

GLEN BURNIE BANCORP  
Form 10-Q  
August 08, 2007

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

**FORM 10-Q**

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

For the Quarterly period ended June 30, 2007

OR

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

**Commission file number 0-24047**

**GLEN BURNIE BANCORP**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**21061**  
(Zip Code)

Registrant's telephone number, including area code: **(410) 766-3300**

Inapplicable

(Former name, former address and former fiscal year if changed from last report.)

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

Indicate by check mark 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

At July 13, 2007, the number of shares outstanding of the registrant's common stock was 2,490,231.



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

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

| <b>ASSETS</b>   | June 30,<br>2007<br>(unaudited) | December 31,<br>2006<br>(audited) |
|---|---------------------------------|-----------------------------------|
| Cash and due from banks   | \$ 11,369                       | \$ 9,006                          |
| Interest-bearing deposits in other financial institutions   | 44                              | 342                               |
| Federal funds sold  | 2,710                           | 3,972                             |
| Cash and cash equivalents   | 14,123                          | 13,320                            |
| Investment securities available for sale, at fair value   | 83,843                          | 95,811                            |
| Investment securities held to maturity, at cost<br>(fair value June 30: \$719; December 31: \$730)  | 684                             | 683                               |
| Federal Home Loan Bank stock, at cost   | 1,044                           | 928                               |
| Maryland Financial Bank stock, at cost  | 100                             | 100                               |
| Common Stock in the Glen Burnie Statutory Trust I   | 155                             | 155                               |
| Loans, less allowance for credit losses<br>(June 30: \$1,760; December 31: \$1,839)   | 195,496                         | 193,337                           |
| Premises and equipment, at cost, less accumulated depreciation  | 3,259                           | 3,406                             |
| Other real estate owned   | 50                              | 50                                |
| Cash value of life insurance  | 7,025                           | 6,892                             |
| Other assets  | 3,709                           | 3,064                             |
| <b>Total assets</b>   | <b>\$ 309,488</b>               | <b>\$ 317,746</b>                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                                   |
| <b>Liabilities:</b>   |                                 |                                   |
| Deposits  | \$ 263,957                      | \$ 274,833                        |
| Short-term borrowings   | 3,769                           | 545                               |
| Long-term borrowings  | 7,124                           | 7,140                             |
| Junior subordinated debentures owed to unconsolidated subsidiary trust  | 5,155                           | 5,155                             |
| Other liabilities   | 1,478                           | 1,872                             |
| <b>Total liabilities</b>  | <b>281,483</b>                  | <b>289,545</b>                    |
| <b>Commitments and contingencies</b>  |                                 |                                   |
| <b>Stockholders' equity:</b>  |                                 |                                   |
| Common stock, par value \$1, authorized 15,000,000 shares;<br>issued and outstanding: June 30: 2,489,591 shares;<br>December 31: 2,484,633 shares | 2,490                           | 2,485                             |
| Surplus   | 11,808                          | 11,720                            |
| Retained earnings   | 15,012                          | 14,312                            |
| Accumulated other comprehensive loss, net of tax benefits   | (1,305)                         | (316)                             |
| <b>Total stockholders' equity</b>   | <b>28,005</b>                   | <b>28,201</b>                     |

|  |    |         |    |         |
|--|----|---------|----|---------|
| Total liabilities and stockholders' equity | \$ | 309,488 | \$ | 317,746 |
|--|----|---------|----|---------|

*See accompanying notes to condensed consolidated financial statements.*

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

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2007                           | 2006     | 2007                         | 2006     |
| Interest income on:                                   |                                |          |                              |          |
| Loans, including fees                                 | \$ 3,251                       | \$ 2,873 | \$ 6,422                     | \$ 5,809 |
| U.S. Treasury and U.S. Government agency securities   | 691                            | 882      | 1,393                        | 1,544    |
| State and municipal securities                        | 388                            | 430      | 776                          | 772      |
| Other   | 135                            | 262      | 283                          | 496      |
| Total interest income                                 | 4,465                          | 4,447    | 8,874                        | 8,621    |
| Interest expense on:                                  |                                |          |                              |          |
| Deposits  | 1,234                          | 1,232    | 2,505                        | 2,194    |
| Short-term borrowings                                 | 31                             | 4        | 35                           | 6        |
| Long-term borrowings                                  | 106                            | 108      | 211                          | 213      |
| Junior subordinated debentures                        | 136                            | 136      | 273                          | 273      |
| Total interest expense                                | 1,507                          | 1,480    | 3,024                        | 2,686    |
| Net interest income                                   | 2,958                          | 2,967    | 5,850                        | 5,935    |
| Provision for credit losses                           | 20                             | -        | 50                           | -        |
| Net interest income after provision for credit losses | 2,938                          | 2,967    | 5,800                        | 5,935    |
| Other income:   |                                |          |                              |          |
| Service charges on deposit accounts                   | 206                            | 214      | 399                          | 411      |
| Other fees and commissions                            | 234                            | 253      | 441                          | 484      |
| Other non-interest income                             | 6                              | 3        | 9                            | 8        |
| Income on life insurance                              | 65                             | 60       | 132                          | 105      |
| Gains on investment securities                        | 4                              | -        | 5                            | -        |
| Total other income                                    | 515                            | 530      | 986                          | 1,008    |
| Other expenses:                                       |                                |          |                              |          |
| Salaries and employee benefits                        | 1,569                          | 1,653    | 3,168                        | 3,298    |
| Occupancy   | 217                            | 210      | 449                          | 417      |
| Other expenses  | 794                            | 790      | 1,581                        | 1,636    |
| Total other expenses                                  | 2,580                          | 2,653    | 5,198                        | 5,351    |
| Income before income taxes                            | 873                            | 844      | 1,588                        | 1,592    |
| Income tax expense                                    | 182                            | 131      | 291                          | 253      |
| Net income  | \$ 691                         | \$ 713   | \$ 1,297                     | \$ 1,339 |

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|   |    |           |    |           |    |           |    |           |
|---|----|-----------|----|-----------|----|-----------|----|-----------|
| Basic and diluted earnings per share<br>of common stock | \$ | 0.28      | \$ | 0.29      | \$ | 0.52      | \$ | 0.54      |
| Weighted average shares of common<br>stock outstanding  |    | 2,487,639 |    | 2,470,931 |    | 2,486,278 |    | 2,469,184 |
| Dividends declared per share of<br>common stock         | \$ | 0.12      | \$ | 0.12      | \$ | 0.24      | \$ | 0.24      |

*See accompanying notes to condensed consolidated financial statements.*

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

|  | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2007                           | 2006     | 2007                         | 2006     |
| Net income   | \$ 691                         | \$ 713   | \$ 1,297                     | \$ 1,339 |
| Other comprehensive (loss) income, net of tax                |                                |          |                              |          |
| Unrealized gains (losses) securities:                        |                                |          |                              |          |
| Unrealized holding losses arising during the period          | (1,130)                        | (1,030)  | (980)                        | (1,704)  |
| Reclassification adjustment for gains included in net income | (2)                            | -        | (9)                          | -        |
| Comprehensive (loss) income                                  | \$ (441)                       | \$ (317) | \$ 308                       | \$ (365) |

*See accompanying notes to condensed consolidated financial statements.*



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

|   | Six Months Ended June 30, |                 |
|---|---------------------------|-----------------|
|   | 2007                      | 2006            |
| Cash flows from operating activities:   |                           |                 |
| Net income  | \$ 1,297                  | \$ 1,339        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                 |
| Depreciation, amortization, and accretion   | 268                       | 567             |
| Provision for credit losses   | 50                        | -               |
| Gains on disposals of assets, net   | (5)                       | -               |
| Income on investment in life insurance  | (133)                     | (105)           |
| Changes in assets and liabilities:  |                           |                 |
| Decrease in other assets  | (77)                      | (283)           |
| Decrease in other liabilities   | (281)                     | (194)           |
| <b>Net cash provided by operating activities</b>                                  | <b>1,119</b>              | <b>1,324</b>    |
| Cash flows from investing activities:   |                           |                 |
| Maturities of available for sale mortgage-backed securities                       | 5,113                     | 3,552           |
| Proceeds from maturities and sales of other investment securities                 | 8,365                     | 2,000           |
| Purchases of investment securities  | (3,120)                   | (41,410)        |
| Purchases of Federal Home Loan Bank stock   | (116)                     | (9)             |
| (Increase) decrease in loans, net   | (2,209)                   | 6,921           |
| Purchases of premises and equipment   | (64)                      | (44)            |
| <b>Net cash provided (used) by investing activities</b>                           | <b>7,969</b>              | <b>(28,990)</b> |
| Cash flows from financing activities:   |                           |                 |
| (Decrease) increase in deposits, net  | (10,876)                  | 26,598          |
| Increase (decrease) in short-term borrowings, net                                 | 3,224                     | (406)           |
| Repayment of long-term borrowings   | (16)                      | (15)            |
| Dividends paid  | (710)                     | (692)           |
| Common stock dividends reinvested   | 93                        | 113             |
| <b>Net cash provided (used) by financing activities</b>                           | <b>(8,285)</b>            | <b>25,598</b>   |
| Increase (decrease) in cash and cash equivalents                                  | 803                       | (2,068)         |
| Cash and cash equivalents, beginning of year                                      | 13,320                    | 15,450          |
| Cash and cash equivalents, end of period  | \$ 14,123                 | \$ 13,382       |

*See accompanying notes to condensed consolidated financial statements.*

**GLEN BURNIE BANCORP AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying condensed balance sheet as of December 31, 2006, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the unaudited consolidated financial statements have been included in the results of operations for the three and six months ended June 30, 2007 and 2006.

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

**NOTE 2 - EARNINGS PER SHARE**

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

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |              |
|---|--------------------------------|------------|------------------------------|--------------|
|   | 2007                           | 2006       | 2007                         | 2006         |
| Basic and diluted:                          |                                |            |                              |              |
| Net income                                  | \$ 691,000                     | \$ 713,000 | \$ 1,297,000                 | \$ 1,339,000 |
| Weighted average common shares outstanding  | 2,487,639                      | 2,470,931  | 2,486,278                    | 2,469,184    |
| Dilutive effect of stock options            | -                              | 184        | -                            | 92           |
| Average common shares outstanding - diluted | 2,487,639                      | 2,471,115  | 2,486,278                    | 2,469,276    |
| Basic and dilutive net income per share     | \$ 0.28                        | \$ 0.29    | \$ 0.52                      | \$ 0.54      |

Diluted earnings per share calculations were not required for the three and six months ended June 30, 2007, since there were no options outstanding.

**NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS will be applied prospectively and is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

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

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

### OVERVIEW

Net interest income before provision for credit losses, for the second quarter, was \$2,967,000 in 2006 compared to \$2,958,000 in 2007, a 0.30% decrease. Interest income for the second quarter grew from \$4,447,000 in 2006 to \$4,465,000 in 2007, a 0.40% increase. Total interest expense for the quarter increased from \$1,480,000 in 2006 to \$1,507,000 in 2007, a 1.82% increase. The Company realized consolidated net income of \$691,000 for the second quarter of 2007 compared to \$713,000 for the second quarter of 2006, a 3.08% decrease. Year-to-date net interest income before provision for credit losses was \$5,935,000 in 2006 compared to \$5,850,000 in 2007, a 1.43% decrease. Interest income year-to-date grew from \$8,621,000 in 2006 to \$8,874,000 in 2007, a 2.93% increase. Total interest expense increased from \$2,686,000 in 2006 to \$3,024,000 in 2007, a 12.58% increase. The Company realized consolidated net income of \$1,297,000 for the first six months of 2007 compared to \$1,339,000 for the first six months of 2006, a 3.14% decrease.

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. While mortgage and construction loans secured by real estate produce higher yields than automobile loans, all of 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 a 15-month certificate of deposit with an above market rate which resulted in over \$27 million in additional deposits. These additional funds 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 than anticipated on deposits overall and on borrowings used to fund income producing assets, thereby mitigating the successes of the Bank's plan and resulting in an overall decline in net interest income for 2006 and the first six months of 2007.

The Bank has developed programs to significantly increase its portfolio of commercial mortgage loans to offset the higher rates paid on deposits. In addition, the Bank has reduced its portfolio of above market rate 15-month certificates of deposit which the Bank had attracted in its promotion that began in January 2006. These steps resulted in improvements in the Bank's net interest margins and in improvements in the Bank's overall financial results and condition from the first quarter of 2007, and management anticipates that these steps will continue to improve net interest margins in future periods. The Bank funded these deposit outflows and the increase in loans through the sale of investment securities and short-term overnight borrowings.

### FORWARD-LOOKING STATEMENTS

When used in this discussion and elsewhere in this Form 10-Q, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and

readers are advised that various factors could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected. While it is impossible to identify all such factors, such factors include, but are not limited to, those risks identified in the Company's periodic reports filed with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

## **RESULTS OF OPERATIONS**

*General.* Glen Burnie Bancorp, a Maryland corporation (the "Company"), and its subsidiaries, The Bank of Glen Burnie (the "Bank") and GBB Properties, Inc., both Maryland corporations, and Glen Burnie Statutory Trust I, a Connecticut business trust, had consolidated net income of \$691,000 (\$0.28 basic and diluted earnings per share) for the second quarter of 2007, compared to the second quarter 2006 consolidated net income of \$713,000 (\$0.29 basic and diluted earnings per share). The decrease in consolidated net income for the three month period was due to increases in short term borrowings expense and provision for loan losses, partially offset by decreases in salaries. Year-to-date consolidated net income of \$1,297,000 (\$0.52 basic and diluted earnings per share) for the six months ended June 30, 2007, compared to the six months ended June 30, 2006 consolidated net income of \$1,339,000 (\$0.54 basic and diluted earnings per share). The decrease in consolidated net income was primarily due to an increase in interest expense and provisions for loan losses, partially offset by an increase in interest income and decreases in salaries and employee benefits and other expenses for the period.

*Net Interest Income.* The Company's consolidated net interest income prior to provision for credit losses for the three and six months ended June 30, 2007 was \$2,958,000 and \$5,850,000, respectively, compared to \$2,967,000 and \$5,935,000 for the same period in 2006, a decrease of \$9,000 (0.30%) for the three month period and a decrease of \$85,000 (1.43%) for the six month period.

Interest income increased \$18,000 (0.40%) and \$253,000 (2.93%) for the three and six months ended June 30, 2007, compared to the same periods in 2006, primarily due to an increase in loan income because of an increase in the average loan balance, partially offset by decreases in the other categories.

Interest expense increased \$27,000 (1.82%) and \$338,000 (12.58%) for the three and six months ended June 30, 2007, compared to the same 2006 periods. Interest expense increased for the six month period ended June 30, 2007, primarily attributable to increases in interest rates on certificates of deposit and individual retirement accounts and an increase in short term borrowings. The increase in interest expense for the three month period ended June 30, 2007 was due to short term borrowings.

Net interest margins for the three and six months ended June 30, 2007 were 4.43% and 4.44%, compared to tax equivalent net interest margins of 4.24% and 4.35% for the three and six months ended June 30, 2006.

*Provision for Credit Losses.* The Company made a provision for credit losses of \$20,000 and \$50,000 during the three and six month periods ended June 30, 2007 and no provision for credit losses during the three and six month periods ended June 30, 2006. As of June 30, 2007, the allowance for credit losses equaled 926.32% of non-accrual and past due loans compared to 3,116.95% at December 31, 2006 and 708.86% at June 30, 2006. During the three and six month periods ended June 30, 2007, the Company recorded net charge-offs of \$64,000 and \$129,000, compared to net charge-offs of \$1,000 and \$39,000 during the corresponding period of the prior year. On an annualized basis, net charge-offs for the 2007 period represent 0.13% of the average loan portfolio.

*Other Income.* Other income decreased from \$530,000 for the three month period ended June 30, 2006, to \$515,000 for the corresponding 2007 period, a \$15,000 (2.83%) decrease. For the six month period, other income decreased to \$986,000 at June 30, 2007 from \$1,008,000 at June 30, 2006, a \$22,000 (2.18%) decrease. The decrease for the three and six month periods were primarily due to a decrease in other fees and commissions and gains on investment securities. The six month period decrease was partially offset by an increase in income on life insurance.

*Other Expenses.* Other expenses decreased from \$2,653,000 for the three month period ended June 30, 2006, to \$2,580,000 for the corresponding 2007 period, an \$73,000 (2.75%) decrease. For the six month period, other expenses decreased from \$5,351,000 at June 30, 2006 to \$5,198,000 at June 30, 2007, a \$153,000 (2.94%) decrease. The decrease for the three month period was primarily due to a decrease in salaries and employee benefits. The decrease for the six month period was primarily due to a decrease in salaries and employee benefits and a decline in various operating expenses.

*Income Taxes.* During the three and six months ended June 30, 2007, the Company recorded income tax expense of \$182,000 and \$291,000, respectively, compared to income tax expense of \$131,000 and \$253,000, for the corresponding periods of the prior year. The Company's effective tax rate for the three and six month periods in 2007 were 20.85% and 18.32%, respectively, compared to 15.52% and 15.89%, respectively for the prior year periods. The increase in the effective tax rate for the three month period was due to decreases in income on tax exempt securities and increased income on loans. The increase in the effective tax rate for the six month period was due to decreases in income on state tax exempt agency securities and increased income on loans.

*Comprehensive Income (Loss).* In accordance with regulatory requirements, the Company reports comprehensive income in its financial statements. Comprehensive income consists of the Company's net income, adjusted for unrealized gains and losses on the Bank's investment portfolio of investment securities. For the second quarter of 2007,

comprehensive income (loss), net of tax, totaled (\$441,000), compared to the June 30, 2006 total of (\$317,000). Year-to-date comprehensive income (loss), net of tax, totaled \$308,000, as of June 30, 2007, compared to the June 30, 2006 total of (\$365,000). The decrease for the second quarter, from the prior year, is due primarily to the increase in unrealized losses on available for sale securities, while the increase for the year-to-date, from the prior year, was due to a decrease in unrealized losses on available for sale securities.

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**FINANCIAL CONDITION**

*General.* The Company's assets decreased to \$309,488,000 at June 30, 2007 from \$317,746,000 at December 31, 2006, primarily due to the decrease in investment securities referred to above (see "Overview") used to fund the Bank's increase in loans and the Bank's deposit outflow resulting from the reduction in portfolio of above market rate 15-month certificates of deposit which the Bank had previously attracted in its promotion that began in January 2006. This decrease in investment securities was partially offset by an increase in cash and cash equivalents and other assets. The Bank's net loans totaled \$195,496,000 at June 30, 2007, compared to \$193,337,000 at December 31, 2006, an increase of \$2,159,000 (1.12%), primarily attributable to an increase in refinanced mortgages and mortgage participations purchased, partially offset by a decrease in demand loans and purchase money mortgages. Management believes that these steps resulted in improvements in the Bank's net interest margins and in improvements in the Bank's overall financial results and condition from the first quarter of 2007, and management anticipates that these steps will continue to improve net interest margins in future periods.

The Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$84,527,000 at June 30, 2007, an \$11,967,000 (12.40%) decrease from \$96,494,000 at December 31, 2006. The Bank's cash and due from banks (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of June 30, 2007, totaled \$14,123,000, an increase of \$803,000 (6.03%) from the December 31, 2006 total of \$13,320,000. The aggregate market value of investment securities held by the Bank as of June 30, 2007 was \$84,562,000 compared to \$96,541,000 as of December 31, 2006, a \$11,979,000 (12.41%) decrease.

Deposits as of June 30, 2007 totaled \$263,957,000, which is a decrease of \$10,876,000 (3.96%) from \$274,833,000 at December 31, 2006. Demand deposits as of June 30, 2007 totaled \$75,156,000, which is an increase of \$427,000 (0.57%) from \$74,729,000 at December 31, 2006. NOW accounts as of June 30, 2007 totaled \$22,084,000, which is a decrease of \$190,000 (0.85%) from \$22,274,000 at December 31, 2006. Money market accounts as of June 30, 2007 totaled \$16,669,000, which is an increase of \$1,328,000 (8.66%), from \$15,341,000 at December 31, 2006. Savings deposits as of June 30, 2007 totaled \$52,006,000, which is an increase of \$1,772,000 (3.53%) from \$50,234,000 at December 31, 2006. Certificates of deposit over \$100,000 totaled \$19,330,000 on June 30, 2007, which is a decrease of \$3,050,000 (13.63%) from \$22,380,000 at December 31, 2006. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$78,712,000 on June 30, 2007, which is an \$11,162,000 (12.42%) decrease from the \$89,874,000 total at December 31, 2006.

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



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|   | At<br>June 30,<br>2007 | At<br>December 31,<br>2006 |
|---|------------------------|----------------------------|
| (Dollars in Thousands)  |                        |                            |
| Restructured loans  | \$ 1,055               | \$ -                       |
| Non-accrual loans:  |                        |                            |
| Real-estate - mortgage:                                       |                        |                            |
| Residential   | \$ -                   | \$ 3                       |
| Commercial  | -                      | -                          |
| Real-estate - construction                                    |                        |                            |
| Installment   | 58                     | 46                         |
| Credit card and related                                       | -                      | -                          |
| Commercial  | 128                    | 8                          |
| Total non-accrual loans                                       | 186                    | 57                         |
| Accruing loans past due 90 days or more:                      |                        |                            |
| Real-estate - mortgage:                                       |                        |                            |
| Residential   | -                      | 2                          |
| Commercial  | -                      | -                          |
| Real-estate - construction                                    |                        |                            |
| Installment   | 4                      | -                          |
| Credit card and related                                       | -                      | -                          |
| Commercial  | -                      | -                          |
| Other   | -                      | -                          |
| Total accruing loans past due 90 days or more                 | 4                      | 2                          |
| Total non-accrual loans and past due loans                    | \$ 190                 | \$ 59                      |
| Non-accrual and past due loans to gross loans                 | 0.10%                  | 0.03%                      |
| Allowance for credit losses to non-accrual and past due loans | 926.32%                | 3,116.95%                  |

At June 30, 2007, there were no loans outstanding, other than those reflected in the above table, as to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms. Such loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency, or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors. Reflected in the above table are \$0 of prior period troubled debt restructurings that are now not performing under the terms of their modified agreements.

*Allowance For Credit Losses.* The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectibility of the principal is unlikely. The allowance, based on evaluations of the collectibility of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.



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

|   | Six Months Ended June 30,<br>2007 |         | 2006 |         |
|---|-----------------------------------|---------|------|---------|
|   | (Dollars in Thousands)            |         |      |         |
| Beginning balance                             | \$                                | 1,839   | \$   | 2,201   |
| Charge-offs                                   |                                   | (305)   |      | (219)   |
| Recoveries                                    |                                   | 176     |      | 180     |
| Net charge-offs                               |                                   | (129)   |      | (39)    |
| Provisions charged to operations              |                                   | 50      |      | -       |
| Ending balance                                | \$                                | 1,760   | \$   | 2,162   |
| Average loans                                 | \$                                | 194,121 | \$   | 185,093 |
| Net charge-offs to average loans (annualized) |                                   | 0.13%   |      | 0.04%   |

*Reserve for Unfunded Commitments.* As of June 30, 2007, the Bank had outstanding commitments totaling \$25,703,548. These outstanding commitments consisted of letters of credit, undrawn lines of credit, and other loan commitments. The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

|                                  | Six Months Ended June 30,<br>2007 |     | 2006 |     |
|----------------------------------|-----------------------------------|-----|------|-----|
|                                  | (Dollars in Thousands)            |     |      |     |
| Beginning balance                | \$                                | 200 | \$   | 200 |
| Provisions charged to operations |                                   | -   |      | -   |
| Ending balance                   | \$                                | 200 | \$   | 200 |

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

## MARKET RISK AND INTEREST RATE SENSITIVITY

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

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

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|   | 0-3 Months        | Over 3 to<br>12 Months | Over 1<br>Through<br>5 Years | Over<br>5 Years   | Total             |
|---|-------------------|------------------------|------------------------------|-------------------|-------------------|
| (Dollars in Thousands)                            |                   |                        |                              |                   |                   |
| <b>Assets:</b>                                    |                   |                        |                              |                   |                   |
| Cash and due from banks                           | \$ -              | \$ -                   | \$ -                         | \$ -              | \$ 11,413         |
| Federal funds and overnight deposits              | 2,710             | -                      | -                            | -                 | 2,710             |
| Securities  | 299               | -                      | 9,613                        | 74,615            | 84,527            |
| Loans   | 9,812             | 12,206                 | 79,000                       | 94,478            | 195,496           |
| Fixed assets                                      | -                 | -                      | -                            | -                 | 3,259             |
| Other assets                                      | -                 | -                      | -                            | -                 | 12,083            |
| <b>Total assets</b>                               | <b>\$ 12,821</b>  | <b>\$ 12,206</b>       | <b>\$ 88,613</b>             | <b>\$ 169,093</b> | <b>\$ 309,488</b> |
| <b>Liabilities:</b>                               |                   |                        |                              |                   |                   |
| Demand deposit accounts                           | \$ -              | \$ -                   | \$ -                         | \$ -              | \$ 75,156         |
| NOW accounts                                      | 22,084            | -                      | -                            | -                 | 22,084            |
| Money market deposit accounts                     | 16,669            | -                      | -                            | -                 | 16,669            |
| Savings accounts                                  | 52,006            | -                      | -                            | -                 | 52,006            |
| IRA accounts                                      | 3,636             | 5,609                  | 17,531                       | 2,391             | 29,167            |
| Certificates of deposit                           | 18,056            | 21,033                 | 29,267                       | 519               | 68,875            |
| Short-term borrowings                             | 3,769             | -                      | -                            | -                 | 3,769             |
| Long-term borrowings                              | 8                 | 26                     | 7,090                        | -                 | 7,124             |
| Other liabilities                                 | -                 | -                      | -                            | -                 | 1,478             |
| Junior subordinated debenture                     | -                 | -                      | 5,155                        | -                 | 5,155             |
| <b>Stockholders' equity:</b>                      | <b>-</b>          | <b>-</b>               | <b>-</b>                     | <b>-</b>          | <b>28,005</b>     |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 116,228</b> | <b>\$ 26,668</b>       | <b>\$ 59,043</b>             | <b>\$ 2,910</b>   | <b>\$ 309,488</b> |
| GAP   | \$ (103,407)      | \$ (14,462)            | \$ 29,570                    | \$ 166,183        |                   |
| Cumulative GAP                                    | \$ (103,407)      | \$ (117,869)           | \$ (88,299)                  | \$ 77,884         |                   |
| Cumulative GAP as a % of total assets             | -33.41%           | -38.09%                | -28.53%                      | 25.17%            |                   |

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

In addition to GAP analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The model takes into consideration the effect of call features of investments as well as prepayments of loans in periods of declining rates. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing liabilities may differ from the assumptions used in the model. As of December 31, 2006, the model produced the following sensitivity profile for net interest income and the economic value of equity.

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|                                      | Immediate Change in Rates |              |              |              |
|--------------------------------------|---------------------------|--------------|--------------|--------------|
|                                      | -200                      | -100         | +100         | +200         |
|                                      | Basis Points              | Basis Points | Basis Points | Basis Points |
| % 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%       |

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## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold, certificates of deposit with other financial institutions that have an original maturity of three months or less and money market mutual funds. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. The Bank's cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of June 30, 2007, totaled \$14,123,000, an increase of \$803,000 (6.03%) from the December 31, 2006 total of \$13,320,000.

As of June 30, 2007, the Bank was permitted to draw on a \$37,100,000 line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans. As of June 30, 2007, a \$7.0 million long-term convertible advance was outstanding. A short term advance of \$3.5 million from FHLB of Atlanta was outstanding at June 30, 2007. This advance was used to fund the 15 month certificate of deposits that were maturing in the second quarter and not being renewed. In addition the Bank has an unsecured line of credit in the amount of \$5.0 million from another commercial bank on which it did not have an outstanding balance at June 30, 2007. Furthermore, as of June 30, 2007, the Company had outstanding \$5,155,000 of its 10.6% Junior Subordinated Deferrable Interest Debentures issued to Glen Burnie Statutory Trust I, a Connecticut statutory trust subsidiary of the Company.

The Company's stockholders' equity decreased \$196,000 (0.70%) during the six months ended June 30, 2007, due mainly to an increase in accumulated other comprehensive loss, net of tax benefits, offset by increases in all the other items. The Company's accumulated other comprehensive loss, net of tax benefits increased by \$989,000 (312.97%) from (\$316,000) at December 31, 2006 to (\$1,305,000) at June 30, 2007, as a result of a decrease in the market value of securities classified as available for sale. Retained earnings increased by \$700,000 (4.89%) as the result of the Company's earnings for the six months, offset by dividends. In addition, \$93,755 was transferred within stockholders' equity in consideration for shares to be issued under the Company's dividend reinvestment plan in lieu of cash dividends.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets. At June 30, 2007, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 10.81%, a Tier 1 risk-based capital ratio of 16.23% and a total risk-based capital ratio of 17.16%.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's accounting policies are more fully described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Management has used the best information available to make the estimations necessary to value the related assets and liabilities based on historical experience and on various assumptions which are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the financial statements. The Company reevaluates these variables as facts and circumstances change. Historically, actual results have not differed significantly from the Company's estimates. The following is a summary of the more judgmental accounting estimates and principles involved in the preparation of the Company's financial statements, including the identification of the variables most important in the estimation process:

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

*Accrued Taxes.* Management estimates income tax expense based on the amount it expects to owe various tax authorities. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of the Company's tax position.

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

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

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this quarterly report, and believe that the system is effective. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II - OTHER INFORMATION

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2007, the Company held its Annual Meeting of Stockholders. The matters submitted to the stockholders for a vote were: (i) the election of four directors; and (ii) the authorization of the Board of Directors to accept the selection of the Audit Committee of an outside auditing firm for the Company's fiscal year ending December 31, 2007. The nominees submitted for election as directors were F. William Kuethe, Jr., Thomas Clocker, William N. Scherer, Sr., and Karen B. Thorwarth.

At the Meeting, at least 1,857,192 shares were voted in favor of each nominee, no more than 310,236 shares were voted to withhold approval of any director. As a result, all of the nominees were elected to serve as directors for a term of three years each and until their successors are duly elected and qualified. Directors not up for re-election and continuing in office after the Meeting are: John E. Demyan, F. W. Kuethe, III, Charles Lynch, Jr., Shirley E. Boyer, Norman Harrison, Michael Livingston, Edward Maddox and Mary Lou Wilcox.

At the Meeting, the Company was authorized to select an outside auditing firm, with 2,101,410 shares voting in favor of the measure, 63,003 shares voting against authorization, and 3,015 shares abstaining.

### ITEM 6. EXHIBITS

#### Exhibit No.

- 3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
- 3.2 Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
- 3.3 Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
- 3.4 By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2003, File No. 0-24047)
- 4.1 Rights Agreement, dated as of February 13, 1998, between Glen Burnie Bancorp and The Bank of Glen Burnie, as Rights Agent, as amended and restated as of December 27, 1999 (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
- 10.1 Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 33-62280)
- 10.2 The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
- 10.3 Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
- 10.4 The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, File

No. 0-24047)

31.1 Rule 15d-14(a) Certification of Chief Executive Officer

31.2 Rule 15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certifications

99.1 Press Release dated August 8, 2007

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**GLEN BURNIE BANCORP**  
(Registrant)

Date: August 8, 2007

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

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

By: /s/ John E. Porter

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John E. Porter  
Chief Financial Officer