used to fund income producing assets resulting in a decline in net interest income for 2005. In January of 2006, the Bank initiated a plan to increase net interest income by reducing its portfolio of lower yielding loans, acquiring additional deposits, expanding its customer base and increasing the Bank's higher yielding commercial loan portfolio. As part of this plan, the Bank attracted additional deposits by temporarily offering above market rate savings products which resulted in over \$27

million in additional deposits which were invested in marketable securities and overnight deposits making them readily available to fund loans. The Bank also hired a new commercial loan officer to increase its ability to reach this market segment. In accordance with this plan, the Bank successfully increased its higher yield commercial loans resulting in increased loan volume and yield on commercial mortgages, although the commercial loan volume increase was less than anticipated. Over the same period, yields on new indirect automobile loans increased as outstanding lower interest indirect loans matured. As a result, the Bank earned higher yields on its interest earning assets. However, market forces required us to pay higher rates of interest on deposits and borrowings used to fund income producing assets resulting in an overall decline in net interest income for 2006.

Consolidated net interest income for the year ended December 31, 2006 was \$11,821,431 compared to \$11,966,103 for the year ended December 31, 2005 and \$12,016,466 for the year ended December 31, 2004. The \$114,672 decrease for the most recent year was primarily due to an increase in deposit expense offset by increases in U.S. Government agency securities, state and municipal securities, other income and loan income. The \$50,363 decrease in net interest income for 2005 as compared to 2004 was primarily due to an increase in deposit expense, partially offset by an increase in loan income. The after tax net interest income for 2006 was \$12,741,143, a \$9,019 or 0.07% decrease from the after tax net interest income for 2005, which was \$12,750,162, a \$195,909 or 1.51% decrease from the \$12,946,071 after tax net interest income for 2004.

Interest expense increased from \$4,131,459 in 2005 to \$5,833,765 in 2006, a \$1,702,306 or a 41.21 % increase, primarily due to an increase in deposit expense due to rates rising and a special offered on 15 month certificates of deposit and IRAs. Interest expense increased from \$3,644,661 in 2004 to \$4,131,459 in 2005, a \$486,798 or a 13.36% increase, primarily due to an increase in deposit expense due to rates increasing. Net interest margin for the year ended December 31, 2006 was 4.31% compared to 4.46% and 4.61% for the years ended December 31, 2005 and 2004, 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,					
	2006	VS.	2005	2005	VS.	2004
	Change Due To:					
Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume	
	(In Thousands)					
<b>ASSETS:</b>						
Interest-earning assets:						
Federal funds sold	\$ 87	\$ 82	\$ 5	\$ 54	\$ 70	\$ (16)
Interest-bearing deposits	156	45	111	40	11	29
Investment securities:						
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	933	352	581	197	70	127
Obligations of states and political subdivisions(1)	258	(27)	285	(438)	0	(438)
All other investment securities	(3)	53	(56)	20	22	(2)
Total investment securities	1,188	378	810	(221)	92	(313)
Loans, net of unearned income:						
Demand, time and lease	24	65	(41)	99	91	1
	339	178	161	474	(65)	539

Mortgage and  
construction

Installment and credit card	(157)	218	(375)	(151)	(270)	119
Total gross loans(2)	206	461	(255)	422	(238)	660
Allowance for credit losses	-	-	-	-	-	-
Total net loans	206	461	(255)	422	(238)	660
Total interest-earning assets	\$ 1,637	\$ 966	\$ 671	\$ 295	\$ (65)	\$ 360

#### LIABILITIES:

Interest-bearing deposits:

Savings and NOW	\$ (7)	\$ 23	\$ (30)	\$ 13	\$ 9	\$ 4
Money market	1	16	(15)	20	29	(9)
Other time deposits	1,696	953	743	446	422	24
Total interest-bearing deposits	1,690	992	698	479	460	19
Non-interest-bearing deposits	-	-	-	-	-	-
Borrowed funds	13	23	(10)	7	41	(34)
Total interest-bearing liabilities	\$ 1,703	\$ 1,015	\$ 688	\$ 486	\$ 501	\$ (15)

(1) Tax equivalent basis.

(2) Non-accrual loans included in average  
balances.

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,								
	2006			2005			2004		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
(Dollars In Thousands)									
<b>ASSETS:</b>									
Interest-earning assets:									
Federal funds sold	\$ 3,848	\$ 200	5.20%	\$ 3,682	\$ 113	3.07%	\$ 4,962	\$ 59	1.18%
Interest-bearing deposits	4,901	233	4.76	2,008	77	3.84	1,126	37	3.29
Investment securities:									
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	66,501	3,347	5.04	53,521	2,414	4.51	50,575	2,217	4.38
Obligations of states and political subdivisions(1)	38,723	2,516	6.50	34,391	2,258	6.57	41,016	2,696	6.57
All other investment securities	4,257	375	8.81	4,996	378	7.57	5,019	358	7.13
Total investment securities	109,481	6,238	5.70	92,908	5,050	5.44	96,610	5,271	5.46
Loans, net of unearned income:									
Demand, time and lease	5,064	456	9.01	5,597	432	7.72	5,556	333	5.99
Mortgage and construction	111,426	7,307	6.56	109,025	6,968	6.40	100,590	6,494	6.46
Installment and credit card	70,216	4,068	5.80	77,084	4,225	5.49	74,902	4,376	5.84
Total gross loans(2)	186,706	11,831	6.34	191,706	11,625	6.07	181,048	11,203	6.19
Allowance for credit losses	(2,071)			(2,301)			(2,338)		
Total net loans	184,635	11,831	6.41	189,404	11,625	6.14	178,710	11,203	6.27
Total interest-earning assets	302,865	18,069	5.97	288,002	16,865	5.86	281,408	16,570	5.89
Cash and due from banks	9,493			11,020			11,203		
Other assets	13,045			13,275			13,162		
Total assets	\$ 325,403			\$ 312,297			\$ 305,773		

**LIABILITIES AND  
STOCKHOLDERS'  
EQUITY:**

Interest-bearing deposits:									
Savings and NOW	\$ 77,761	274	0.36%	\$ 85,005	281	0.33%	\$ 83,354	268	0.32%
Money market	16,415	106	0.65	19,389	105	0.55	21,146	85	0.40
Other time deposits	109,499	4,401	4.02	86,051	2,705	3.15	84,621	2,259	2.66
<b>Total interest-bearing deposits</b>	<b>203,675</b>	<b>4,781</b>	<b>2.35</b>	<b>190,445</b>	<b>3,091</b>	<b>1.63</b>	<b>189,121</b>	<b>2,612</b>	<b>1.38</b>
Short-term borrowed funds	1,603	81	5.06	1,815	66	3.64	3,983	57	1.43
Long-term borrowed funds	12,309	972	7.90	12,339	974	7.90	12,367	976	7.89
<b>Total interest-bearing liabilities</b>	<b>217,587</b>	<b>5,834</b>	<b>2.69</b>	<b>204,599</b>	<b>4,131</b>	<b>2.02</b>	<b>205,471</b>	<b>3,645</b>	<b>1.77</b>
Non-interest-bearing deposits	79,199			79,843			74,686		
Other liabilities <sup>S</sup>	1,407			1,395			1,191		
Stockholders' equity	27,210			26,460			24,425		
<b>Total liabilities and equity</b>	<b>\$ 325,403</b>			<b>\$ 312,297</b>			<b>\$ 305,773</b>		
Net interest income		\$ 12,235			\$ 12,734			\$ 12,925	
Net interest spread			3.28%			3.84%			4.12%
Net interest margin			4.31%			4.46%			4.61%

1 Tax equivalent basis. The incremental tax rate applied was 35.90% for 2006 and 34.56% for 2005.

2 Non-accrual loans included in average balance.

**Provision For Credit Losses.** During the year ended December 31, 2006, the Company made a provision of \$62,000 for credit losses, compared to a reverse provision of \$50,000 for credit losses for the year ended December 31, 2005, and a provision of \$340,000 for the year ended December 31, 2004. At December 31, 2006, the allowance for credit losses equaled 2,829.23% of non-accrual and past due loans compared to 1,164.55% and 398.68% at December 31, 2005 and 2004, respectively. During the year ended December 31, 2006, the Company recorded net charge-offs of \$424,256 compared to \$160,544 and \$174,501 in net charge-offs during the years ended December 31, 2005 and 2004, respectively.

**Other Income.** Other income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities, and income on life insurance. Other income increased from \$2,113,824 in 2005 to \$2,244,390 in 2006, a \$130,566, or 6.18% increase. The increase was primarily due to an increase in other fees and commissions and an increase in gains on investment securities. Other income decreased from \$2,371,636 in 2004 to \$2,113,824 in 2005, a \$257,812, or 10.87% decrease. The decrease was primarily due to a decrease on gains on investment securities.

**Other Expenses.** Other expenses increased from \$10,624,797 in 2005 to \$10,668,465 in 2006, a \$43,668 or 0.42% increase. This increase, which consists of non-interest operating expenses, was primarily due to an increase in salaries, employee benefits, and occupancy costs offset by a decrease in other miscellaneous expenses. Other expenses increased from \$10,359,377 in 2004 to \$10,624,797 in 2005, a \$265,420 or 2.56% increase. This increase was primarily due to an increase in salaries and occupancy costs due to an additional branch being opened.

**Income Taxes.** During the year ended December 31, 2006, the Company recorded income tax expense of \$687,115, compared to income tax expense of \$730,389 for the year ended December 31, 2005. This decrease was primarily due to more tax exempt income on municipal securities. During the year ended December 31, 2005, the Company recorded income tax expense of \$730,389, compared to income tax expense of \$633,224 for the year ended December 31, 2004.

#### **Comparison of Financial Condition at December 31, 2006, 2005 and 2004**

The Company's total assets increased to \$317,745,601 at December 31, 2006 from \$306,560,991 at December 31, 2005. The Company's total assets increased to \$306,560,991 at December 31, 2005 from \$302,312,126 at December 31, 2004.

The Company's net loan portfolio increased to \$193,336,604 at December 31, 2006 compared to \$190,204,998 at December 31, 2005 and \$182,291,292 at December 31, 2004. The increase in the loan portfolio during the 2006 period is primarily due to an increase in commercial mortgages, and mortgage participations purchased partially offset by a decline in indirect automobile loans. The increase in the loan portfolio during the 2005 period is primarily due to an increase in commercial and industrial mortgages, and indirect automobile loans.

During 2006, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$96,494,659, a \$9,214,772 or 10.56% increase from \$87,279,887 at December 31, 2005. This increase is primarily attributable to an increase in state and municipal securities and mortgage backed securities, offset by a decrease in corporate trust preferred securities. During 2005, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$87,279,887, a \$7,626,160 or 8.04% decrease from \$94,906,047 at December 31, 2004. This decrease is primarily attributable to a decrease in state and municipal securities.

Deposits as of December 31, 2006 totaled \$274,883,457, an increase of \$9,585,189, or 3.61%, from the \$265,248,268 total as of December 31, 2005. Deposits as of December 31, 2005 totaled \$265,248,268, an increase of \$3,574,225, or 1.37%, from the \$261,674,043 total as of December 31, 2004. Demand deposits as of December 31, 2006 totaled \$74,729,298, a \$4,584,623, or 5.78% decrease from \$79,313,921 at December 31, 2005. NOW and Super NOW accounts, as of December 31, 2006, decreased by \$3,117,348, or 18.61% from their 2005 level to \$22,274,015. Money market accounts decreased by \$1,405,734, or 8.39%, from their 2005 level, to total \$15,341,221 at December 31, 2006. Savings deposits decreased by \$4,985,894, or 9.03%, from their 2005 level, to \$50,234,238 at December 31, 2006. Time deposits over \$100,000 totaled \$30,178,739 on December 31, 2006, an increase of \$7,761,121, or 34.62% from December 31, 2005. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$82,075,945 on December 31, 2006, a \$15,917,665 or 24.06% increase from December 31, 2005.

Total stockholders' equity as of December 31, 2006 increased by \$1,575,072, or 5.92%, from the 2005 period. The increase was attributed to an increase in retained earnings, common stock and surplus, offset by a decrease in accumulated other comprehensive income, net of tax. Total stockholders' equity as of December 31, 2005 increased by \$881,033, or 3.42%, from the 2004 period. The increase was attributed to an increase in retained earnings and surplus, offset by a decrease in accumulated other comprehensive income, net of tax.

**Off-Balance Sheet Arrangements, Contractual Obligations, and Commitments**

**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, 2006, 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.

**Contractual Obligations.** The following table presents, as of December 31, 2006, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

(IN THOUSANDS)	NOTE REFERENCE	ONE YEAR OR LESS	PAYMENTS DUE IN			TOTAL
			ONE TO THREE YEARS	THREE TO FIVE YEARS	OVER FIVE YEARS	
Deposits without a stated maturity (a),(c)	9	\$ 162,578	\$ -	\$ -	\$ -	\$ 162,578
Time deposits (a)	9	77,463	22,253	11,296	1,243	112,255
Short-term borrowings (a)	6	545	-	-	-	545
Long-term borrowings (b)	7,8	579	1,166	12,735	-	14,480
Operating leases	5	233	402	212	1,729	2,576

(a) Excludes interest

(b) Includes Junior Subordinated Debentures and semi-annual payments (made in March and September) of \$273,215. This is also assuming that the Debentures will be paid off in September 2010.

(c) Includes non-interest bearing deposits

**Commitments.** The following table details the amounts and expected maturities of significant commitments as of December 31, 2006. Further discussion of these commitments is included in Note 16 to the consolidated financial statements.

PAYMENTS DUE IN

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(IN THOUSANDS)	ONE YEAR OR LESS	ONE TO THREE YEARS	THREE TO FIVE YEARS	OVER FIVE YEARS	TOTAL
<b>Loan commitments:</b>					
Other mortgage loans	\$ 528	\$ -	\$ -	\$ -	\$ 528
Construction & land development	482	-	-	-	482
<b>Unused lines of credit:</b>					
Home-equity lines	630	810	645	4,326	6,411
Commercial lines	10,805	-	-	-	10,805
Unsecured consumer lines	780	-	-	-	780
Secured consumer lines	30	-	-	-	30
Letters of credit	11	-	-	285	296

28

**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, 2006.

	0-3 Months	Over 3 To 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars In Thousands)				
<b>Assets:</b>					
Cash and due from banks	\$ -	\$ -	\$ -	\$ -	\$ 9,348
Federal funds and overnight deposits	3,972	-	-	-	3,972
Securities	-	299	10,222	85,974	96,495
Loans	12,731	8,453	83,482	91,252	195,918
Fixed Assets	-	-	-	-	3,406
Other Assets	-	-	-	-	8,607
<b>Total assets</b>	<b>\$ 16,703</b>	<b>\$ 8,752</b>	<b>\$ 93,704</b>	<b>\$ 177,226</b>	<b>\$ 317,746</b>
<b>Liabilities:</b>					
Demand deposit accounts	\$ -	\$ -	\$ -	\$ -	\$ 74,729
NOW accounts	22,274	-	-	-	22,274
Money market deposit accounts	15,341	-	-	-	15,341
Savings accounts	50,234	195	-	-	50,429
IRA accounts	2,879	12,300	14,181	1,154	30,514
Certificates of deposit	11,584	50,505	19,368	89	81,545
Other liabilities	-	-	-	-	9,558
Junior Subordinated Debenture	-	-	-	-	5,155
Stockholders' equity	-	-	-	-	28,201
<b>Total liabilities and Stockholders' equity</b>	<b>\$ 102,312</b>	<b>\$ 63,000</b>	<b>\$ 33,549</b>	<b>\$ 1,243</b>	<b>\$ 317,746</b>
<b>GAP</b>	<b>\$ (85,609)</b>	<b>\$ (54,248)</b>	<b>\$ 60,155</b>	<b>\$ 175,983</b>	
<b>Cumulative GAP</b>	<b>(85,609)</b>	<b>(139,857)</b>	<b>(79,702)</b>	<b>96,281</b>	
	(26.95%)	(44.02%)	(25.09%)	30.31%	

Cumulative GAP as a % of total  
assets

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, 2006, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	<b>Immediate Change in Rates</b>			
	<b>-200</b>	<b>-100</b>	<b>+100</b>	<b>+200</b>
	<b>Basis Points</b>	<b>Basis Points</b>	<b>Basis Points</b>	<b>Basis Points</b>
% Change in Net Interest Income	-4.8%	-0.8%	-1.4%	-3.6%
% Change in Economic Value of Equity	-9.5%	-1.5%	-5.4%	-12.0%

### **Liquidity and Capital Resources**

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

The Bank's principal sources of funds for investments and operations are net income, deposits from its primary market area, principal and interest payments on loans, interest received on investment securities and proceeds from maturing investment securities. Its principal funding commitments are for the origination or purchase of loans and the payment of maturing deposits. Deposits are considered 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, 2006, totaled \$13,319,978, a decrease of \$2,129,749 or 13.79%, from the December 31, 2005 total of \$15,449,727. Most of this decrease was due to interest-bearing deposits in FHLB but was offset by an increase in federal funds sold.

As of December 31, 2006, the Bank was permitted to draw on a \$38.0 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, 2006, a \$7 million long-term convertible advance was outstanding under this line. In addition the Bank has a secured line of credit in the amount of \$5 million from another commercial bank on which there is no outstanding balance at December 31, 2006. Furthermore, on September 7, 2000, the Company issued \$5,155,000 of its 10.6% Junior Subordinated Deferrable Interest Debentures to Glen Burnie Statutory Trust I, a Connecticut statutory trust wholly owned by the Company. The Trust, in turn, issued \$5,000,000 of its 10.6% capital securities to institutional investors. The debentures are scheduled to mature on September 7, 2030, unless called by the Company not earlier than September 7, 2010. As of December 31, 2006, the full \$5,155,000 was outstanding.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2006, the Company was in compliance with these requirements with a leverage ratio of 10.18%, a Tier 1 risk-based capital ratio of 16.03% and total risk-based capital ratio of 17.02%. At December 31, 2006, 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**

In February 2006, the FASB issued Statement No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*, which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125*, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements.

In March 2006, the FASB issued Statement No. 156 (SFAS 156), *Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140*. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning January 1, 2007. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company feels that this pronouncement will not have a significant impact on the financial statements.

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Company is currently reviewing this pronouncement.





In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements at the current time.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-5, *Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, questions arose regarding whether "the amount that could be realized" should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that "the amount that could be realized" should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the "amount that could be realized." An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this item may be found in Item 7 of Part II of this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation-Market Risk Management", which is incorporated herein by reference.

#### **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 16(a) of this Annual Report.

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

Not applicable.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial

Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this annual report, and believe that the system is effective. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal year 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.

32

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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

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 2006 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**

The information required by this item is incorporated herein by reference to the section captioned “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.**

	<u>Page</u>
Independent Auditors' Report	F-1
Consolidated Balance Sheets as of December 31, 2006, 2005 and 2004	F-2
Consolidated Statements of Income for the Years Ended December 31, 2006, 2005 and 2004	F-3
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2006, 2005 and 2004	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004	F-6
Notes to Consolidated Financial Statements	F-8

**(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)
4.1	Rights Agreement, dated as of February 13, 1998, between Glen Burnie Bancorp and The Bank of Glen Burnie, as Rights Agent, as amended and restated as of December 27, 1999 (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
10.1	Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 33-62280)
10.2	The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
10.3	Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
10.4	The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, File No. 0-24047)
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 Trice Geary & Myers 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

34

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**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 9, 2007

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ F. William Kuethe, Jr. F. William Kuethe, Jr.	President, Chief Executive Officer and Director	March 9, 2007
/s/ Michael G. Livingston Michael G. Livingston	Deputy Chief Executive Officer, Executive Vice President, Chief Operating Officer and Director	March 9, 2007
/s/ John E. Porter John E. Porter	Senior Vice President and Chief Financial Officer	March 9, 2007
/s/ John E. Demyan John E. Demyan	Chairman of the Board and Director	March 9, 2007
/s/ Shirley E. Boyer Shirley E. Boyer	Director	March 9, 2007
/s/ Thomas Clocker Thomas Clocker	Director	March 9, 2007
/s/ Norman E. Harrison, Jr. Norman E. Harrison, Jr.	Director	March 9, 2007

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/s/ F. W. Kuethe, III                      Director                      March 9, 2007  
    F. W. Kuethe, III

/s/ Charles Lynch                      Director                      March 9, 2007  
    Charles Lynch

/s/ Edward L. Maddox                      Director                      March 9, 2007  
    Edward L. Maddox

/s/ William N. Scherer, Sr.                      Director                      March 9, 2007  
    William N. Scherer, Sr.

35

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/s/ Karen B. Thorwarth  
Karen B. Thorwarth

Director

March 9, 2007

/s/ Mary Lou Wilcox  
Mary Lou Wilcox

Director

March 9, 2007



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, 2006, 2005, and 2004, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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, 2006, 2005, and 2004, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Trice Geary & Myers LLC

Salisbury, Maryland  
March 2, 2007

F-1

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## Glen Burnie Bancorp and Subsidiaries

## Consolidated Balance Sheets

December 31,	2006	2005	2004
<b>Assets</b>			
Cash and due from banks	\$ 9,005,691	\$ 9,405,148	\$ 9,766,710
Interest-bearing deposits in other financial institutions	342,309	3,711,524	65,947
Federal funds sold	3,971,978	2,333,055	1,541,234
Cash and cash equivalents	13,319,978	15,449,727	11,373,891
Investment securities available for sale, at fair value	95,811,296	86,128,724	93,278,857
Investment securities held to maturity (fair value) <b>2006 \$729,960; 2005 \$1,238,740; 2004 \$1,761,894)</b>	683,363	1,151,163	1,627,190
Federal Home Loan Bank stock, at cost	928,000	918,900	919,000
Maryland Financial Bank stock, at cost	100,000	100,000	100,000
Common stock in the Glen Burnie Statutory Trust I	155,000	155,000	155,000
Ground rents, at cost	219,100	235,700	235,700
Loans, less allowance for credit losses <b>2006 \$1,839,094; 2005 \$2,201,350; 2004 \$2,411,894;</b>	193,336,604	190,204,998	182,291,292
Premises and equipment, at cost, less accumulated depreciation	3,406,014	3,863,275	4,030,777
Accrued interest receivable on loans and investment securities	1,627,433	1,451,806	1,484,869
Deferred income tax benefits	292,131	264,139	-
Other real estate owned	50,000	50,000	50,000
Cash value of life insurance	6,892,455	5,681,802	5,483,681
Other assets	924,227	905,757	1,281,869
<b>Total assets</b>	<b>\$ 317,745,601</b>	<b>\$ 306,560,991</b>	<b>\$ 302,312,126</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Noninterest-bearing	\$ 74,729,298	\$ 79,313,921	\$ 73,427,366
Interest-bearing	200,104,159	185,934,347	188,246,677
Total deposits	274,833,457	265,248,268	261,674,043
Short-term borrowings	545,349	622,050	541,672
Long-term borrowings	7,140,170	7,170,977	7,199,708
Junior subordinated debentures owed to unconsolidated subsidiary trust	5,155,000	5,155,000	5,155,000
Dividends payable	366,580	339,005	287,938
Accrued interest payable on deposits	145,642	83,111	55,980

Accrued interest payable on junior subordinated debentures	<b>171,518</b>	171,518	171,518
Deferred income tax liabilities	-	-	330,583
Other liabilities	<b>1,187,372</b>	1,145,621	1,151,276
<b>Total liabilities</b>	<b>289,545,088</b>	279,935,550	276,567,718

### Commitments and contingencies

#### Stockholders' equity:

Common stock, par value \$1, authorized 15,000,000 shares;

issued and outstanding **2006 2,484,633** shares;

2005 2,056,024 shares; 2004 2,041,033 shares;

	<b>2,484,633</b>	2,056,024	2,041,033
Surplus	<b>11,719,907</b>	11,458,465	11,169,283
Retained earnings	<b>14,312,496</b>	13,341,097	11,773,915
Accumulated other comprehensive income (loss), net of tax (benefits)	<b>(316,523)</b>	(230,145)	760,177
<b>Total stockholders' equity</b>	<b>28,200,513</b>	26,625,441	25,744,408

#### **Total liabilities and stockholders' equity**

\$ **317,745,601**      \$ 306,560,991      \$ 302,312,126

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

## Glen Burnie Bancorp and Subsidiaries

## Consolidated Statements of Income

Years Ended December 31,	2006	2005	2004
<b>Interest income on:</b>			
Loans, including fees	\$ 11,830,676	\$ 11,625,147	\$ 11,203,896
U.S. Government agency securities	3,347,090	2,413,687	2,216,554
State and municipal securities	1,653,109	1,473,550	1,769,813
Corporate trust preferred securities	374,588	378,167	358,290
Federal funds sold	200,418	113,246	59,461
Other	249,315	93,765	53,113
Total interest income	17,655,196	16,097,562	15,661,127
<b>Interest expense on:</b>			
Deposits	4,780,871	3,091,576	2,611,536
Short-term borrowings	80,994	65,906	56,938
Long-term borrowings	425,470	427,547	429,484
Junior subordinated debentures	546,430	546,430	546,703
Total interest expense	5,833,765	4,131,459	3,644,661
<b>Net interest income</b>	<b>11,821,431</b>	<b>11,966,103</b>	<b>12,016,466</b>
<b>Provision for credit losses</b>	<b>62,000</b>	<b>(50,000)</b>	<b>340,000</b>
<b>Net interest income after provision for credit losses</b>	<b>11,759,431</b>	<b>12,016,103</b>	<b>11,676,466</b>
<b>Other income:</b>			
Service charges on deposit accounts	831,140	864,823	899,196
Other fees and commissions	1,026,144	948,580	859,539
Gains on investment securities, net	176,453	102,300	411,478
Income on life insurance	210,653	198,121	201,423
Total other income	2,244,390	2,113,824	2,371,636
<b>Other expenses:</b>			
Salaries and wages	4,769,495	4,620,793	4,404,605
Employee benefits	1,748,294	1,788,453	1,891,244
Occupancy	850,843	793,903	684,242
Furniture and equipment	864,151	885,203	839,485
Other expenses	2,363,878	2,536,445	2,539,801
Total other expenses	10,596,661	10,624,797	10,359,377
<b>Income before income taxes</b>	<b>3,407,160</b>	<b>3,505,130</b>	<b>3,688,725</b>
<b>Federal and state income tax expense</b>	<b>687,115</b>	<b>730,389</b>	<b>633,224</b>
<b>Net income</b>	<b>\$ 2,720,045</b>	<b>\$ 2,774,741</b>	<b>\$ 3,055,501</b>
	<b>\$ 1.10</b>	<b>\$ 1.13</b>	<b>\$ 1.25</b>

**Basic and diluted earnings per share of common  
stock**

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

F-3

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## Glen Burnie Bancorp and Subsidiaries

## Consolidated Statements of Comprehensive Income

Years Ended December 31,	2006	2005	2004
<b>Net income</b>	\$ 2,720,045	\$ 2,774,741	\$ 3,055,501
<b>Other comprehensive loss, net of tax</b>			
Unrealized holding losses arising during the period (net of deferred tax benefits <b>2006 \$6,826;</b> 2005 \$583,598; 2004 \$173,611)	(10,849)	(927,530)	(275,926)
Reclassification adjustment for gains included in net income (net of deferred taxes <b>2006 \$47,522;</b> 2005 \$39,508; 2004 \$154,291)	(75,529)	(62,792)	(245,220)
Total other comprehensive loss	(86,378)	(990,322)	(521,146)
<b>Comprehensive income</b>	\$ 2,633,667	\$ 1,784,419	\$ 2,534,355

*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, 2006, 2005, and 2004

	Common Stock			Retained Earnings	Accumulated	Total Stockholders' Equity
	Shares	Par Value	Surplus		Other Comprehensive Income (Loss)	
Balances, December 31, 2003	1,689,281	\$ 1,689,281	\$ 10,861,986	\$ 10,115,038	\$ 1,281,323	\$ 23,947,628
Net income	-	-	-	3,055,501	-	3,055,501
Cash dividends, \$.43 per share	-	-	-	(1,059,357)	-	(1,059,357)
Dividends reinvested under dividend reinvestment plan	10,796	10,796	221,159	-	-	231,955
Shares issued under employee stock purchase plan	3,689	3,689	72,673	-	-	76,362
Stock split effected in form of 20% stock dividend	337,267	337,267	-	(337,267)	-	-
Vested stock options, net	-	-	13,465	-	-	13,465
Other comprehensive loss, net of tax	-	-	-	-	(521,146)	(521,146)
Balances, December 31, 2004	2,041,033	2,041,033	11,169,283	11,773,915	760,177	25,744,408
Net income	-	-	-	2,774,741	-	2,774,741
Cash dividends, \$.49 per share	-	-	-	(1,207,559)	-	(1,207,559)
Dividends reinvested under dividend reinvestment plan	12,708	12,708	243,407	-	-	256,115
Shares issued under employee stock purchase plan	2,283	2,283	38,584	-	-	40,867
Vested stock options, net	-	-	7,191	-	-	7,191
Other comprehensive loss, net of tax	-	-	-	-	(990,322)	(990,322)
<b>Balances, December 31, 2005</b>	<b>2,056,024</b>	<b>2,056,024</b>	<b>11,458,465</b>	<b>13,341,097</b>	<b>(230,145)</b>	<b>26,625,441</b>

<b>Net income</b>	-	-	-	<b>2,720,045</b>	-	<b>2,720,045</b>
<b>Cash dividends, \$.54 per share</b>	-	-	-	<b>(1,337,545)</b>	-	<b>(1,337,545)</b>
<b>Dividends reinvested under dividend reinvestment plan</b>	<b>15,113</b>	<b>15,113</b>	<b>229,946</b>	-	-	<b>245,059</b>
<b>Shares issued under employee stock purchase plan</b>	<b>2,395</b>	<b>2,395</b>	<b>31,496</b>	-	-	<b>33,891</b>
<b>Stock split effected in form of 20% stock dividend</b>	<b>411,101</b>	<b>411,101</b>	-	<b>(411,101)</b>	-	-
<b>Other comprehensive loss, net of tax</b>	-	-	-	-	<b>(86,378)</b>	<b>(86,378)</b>
<b>Balances, December 31, 2006</b>	<b>2,484,633</b>	<b>\$ 2,484,633</b>	<b>\$ 11,719,907</b>	<b>\$ 14,312,496</b>	<b>\$ (316,523)</b>	<b>\$ 28,200,513</b>

*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

Years Ended December 31,	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 2,720,045	\$ 2,774,741	\$ 3,055,501
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	571,741	761,402	828,444
Compensation expense from vested stock options, net	-	7,191	13,465
Provision for credit losses	62,000	(50,000)	340,000
Provision for unfunded commitments	-	50,000	-
Losses on other real estate owned	-	-	7,372
Deferred income taxes (benefits), net	26,357	28,383	(133,613)
Gains on disposals of assets, net	(175,634)	(100,866)	(409,211)
Income on investment in life insurance	(210,653)	(198,121)	(201,423)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(175,627)	33,063	91,049
Decrease in other assets	38,161	238,828	5,663
Increase (decrease) in accrued interest payable	62,531	27,131	(11,119)
Increase (decrease) in other liabilities	41,751	(5,655)	5,749
Net cash provided by operating activities	2,960,672	3,566,097	3,591,877
<b>Cash flows from investing activities:</b>			
Maturities of held to maturity mortgage-backed securities	468,199	476,502	952,233
Maturities of other held to maturity investment securities	-	-	1,000,000
Maturities of available for sale mortgage-backed securities	9,331,430	7,810,035	6,984,287
Maturities of other available for sale investment securities	4,330,544	4,111,320	3,229,796
Sales of available for sale debt securities	22,431,078	16,951,413	18,345,056
Purchases of available for sale mortgage-backed securities	(25,365,231)	(12,488,670)	(18,214,141)
Purchases of other available for sale investment securities	(20,398,575)	(10,874,843)	(4,651,079)
(Purchase) sale of FHLB stock	(9,100)	100	(22,600)
Purchase of MFB stock	-	-	(100,000)
Purchase of life insurance contracts	(1,000,000)	-	(500,000)
Increase in loans, net	(3,193,606)	(7,863,706)	(9,697,733)
Purchases of premises and equipment	(131,821)	(378,774)	(417,426)
Net cash used by investing activities	(13,537,082)	(2,256,623)	(3,091,607)
<b>Cash flows from financing activities:</b>			

(Decrease) increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	<b>(4,584,623)</b>	5,886,555	3,778,548
Increase (decrease) in time deposits, net	<b>14,169,812</b>	(2,312,330)	987,260
(Decrease) increase in short-term borrowings	<b>(76,701)</b>	80,378	(6,060,248)
Repayments of long-term borrowings	<b>(30,807)</b>	(28,731)	(26,793)
Cash dividends paid	<b>(1,309,970)</b>	(1,156,492)	(1,008,357)
Common stock dividends reinvested	<b>245,059</b>	256,115	231,955
Issuance of common stock	<b>33,891</b>	40,867	76,362
<b>Net cash provided (used) by financing activities</b>	<b>8,446,661</b>	2,766,362	(2,021,273)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,129,749)</b>	4,075,836	(1,521,003)
<b>Cash and cash equivalents, beginning of year</b>	<b>15,449,727</b>	11,373,891	12,894,894
<b>Cash and cash equivalents, end of year</b>	<b>\$ 13,319,978</b>	<b>\$ 15,449,727</b>	<b>\$ 11,373,891</b>

*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,	2006	2005	2004
<b>Supplementary Cash Flow Information:</b>			
Interest paid	\$ 5,771,234	\$ 4,104,328	\$ 3,655,780
Income taxes paid	626,374	741,717	908,812
Total decrease in unrealized depreciation on available for sale securities	(140,725)	(1,613,427)	(849,050)

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

F-7

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## 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 (“Bancorp” or the “Company”) 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 21) 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.

#### 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies** (continued)

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 Statement of Financial Accounting Standards (“SFAS”) No 115, *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.

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 SFAS No 5, Accounting for Contingencies, or SFAS No 114, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected

F-9

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies** (continued)

losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses 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. At December 31, 2006, there was no unallocated component of the allowance reflected in the allowance for credit losses.

**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 collectibility 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.

**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. No loans were converted to OREO in 2006, 2005, or 2004. The Bank financed no sales of OREO for 2006, 2005, or 2004.

**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.

**Intangible Assets:**



A core deposit intangible asset of **\$544,652**, relating to a branch acquisition, has been amortized on the straight-line method over 10 years. Accumulated amortization totaled **\$544,652**, \$544,652, and

F-10

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies** (continued)

\$503,802 at December 31, 2006, 2005, and 2004, respectively. Amortization expense totaled \$0, \$40,850, and \$54,465 for the years ended December 2006, 2005, and 2004, respectively.

**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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. As of December 31, 2006, 2005, and 2004, certain loans existed which management considered impaired (See Note 4).

**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 deferred compensation and benefit plans, allowance for credit losses, alternative minimum tax credits, net unrealized depreciation on investment securities available for sale, and reserve for unfunded commitments.

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

**Credit Risk:**

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). At December 31, 2006, the Bank had unsecured deposits and Federal funds sold with two separate financial institutions of approximately **\$4,073,000**.

**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:**

On January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payments*, for accounting and reporting for stock-based compensation plans. SFAS No. 123R 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. For 2005 and 2004, the Company applied Accounting Principles Board Opinion (APB) No. 25 and related Interpretations for accounting and reporting for these plans. If compensation cost for these periods had been determined based on the fair value at the grant date for awards under this plan consistent with the methods outlined in SFAS No. 123R, there would be no change in reported net income for the years ending December 31, 2005 and 2004 (See Note 17).

**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.

F-11

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies** (continued)

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 \$5,530,000, \$5,976,000, and \$5,684,000 during the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 3. Investment Securities**

Investment securities are summarized as follows:

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Available for sale:</i>				
U.S. Government agencies	\$ 11,484,102	\$ 6,250	\$ 299,634	\$ 11,190,718
State and municipal	36,127,782	429,062	179,207	36,377,637
Corporate trust preferred	3,079,958	372,316	-	3,452,274
Mortgage-backed	45,635,133	39,152	883,618	44,790,667
	\$ 96,326,975	\$ 846,780	\$ 1,362,459	\$ 95,811,296
<i>Held to maturity:</i>				
State and municipal	\$ 683,363	\$ 46,597	\$ -	\$ 729,960
	\$ 683,363	\$ 46,597	\$ -	\$ 729,960
December 31, 2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Available for sale:</i>				
U.S. Government agencies	\$ 11,978,348	\$ -	\$ 476,568	\$ 11,501,780
State and municipal	29,593,236	634,992	228,381	29,999,847
Corporate trust preferred	4,976,388	475,487	-	5,451,875
Mortgage-backed	39,955,704	26,808	807,290	39,175,222
	\$ 86,503,676	\$ 1,137,287	\$ 1,512,239	\$ 86,128,724

<i>Held to maturity:</i>						
State and municipal	\$	683,073	\$	63,670	\$ -	746,743
Mortgage-backed		468,090		23,907	-	491,997
	\$	1,151,163	\$	87,577	\$ -	1,238,740

F-12

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 3. Investment Securities (continued)

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale:</b>				
U.S. Government agencies	\$ 12,511,877	\$ 93,242	\$ 487,504	\$ 12,117,615
State and municipal Corporate trust preferred	35,956,838	1,237,281	88,450	37,105,669
Mortgage-backed	5,008,127	459,840	-	5,467,967
	38,563,539	187,391	163,324	38,587,606
	\$ 92,040,381	\$ 1,977,754	\$ 739,278	\$ 93,278,857
<b>Held to maturity:</b>				
State and municipal Mortgage-backed	\$ 682,945	\$ 71,933	\$ -	\$ 754,878
	944,245	62,771	-	1,007,016
	\$ 1,627,190	\$ 134,704	\$ -	\$ 1,761,894

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, 2006 are as follows:

Securities available for sale:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>Obligations of U.S.</b>						
<b>Government agencies</b>	\$ 2,481,406	\$ 13,759	\$ 7,703,031	\$ 285,875	\$ 10,184,437	\$ 299,634
<b>State and Municipal</b>	5,855,246	20,027	9,324,227	159,180	15,179,473	179,207
<b>Mortgaged-backed</b>	10,471,563	65,694	30,440,138	817,924	40,911,701	883,618
	\$ 18,808,215	\$ 99,480	\$ 47,467,396	\$ 1,262,979	\$ 66,275,611	\$ 1,362,459

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.

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2006, management also 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, 2006, the Bank held 83 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2006, management believes the

F-13

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3. Investment Securities** (continued)

impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

Contractual maturities of investment securities at December 31, 2006, 2005, and 2004 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.

December 31, 2006	<i>Available for Sale</i>		<i>Held to Maturity</i>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 300,989	\$ 298,897	\$ -	\$ -
Due over one to five years	10,355,087	10,221,909	-	-
Due over five to ten years	9,938,119	9,826,970	-	-
Due over ten years	30,097,647	30,672,853	683,363	729,960
Mortgage-backed, due in monthly installments	45,635,133	44,790,667	-	-
	\$ 96,326,975	\$ 95,811,296	\$ 683,363	\$ 729,960

December 31, 2005	<i>Available for Sale</i>		<i>Held to Maturity</i>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 500,000	\$ 494,687	\$ -	\$ -
Due over one to five years	11,628,697	11,489,621	-	-
Due over five to ten years	12,395,207	12,265,866	-	-
Due over ten years	22,024,068	22,703,328	683,073	746,743
Mortgage-backed, due in monthly installments	39,955,704	39,175,222	468,090	491,997
	\$ 86,503,676	\$ 86,128,724	\$ 1,151,163	\$ 1,238,740

December 31, 2004	<i>Available for Sale</i>		<i>Held to Maturity</i>	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value



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Due within one year	\$ 2,874,617	\$ 2,893,275	\$ -	\$ -
Due over one to five years	7,894,560	8,011,579	-	-
Due over five to ten years	17,111,432	17,210,406	-	-
Due over ten years	25,596,233	26,575,991	682,945	754,878
Mortgage-backed, due in monthly installments	38,563,539	38,587,606	944,245	1,007,016
	\$ 92,040,381	\$ 93,278,857	\$ 1,627,190	\$ 1,761,894

F-14

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 3. Investment Securities** (continued)

Proceeds from sales of available for sale securities prior to maturity totaled **\$22,431,078**, \$16,951,413, and \$18,345,056 for the years ended December 31, 2006, 2005, and 2004, respectively. The Bank realized gains of **\$225,438** and losses of **\$48,985** on those sales for 2006. The Bank realized gains of \$198,360 and losses of \$96,060 on those sales for 2005. The Bank realized gains of \$483,760 and losses of \$72,282 on those sales for 2004. 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 **\$68,146**, \$39,509, and \$158,913 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Bank has no derivative financial instruments required to be disclosed under SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*.

**Note 4. Loans**

Major categories of loans are as follows:

	2006	2005	2004
<b>Mortgage:</b>			
Residential	\$ 68,340,050	\$ 71,841,084	\$ 71,038,619
Commercial	53,164,479	37,666,243	31,982,864
Construction and land development	1,609,132	1,402,203	2,080,178
Demand and time	5,077,680	5,932,460	5,617,982
Installment	67,726,942	76,385,365	74,902,306
	195,918,283	193,227,355	185,621,949
Unearned income on loans	(742,585)	(821,007)	(918,763)
	195,175,698	192,406,348	184,703,186
Allowance for credit losses	(1,839,094)	(2,201,350)	(2,411,894)
	\$ 193,336,604	\$ 190,204,998	\$ 182,291,292

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 **\$52,539,000**, \$60,510,000, and \$55,703,000 of such loans at December 31, 2006, 2005, and 2004, 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.

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, 2006, 2005, and 2004, the amounts of such loans outstanding totaled **\$3,293,148**, \$1,970,926, and \$1,443,878, respectively. During 2006, loan additions and repayments totaled **\$1,849,400** and **\$527,178**, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 4. Loans** (continued)

The allowance for credit losses is as follows:

	2006	2005	2004
Balance, beginning of year	\$ 2,201,350	\$ 2,411,894	\$ 2,246,395
Provision for credit losses	62,000	(50,000)	340,000
Recoveries	357,803	461,033	377,213
Loans charged off	(782,059)	(621,577)	(551,714)
Balance, end of year	\$ 1,839,094	\$ 2,201,350	\$ 2,411,894

Loans on which the accrual of interest has been discontinued totaled **\$57,429**, \$185,430, and \$598,162 at December 31, 2006, 2005, and 2004, respectively. Interest that would have been accrued under the terms of these loans totaled **\$10,658**, \$15,552, and \$46,751 for the years ended December 31, 2006, 2005, and 2004, respectively. Loans past due 90 days or more and still accruing interest totaled **\$1,751**, \$3,500 and \$6,964 at December 31, 2006, 2005 and 2004, respectively.

Information regarding loans classified by the Bank as impaired is summarized as follows:

	2006	2005	2004
Loans classified as impaired	\$ 49,441	\$ 185,930	\$ 490,656
Allowance for credit losses on impaired loans	35,423	93,054	116,160
Average balance of impaired loans	6,846	104,906	461,400

Following is a summary of cash receipts on impaired loans and how they were applied:

Cash receipts applied to reduce principal balance	\$ 9,723	\$ 14,054	\$ 27,630
Cash receipts recognized as interest income	-	2,790	27,190
Total cash receipts	\$ 9,723	\$ 16,844	\$ 54,820

No troubled debt restructurings transpired in 2006. All prior investments in troubled debt were performing under the terms of the modified agreement.

No troubled debt restructurings transpired in 2005. The remaining prior investment in troubled debt was not performing under the terms of the modified agreement in the amount of \$12,508 as of December 31, 2005.

At December 31, 2004, the recorded investment in new troubled debt restructurings totaled \$94,783. The average recorded investment in troubled debt restructurings totaled \$96,624 for the year ended December 31, 2004. The allowance for credit losses relating to troubled debt restructurings totaled \$31,436 at December 31, 2004. The Bank recognized \$8,015 in interest income on troubled debt restructurings for cash payments received in 2004. All prior investments in troubled debt were performing under the terms of the modified agreements, with the exception of one credit relationship classified as impaired in the amount of \$173,010 as of December 31, 2004.

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

F-16

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 5. Premises and Equipment**

A summary of premises and equipment is as follows:

	Useful lives	2006	2005	2004
Land		\$ 684,977	\$ 684,977	\$ 684,977
Buildings	5-50 years	4,710,503	4,672,579	4,437,516
Equipment and fixtures	5-30 years	5,456,049	5,426,032	5,248,830
Construction in progress		26,088	122,652	298,480
		<b>10,877,617</b>	10,906,240	10,669,803
Accumulated depreciation		(7,471,603)	(7,042,965)	(6,639,026)
		<b>\$ 3,406,014</b>	\$ 3,863,275	\$ 4,030,777

Construction in progress at December 31, 2006 relates primarily to a future branch site.

Depreciation expense totaled **\$450,278**, \$493,484, and \$469,633 for the years ended December 31, 2006, 2005, and 2004, respectively. Amortization of software and intangible assets totaled **\$97,954**, \$138,642, and \$167,474 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Bank leases its South Crain Highway, Severna Park, and Linthicum branches. Minimum lease obligations under the South Crain Highway branch are \$115,400 per year through September 2009, adjusted annually by the CPI. Minimum lease obligations under the Severna Park branch are \$30,000 per year through September 2007. Minimum lease obligations under the Linthicum branch are \$92,700 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 **\$236,166**, \$200,596, and \$125,198 for the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 6. Short-term borrowings**

Short-term borrowings are as follows:

	2006	2005	2004
Notes payable - U.S. Treasury	\$ 545,349	\$ 622,050	\$ 541,672

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 6. Short-term borrowings** (continued)

Notes payable to the U.S. Treasury represents 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 pays interest on these balances at a slight discount to the Federal funds rate. This arrangement is secured by investment securities with an amortized cost of approximately **\$1,000,000** at December 31, 2006, 2005, and 2004.

The Bank owned 9,280 shares of common stock of the FHLB at December 31, 2006. The Bank is required to maintain an investment of .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 12% of the Bank's total assets, or approximately \$38,000,000 at December 31, 2006. Long-term advances totaled \$7,000,000 under this credit arrangement at December 31, 2006 (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 **\$1,047,000**, \$1,482,000 and \$3,605,000 for 2006, 2005, and 2004, respectively.

The Bank also has available \$5,000,000 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, 2006, 2005, and 2004.

**Note 7. Long-term Borrowings**

Long-term borrowings are as follows:

	2006	2005	2004
Federal Home Loan Bank of Atlanta, convertible advance	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
Mortgage payable-individual, interest at 7%, payments of \$3,483, including principal and interest, due monthly through October 2010, secured by real estate	140,170	170,977	199,708
	\$ 7,140,170	\$ 7,170,977	\$ 7,199,708

The Federal Home Loan Bank of Atlanta convertible advance matures in September 2010, with interest at 5.84%, payable quarterly. The Federal Home Loan Bank of Atlanta has the option of converting the rate to a three-month LIBOR; however, if converted, the borrowing can be repaid without penalty. The proceeds of the convertible advance were used to purchase higher yielding investment securities.

At December 31, 2006, the scheduled maturities of long-term borrowings are approximately as follows:

	2006
2007	\$ 33,000
2008	35,000
2009	38,000
2010	7,034,000

**\$ 7,140,000**

F-18

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 8. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust**

The Bancorp sponsored a trust, Glen Burnie Statutory Trust I, of which 100% of the common equity is owned by the Company. The trust was formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Company (the debentures). The debentures held by the trust are the sole assets of that trust. Distributions on the capital securities issued by the trust are payable semi-annually at a 10.6% rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The debentures held by the trust carry non-call provisions over the first 10 year period, and a declining 10 year premium call thereafter. Both the capital securities of the statutory trust and the junior subordinated debentures are scheduled to mature on September 7, 2030, unless called by the Bancorp not earlier than September 7, 2010.

Despite the fact that Trust I is not included in the Company's consolidated financial statements, the \$5.0 million in trust preferred securities issued by the trust are included in the Tier 1 capital of the Bank for regulatory capital purposes as allowed by the Federal Reserve Board (the "Board"). In April 2005, the Board amended its risk-based capital standards for bank holding companies to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter quantitative limits and qualitative standards. The Board also revised the quantitative limits applied to the aggregate amount of cumulative perpetual preferred stock, trust preferred securities, and minority interest in the equity accounts of most consolidated subsidiaries (collectively, restricted core capital elements) included in the Tier 1 capital of bank holding companies. The new quantitative limits become effective after a five-year transition period, ending March 31, 2009. In addition, the Board also revised the qualitative standards for capital instruments included in regulatory capital consistent with longstanding Board policies. The Board has adopted this final rule to address supervisory concerns, competitive equity considerations and changes in generally accepted accounting principles and to strengthen the definition of regulatory capital for bank holding companies. The Company does not expect that the quantitative limits will preclude it from including the \$5.0 million in trust preferred securities in Tier 1 capital in the future.

**Note 9. Deposits**

Major classifications of interest-bearing deposits are as follows:

	2006		2005		2004
NOW and SuperNOW	\$ 22,274,015	\$	25,391,363	\$	27,089,844
Money Market	15,341,221		16,746,954		20,208,804
Savings	50,234,238		55,220,132		57,664,694
Certificates of Deposit, \$100,000 or more	22,380,391		16,758,682		16,556,548
Other time deposits	89,874,294		71,817,216		66,726,787
	\$ 200,104,159	\$	185,934,347	\$	188,246,677



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 9. Deposits** (continued)

Interest expense on deposits is as follows:

	2006		2005		2004
NOW and SuperNOW	\$ 52,047	\$	39,315	\$	31,465
Money Market	106,264		105,166		84,385
Savings	222,018		241,845		236,550
Certificates of Deposit, \$100,000 or more	859,707		490,436		424,710
Other time deposits	3,540,835		2,214,814		1,834,426
	\$ 4,780,871	\$	3,091,576	\$	2,611,536

At December 31, 2006, the scheduled maturities of time deposits are approximately as follows:

	2006
2007	\$ 77,463,000
2008	11,710,000
2009	10,543,000
2010	7,207,000
2011	4,089,000
2012 and thereafter	1,243,000
	\$ 112,255,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately \$2,308,000, \$1,967,000, and \$1,309,000 at December 31, 2006, 2005, and 2004, respectively.

The Bank had no brokered deposits at December 31, 2006, 2005, and 2004.

**Note 10. Income Taxes**

The components of income tax expense for the years ended December 31, 2006, 2005, and 2004 are as follows:

	2006		2005		2004
Current:					
Federal	\$ 493,052	\$	635,576	\$	660,981
State	167,706		66,430		105,856
Total current	660,758		702,006		766,837
Deferred income taxes (benefits):					
Federal	25,655		18,967		(111,600)
State	702		9,416		(22,013)
Total deferred	26,357		28,383		(133,613)
Income tax expense	\$ 687,115	\$	730,389	\$	633,224



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 10. Income Taxes (continued)

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, 2006, 2005, and 2004 is as follows:

	2006	2005	2004
Income before income taxes	\$ 3,407,160	\$ 3,505,130	\$ 3,688,725
Taxes computed at Federal income tax rate	\$ 1,158,434	\$ 1,191,745	\$ 1,254,167
Increase (decrease) resulting from:			
Tax-exempt income	(610,541)	(556,922)	(648,864)
State income taxes, net of Federal income tax benefit	110,686	43,844	55,336
Other	28,536	51,722	(27,415)
Income tax expense	\$ 687,115	\$ 730,389	\$ 633,224

The components of the net deferred income tax liabilities as of December 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
Deferred income tax benefits:			
Accrued deferred compensation and benefit plan obligations	\$ -	\$ 32,876	\$ 57,807
Allowance for credit losses	90,186	127,467	140,771
Alternative minimum tax credits	37,678	-	-
Net unrealized depreciation on investment securities available for sale	199,155	144,806	-
Reserve for unfunded commitments	77,240	77,240	57,930
Total deferred income tax benefits	404,259	382,389	256,508
Deferred income tax liabilities:			
Accumulated depreciation	42,991	109,270	76,244
Accumulated securities discount accretion	69,137	8,980	32,547
Net unrealized appreciation on investment securities available for sale	-	-	478,300
Total deferred income tax liabilities	112,128	118,250	587,091
Net deferred income tax benefits (liabilities)	\$ 292,131	\$ 264,139	\$ (330,583)

## Note 11. Pension and Profit Sharing Plans

The Bank has a money purchase pension plan, which provides for annual employer contributions based on employee compensation, and covers substantially all employees. Contributions under this plan, made from an existing safe harbor accrual as a result of a prior termination of a defined benefit pension plan, totaled \$182,581 for the year ended December 31, 2004. Beginning in 2004, the Bank is also accruing additional contributions under this plan. These additional contributions, included in employee benefit expense, totaled \$200,005, \$180,514 and \$210,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The Bank is also making additional contributions under

this plan for the benefit of certain employees, whose retirement funds were negatively affected by the termination of a defined benefit pension plan. These additional contributions, included in employee benefit expense,

F-21

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 11. Pension and Profit Sharing Plans** (continued)

totaled **\$47,495**, \$40,769, and \$60,182 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Bank also has a defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code that is funded through a profit sharing agreement and voluntary employee contributions. The plan provides for discretionary employer matching contributions to be determined annually by the Board of Directors. The plan covers substantially all employees. The Bank's contributions to the plan, included in employee benefit expense, totaled **\$335,724**, \$343,729, and \$357,138 for the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 12. Post-Retirement Health Care Benefits**

The Bank provides health care benefits to employees who retire at age 65 with five years of full time service immediately prior to retirement and two years of participation in the medical benefits plan. In 2001, the Bank amended the plan to include the current Board of Directors and their spouses and the spouses of current retirees. In the first quarter of 2002, the Bank again amended the plan so that all post-retirement healthcare benefits currently provided by the Bank to the above qualified participants terminated on December 31, 2006. The plan was funded only to the extent of the Bank's monthly payments of insurance premiums, which totaled **\$50,483**, \$62,425, and \$122,664 for the years ended December 31, 2006, 2005, and 2004, respectively.

The following table sets forth the financial status of the plan at December 31, 2006, 2005, and 2004:

	2006	2005	2004
Accumulated post-retirement benefit obligation:			
Retirees	\$ -	\$ 63,489	\$ 268,168
Unrecognized net gain (loss)	-	21,636	(118,489)
Accrued post-retirement benefit cost	\$ -	\$ 85,125	\$ 149,679

Net post-retirement benefit (income) expense for the years ended December 31, 2006, 2005, and 2004 includes the following:

	2006	2005	2004
Interest cost	\$ 3,081	\$ 7,685	\$ 23,854
Amortization of net (gain) loss	(37,723)	(9,814)	40,896
Net post-retirement benefit (income) expense	\$ (34,642)	\$ (2,129)	\$ 64,750

Assumptions used in the accounting for net post-retirement benefit expense were as follows:

	2006	2005	2004
Health care cost trend rate	5.0%	5.0%	5.0%
Discount rate	6.5%	6.5%	6.5%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 12. Post-Retirement Health Care Benefits** (continued)

If the assumed health cost trend rate were increased to 6% for 2006, 2005, and 2004, the total of the service and interest cost components of net periodic post-retirement health care benefit (income) cost would (decrease) increase by \$0, (\$35), and \$220 to **(\$34,642)**, (\$2,094), and \$64,970 as of for the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 13. Other Benefit Plans**

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled **\$6,892,455**, \$5,681,802, and \$5,483,681 at December 31, 2006, 2005, and 2004, respectively. Income on their insurance investment totaled **\$210,653**, \$198,121, and \$201,423 for 2006, 2005, and 2004, respectively.

The Bank has an unfunded grantor trust, as part of a change in control severance plan, covering substantially all employees (See Note 15). Participants in the plan are entitled to cash severance benefits upon termination of employment, for any reason other than just cause, should a “change in control” of the Company occur.

**Note 14. Other Operating Expenses**

Other operating expenses include the following:

	2006	2005	2004
Professional services	\$ 434,465	\$ 465,905	\$ 430,301
Stationery, printing and supplies	209,385	246,882	229,806
Postage and delivery	224,856	233,403	232,742
FDIC assessment	33,847	34,953	36,972
Directors fees and expenses	207,796	192,227	194,901
Marketing	232,258	240,177	220,899
Data processing	104,976	105,994	123,782
Correspondent bank services	89,924	87,784	81,668
Telephone	165,529	151,440	117,228
Liability insurance	81,508	96,832	94,370
Provision for unfunded commitments	-	50,000	-
Losses and expenses on real estate owned (OREO)	922	681	551
Other ATM expense	235,116	228,710	251,688
Other	343,296	401,457	524,893
	\$ 2,363,878	\$ 2,536,445	\$ 2,539,801

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 15. Standstill Agreement**

During 1998, the Company was pursued by another competing financial institution (the “Institution”) in a hostile take-over attempt. As part of a negotiation settlement, the Company and the Institution entered into a standstill agreement through November 2008.

**Note 16. Commitments and Contingencies**

Financial instruments:

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.

Outstanding loan commitments, unused lines of credit and letters of credit are as follows:

	2006		2005		2004
<b>Loan commitments:</b>					
Construction and land development	\$ 482,000	\$	224,000	\$	3,150,000
Other mortgage loans	528,000		1,881,400		1,137,500
	\$ 1,010,000	\$	2,105,400	\$	4,287,500
<b>Unused lines of credit:</b>					
Home-equity lines	\$ 6,410,947	\$	6,341,738	\$	6,297,160
Commercial lines	10,805,449		7,581,877		10,550,804
Unsecured consumer lines	809,802		866,091		836,377
	\$ 18,026,198	\$	14,789,706	\$	17,684,341
<b>Letters of credit:</b>	\$ 296,136	\$	343,320	\$	723,134

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.





**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 16. Commitments and Contingencies** (continued)

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, 2006, the Bank has accrued **\$200,000** as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

**Note 17. Stockholders' Equity**

Restrictions on dividends:

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. Retained earnings from which dividends may not be paid without prior approval totaled approximately **\$9,367,000**, \$7,609,000, and \$5,633,000 at December 31, 2006, 2005, and 2004, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Employee stock purchase benefit plans:

The Company has a stock-based compensation plan, which is described below. As determined under SFAS No. 123R utilizing the Black-Scholes option pricing model, management of the Company has not recorded any compensation expense for options issued during the year ended December 31, 2006, as there would be no material impact in the reported net income. As determined under APB No. 25, net compensation cost of \$7,191, and \$13,465 have been recognized in the accompanying consolidated financial statements in 2005 and 2004, respectively (See Note 1).

Employees who have completed one year of service are eligible to participate in the employee stock purchase plan. The number of shares of common stock granted under options will bear a uniform relationship to compensation. The plan allows employees to buy stock under options granted at 85% of the fair market value of the stock on the date of grant. Options are vested when granted and will expire no later than 27 months from the grant date or upon termination of employment. Activity under this plan is as follows:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17. Stockholders' Equity (continued)

	Shares	Grant Price
Outstanding December 31, 2003	-	
Granted on January 7, 2004, expiring December 15, 2004	9,533	\$ 17.25
Exercised	(4,427)	
Expired	(5,106)	\$ 17.25
Outstanding December 31, 2004	-	
Granted on April 13, 2005, expiring December 2, 2005	5,683	\$ 14.92
Exercised	(2,740)	
Expired	(2,943)	\$ 14.92
Outstanding December 31, 2005	-	
<b>Granted on June 8, 2006, expiring December 11, 2006</b>	<b>4,755</b>	<b>\$ 14.15</b>
<b>Exercised</b>	<b>(2,395)</b>	
<b>Expired</b>	<b>(2,360)</b>	<b>\$ 14.15</b>
<b>Outstanding December 31, 2006</b>	<b>-</b>	

At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **41,050**.

The Board of Directors may suspend or discontinue the plan at its discretion.

Dividend reinvestment and stock purchase plan:

The Company's dividend reinvestment and stock purchase plan allows all participating stockholders the opportunity to receive additional shares of common stock in lieu of cash dividends at 95% of the fair market value on the dividend payment date.

During 2006, 2005, and 2004, shares of common stock purchased under the plan totaled **15,113**, 12,708, and 10,796, respectively. At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **150,986**.

The Board of Directors may suspend or discontinue the plan at its discretion.

Stockholder purchase plan:

The Company's stockholder purchase plan allows participating stockholders an option to purchase newly issued shares of common stock. The Board of Directors shall determine the number of shares that may be purchased pursuant to options. Options granted will expire no later than three months from the grant date. Each option will entitle the stockholder to purchase one share of common stock, and will be granted in proportion to stockholder share holdings. At the discretion of the Board of Directors, stockholders may be given the opportunity to purchase unsubscribed shares.

There was no activity under this plan for the years ended December 31, 2006, 2005, and 2004.

At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **261,599**.

F-26

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 17. Stockholders' Equity** (continued)

The Board of Directors may suspend or discontinue the plan at its discretion.

Under all three plans, options granted, exercised, and expired, shares issued and reserved, and grant prices have been restated for the effects of any stock dividends or stock splits.

Regulatory capital requirements:

The Company and Bank are subject to various regulatory capital requirements administered by Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company and Bank must meet specific capital guidelines that involve quantitative measures of their respective assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting principles. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2006, 2005, and 2004, that both the Company and Bank meet all capital adequacy requirements to which they are subject.

The Bank has been notified by its regulator that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. There have been no conditions or events since that notification that management believes have changed the Bank's category.

As discussed in Note 8, the capital securities held by the Glen Burnie Statutory Trust I qualifies as Tier I capital for the Company under Federal Reserve Board guidelines.

F-27

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17. Stockholders' Equity (continued)

A comparison of capital as of December 31, 2006, 2005, and 2004 with minimum requirements is approximately as follows:

	<i>Actual</i>		<i>For Capital Adequacy Purposes</i>		<i>To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
<b>As of December 31, 2006</b>						
<b>Total Capital (to Risk Weighted Assets)</b>						
Company	\$ 35,357,000	17.1%	\$ 16,570,000	8.0%		N/A
Bank	35,240,000	17.0%	16,564,000	8.0%	\$ 20,705,000	10.0%
<b>Tier I Capital (to Risk Weighted Assets)</b>						
Company	33,518,000	16.2%	8,281,000	4.0%		N/A
Bank	33,201,000	16.0%	8,285,000	4.0%	12,427,000	6.0%
<b>Tier I Capital (to Average Assets)</b>						
Company	33,518,000	10.3%	13,017,000	4.0%		N/A
Bank	33,201,000	10.2%	13,046,000	4.0%	16,307,000	5.0%
<b>As of December 31, 2005</b>						
<b>Total Capital (to Risk Weighted Assets)</b>						
Company	\$ 34,257,000	17.0%	\$ 16,121,000	8.0%		N/A
Bank	33,868,000	16.8%	16,128,000	8.0%	\$ 20,160,000	10.0%
<b>Tier I Capital (to Risk Weighted Assets)</b>						
Company	31,856,000	15.8%	8,065,000	4.0%		N/A
Bank	31,467,000	15.6%	8,068,000	4.0%	12,102,693	6.0%
<b>Tier I Capital (to Average Assets)</b>						
Company	31,856,000	10.2%	12,493,000	4.0%		N/A
Bank	31,467,000	10.1%	12,462,000	4.0%	15,578,000	5.0%



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17. Stockholders' Equity (continued)

	<i>Actual</i>		<i>For Capital Adequacy Purposes</i>		<i>To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
As of December 31, 2004						
<b>Total Capital</b> (to Risk Weighted Assets)						
Company	\$ 32,416,000	16.4%	\$ 15,813,000	8.0%		N/A
Bank	32,004,000	16.2%	15,804,000	8.0%	\$ 19,756,000	10.0%
<b>Tier I Capital</b> (to Risk Weighted Assets)						
Company	29,944,000	15.2%	7,880,000	4.0%		N/A
Bank	29,538,000	15.0%	7,877,000	4.0%	11,815,000	6.0%
<b>Tier I Capital</b> (to Average Assets)						
Company	29,944,000	9.9%	12,099,000	4.0%		N/A
Bank	29,538,000	9.7%	12,181,000	4.0%	15,226,000	5.0%

## Note 18. Earnings Per Common Share

Earnings per common share are calculated as follows:

	2006	2005	2004
Basic:			
Net income	\$ 2,720,045	\$ 2,774,741	\$ 3,055,501
Weighted average common shares outstanding	2,472,803	2,456,723	2,442,944
Basic net income per share	\$ 1.10	\$ 1.13	\$ 1.25

Diluted earnings per share calculations were not required for 2006, 2005, and 2004 as there were no options outstanding at December 31, 2006, 2005, and 2004.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 19. Fair Values of Financial Instruments

In accordance with the disclosure requirements of SFAS No. 107, the estimated fair value and the related carrying values of the Company's financial instruments are as follows:

	2006		2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	\$ 9,005,691	\$ 9,005,691	\$ 9,405,148	\$ 9,405,148	\$ 9,766,710	\$ 9,766,710
Interest-bearing deposits in other financial institutions	342,309	342,309	3,711,524	3,711,524	65,947	65,947
Federal funds sold	3,971,978	3,971,978	2,333,055	2,333,055	1,541,234	1,541,234
Investment securities available for sale	95,811,296	95,811,296	86,128,724	86,128,724	93,278,857	93,278,857
Investment securities held to maturity	683,363	729,960	1,151,163	1,238,740	1,627,190	1,761,894
Federal Home Loan Bank Stock	928,000	928,000	918,900	918,900	919,000	919,000
Maryland Financial Bank Stock	100,000	100,000	100,000	100,000	100,000	100,000
Common stock-Statutory Trust I	155,000	155,000	155,000	155,000	155,000	155,000
Ground rents	219,100	219,100	235,700	235,700	235,700	235,700
Loans, less allowance for credit losses	193,336,604	192,492,000	190,204,998	190,206,000	182,291,292	180,500,000
Accrued interest receivable	1,627,433	1,627,433	1,451,806	1,451,806	1,484,869	1,484,869
Financial liabilities:						
Deposits	274,833,457	273,033,000	265,248,268	264,846,000	261,674,043	261,826,000
Short-term borrowings	545,349	545,349	622,050	622,050	541,672	541,672
Long-term borrowings	7,140,170	7,151,651	7,170,977	7,533,950	7,199,708	8,388,328
Dividends payable	366,580	366,580	339,005	339,005	287,938	287,938
Accrued interest payable	145,642	145,642	83,111	83,111	55,980	55,980
Accrued interest payable on junior subordinated	171,518	171,518	171,518	171,518	171,518	171,518



debentures						
Junior subordinated debentures owed to unconsolidated subsidiary trust	<b>5,155,000</b>	<b>5,155,000</b>	5,155,000	5,155,000	5,155,000	5,155,000
Unrecognized financial instruments:						
Commitments to extend credit	<b>19,036,198</b>	<b>19,036,198</b>	16,895,106	16,895,106	21,971,841	21,971,841
Standby letters of credit	<b>296,136</b>	<b>296,136</b>	343,320	343,320	723,134	723,134

For purposes of the disclosures of estimated fair value, the following assumptions were used.

Loans:

The estimated fair value for loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Investment securities:

Estimated fair values are based on quoted market prices.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 19. Fair Values of Financial Instruments (continued)

#### Deposits:

The estimated fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

#### Other assets and liabilities:

The estimated fair values for cash and due from banks, interest-bearing deposits in other financial institutions, Federal funds sold, accrued interest receivable and payable, and short-term borrowings are considered to approximate cost because of their short-term nature.

Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. In addition, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

### Note 20. Recently Issued Accounting Pronouncements

In February 2006, the FASB issued Statement No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*, which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125*, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements.

In March 2006, the FASB issued Statement No. 156 (SFAS 156), *Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140*. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning January 1, 2007. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company feels that this pronouncement will not have a significant impact on the financial statements.

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

SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this

F-31

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 20. Recently Issued Accounting Pronouncements (continued)

principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Company is currently reviewing this pronouncement.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements at the current time.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-5, *Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, questions arose regarding whether "the amount that could be realized" should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that "the amount that could be realized" should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the "amount that could be realized." An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

In 2006, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration (collectively, the agencies), have issued an interagency policy statement on the ALLL and supplemental FAQs. This issuance revises the 1993 policy statement on the ALLL previously issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. The National Credit Union Administration has also joined in issuing the revised guidance.

The agencies believe an assessment of the appropriateness of the ALLL is critical to the safety and soundness of a financial institution. In light of ALLL-related developments since the policy statement was first adopted in 1993, the agencies have revised the previous policy to ensure consistency with generally accepted accounting principles (GAAP) and more recent supervisory guidance. The 1993 policy statement was originally issued to describe the responsibilities of the boards of directors, management and examiners of banks and savings associations regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan

review system, including a sound credit grading system. The revised policy statement updates this guidance and also extends it to credit unions and their examiners.

F-32

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 20. Recently Issued Accounting Pronouncements** (continued)

This revision reiterates key concepts and requirements included in existing ALLL supervisory guidance and GAAP. Because the ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports, the agencies remind those institutions of their responsibility for developing, maintaining, and documenting a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. To fulfill this responsibility, each institution should ensure that controls are in place to determine consistently the ALLL in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

Consistent with longstanding supervisory guidance, institutions must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. Arriving at an appropriate allowance involves a high degree of management judgment and results in a range of estimated losses. Accordingly, prudent, conservative, but not excessive, loan loss allowances that represent management's best estimate from within an acceptable range of estimated losses are appropriate.

Although the revised policy statement reiterates key concepts and requirements in GAAP and existing supervisory guidance on the ALLL, the agencies recognize that institutions may not have sufficient time to complete any enhancements needed to bring their ALLL processes and documentation into full compliance with the revised guidance for year-end 2006 reporting purposes. Nevertheless, these enhancements should be completed in the near term. Management of the Company feels that they are currently in material compliance with this newly revised policy and are reviewing the current ALLL methodology for necessary enhancements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 21. Parent Company Financial Information

The Balance Sheets, Statements of Income, and Statements of Cash Flows for Glen Burnie Bancorp (Parent Only) are presented below:

December 31,	Balance Sheets		
	2006	2005	2004
<b>Assets</b>			
Cash	\$ 441,919	\$ 483,459	\$ 453,685
Investment in The Bank of Glen Burnie	32,884,293	31,237,838	30,339,198
Investment in GBB Properties, Inc.	265,579	266,561	262,343
Investment in the Glen Burnie Statutory Trust I	155,000	155,000	155,000
Due from subsidiaries	26,820	22,888	20,765
Other assets	120,000	127,250	132,250
<b>Total assets</b>	<b>\$ 33,893,611</b>	<b>\$ 32,292,996</b>	<b>\$ 31,363,241</b>
<b>Liabilities and Stockholders' Equity</b>			
Dividends payable	\$ 366,580	\$ 339,005	\$ 287,938
Accrued interest payable on borrowed funds	171,518	171,518	171,518
Other liabilities	-	2,032	4,377
Borrowed funds from subsidiary	5,155,000	5,155,000	5,155,000
<b>Total liabilities</b>	<b>5,693,098</b>	<b>5,667,555</b>	<b>5,618,833</b>
<b>Stockholders' equity:</b>			
Common stock	2,484,633	2,056,024	2,041,033
Surplus	11,719,907	11,458,465	11,169,283
Retained earnings	14,312,496	13,341,097	11,773,915
Accumulated other comprehensive (loss), income, net of (benefits) taxes	(316,523)	(230,145)	760,177
<b>Total stockholders' equity</b>	<b>28,200,513</b>	<b>26,625,441</b>	<b>25,744,408</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 33,893,611</b>	<b>\$ 32,292,996</b>	<b>\$ 31,363,241</b>

The borrowed funds from subsidiary balance represents the junior subordinated debt securities payable to the wholly-owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled **\$5,000,000** at December 31, 2006. (See Note 8).





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 21. Parent Company Financial Information (continued)

## Statements of Income

Years Ended December 31,	2006	2005	2004
Dividends and distributions from subsidiaries	\$ 1,350,000	\$ 1,245,000	\$ 1,235,000
Other income	16,430	16,430	16,430
Interest expense on junior subordinated debentures	(546,430)	(546,430)	(546,703)
Other expenses	(59,453)	(50,397)	(54,826)
Income before income tax benefit and equity in undistributed net income of subsidiaries	760,547	664,603	649,901
Income tax benefit	227,647	224,149	225,965
Change in undistributed net income of subsidiaries	1,731,851	1,885,989	2,179,635
<b>Net income</b>	<b>\$ 2,720,045</b>	<b>\$ 2,774,741</b>	<b>\$ 3,055,501</b>

## Statements of Cash Flows

Years Ended December 31,	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net income	\$ 2,720,045	\$ 2,774,741	\$ 3,055,501
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in other assets	7,250	5,000	4,932
(Increase) decrease in due from subsidiaries	(3,932)	(2,123)	5,893
Decrease in other liabilities	(2,032)	(2,345)	(1,859)
Change in undistributed net income of subsidiaries	(1,731,851)	(1,885,989)	(2,179,635)
Net cash provided by operating activities	989,480	889,284	884,832
<b>Cash flows from financing activities:</b>			
Proceeds from dividend reinvestment plan	245,059	256,115	231,955
Proceeds from issuance of common stock	33,891	40,867	76,362
Dividends paid	(1,309,970)	(1,156,492)	(1,008,357)
Net cash used in financing activities	(1,031,020)	(859,510)	(700,040)
<b>(Decrease) increase in cash</b>	<b>(41,540)</b>	<b>29,774</b>	<b>184,792</b>
<b>Cash, beginning of year</b>	<b>483,459</b>	<b>453,685</b>	<b>268,893</b>
<b>Cash, end of year</b>	<b>\$ 441,919</b>	<b>\$ 483,459</b>	<b>\$ 453,685</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 22. Quarterly Results of Operations (Unaudited)

The following is a summary of consolidated unaudited quarterly results of operations:

(Dollars in thousands, except per share amounts)	2006			
	December 31	September 30	June 30	March 31
Interest income	\$ 4,542	\$ 4,492	\$ 4,447	\$ 4,174
Interest expense	1,609	1,538	1,480	1,206
Net interest income	2,933	2,954	2,967	2,968
Provision for credit losses	62	-	-	-
Net securities gains	106	70	-	-
Income before income taxes	903	912	844	748
Net income	609	772	713	626
Net income per share (basic and diluted)	\$ 0.25	\$ 0.31	\$ 0.29	\$ 0.25

(Dollars in thousands, except per share amounts)	2005			
	December 31	September 30	June 30	March 31
Interest income	\$ 4,127	\$ 4,094	\$ 3,957	\$ 3,920
Interest expense	1,133	1,080	989	930
Net interest income	2,994	3,014	2,968	2,990
Provision for credit losses	-	(50)	-	-
Net securities gains	28	26	45	3
Income before income taxes	909	935	819	842
Net income	671	742	674	688
Net income per share (basic and diluted)	\$ 0.28	\$ 0.30	\$ 0.27	\$ 0.28

(Dollars in thousands, except per share amounts)	2004			
	December 31	September 30	June 30	March 31
Interest income	\$ 3,908	\$ 4,065	\$ 3,807	\$ 3,881
Interest expense	894	928	885	938
Net interest income	3,014	3,137	2,922	2,943
Provision for credit losses	-	140	60	140
Net securities gains	102	41	39	230
Income before income taxes	921	973	883	912
Net income	840	769	706	741
Net income per share (basic and diluted)	\$ 0.33	\$ 0.32	\$ 0.29	\$ 0.31

