GLEN BURNIE BANCORP
Form 10-K
March 29, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2016 or

¨ 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 jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Registrant’s telephone number, including area code (410) 766-3300

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

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

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

Title of Class
Common Stock, $1.00 par value

Common Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2016 was $23,816,909.

The number of shares of common stock outstanding as of February 6, 2017 was 2,790,260.

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 2016 Annual Meeting of Shareholders (to be filed).

GLEN BURNIE BANCORP

2016 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

General

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

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

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

Economic and Credit Turmoil from 2012 to 2017

The recovery which followed the 2007 economic downturn appears to have been less robust than previous post recession recoveries. The Bank and, as a result, the Company, along with the rest of the financial services industry, have been impacted by the downward pressure on net interest margins caused by the lower interest rates due to steps taken by the Federal Reserve in managing the recovery. As further reported in the media, the Federal Reserve, having ended their aggressive Quantitative Easing program, is monitoring the rates of growth, unemployment, and inflation to which they expect the economy to converge over time in the absence of further shocks and under appropriate monetary policy. Appropriate monetary policy, by definition, is aimed at achieving the Federal Reserve's dual mandate of maximum employment and price stability in the longer run. During December 2016, the Federal Reserve continued its assessment that the economy has shown considerable strength and decided to raise the Federal Funds rate, further stating that it anticipates the pace of tightening to be gradual. Despite these challenges, we realized net income of $1,100,720 for 2016. We have remained well capitalized through this difficult time without governmental assistance. We have continued to be actively engaged with the communities we serve, lending and meeting their needs. We believe that we are a sound, conservatively run financial institution that has remained profitable despite the deterioration in the economic environment and the outside forces that have affected us these past seven years.

Market Area

The Bank considers its principal market area for lending and deposit products to consist of Anne Arundel County, Maryland. Anne Arundel County includes mature suburbs of the City of Baltimore, which in recent years have experienced modest population growth and are characterized by an aging population. Management believes that the majority of the working population in its market area either commutes to Baltimore or is employed at businesses located at or around the nearby Baltimore Washington International Airport. Anne Arundel County is generally considered to have more affordable housing than other suburban Baltimore areas and attracts younger persons and minorities on this basis.

Lending Activities

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

The Company's total loan portfolio decreased in 2015 and increased during the 2016, 2014, 2013, and 2012 fiscal years. In 2016, the increase in the loan portfolio was primarily due to an increase in indirect loans and commercial and industrial mortgages with lesser increases in other areas. This was offset primarily by a decrease in refinance mortgages and lesser decreases in other areas. In 2015, the decrease in the loan portfolio was primarily due to decreases in indirect loans, purchase money mortgages and refinance mortgage loans with lesser decreases in other areas. These decreases were partially offset by increases in home equity loans and commercial and industrial loans with lesser increases in other areas. In 2015, mortgage participations sold also increased. In 2014, the increase in the loan portfolio was primarily due to increases in indirect loans, purchase money mortgage, and commercial and industrial construction loans, partially offset by decreases in refinance mortgage loans and commercial and industrial mortgages. In 2013, the increase in the loan portfolio was primarily due to increases in indirect loans, refinance mortgage loans, non-home owner residential construction loans, home equity and purchase money mortgages, partially offset by decreases in secured business installment loans, home-owner residential construction, commercial and industrial mortgages, and demand secured business loans. In 2012, the increase in the loan portfolio was primarily due to increases in indirect loans, commercial and industrial mortgages, home equity and purchase money mortgages, partially offset by decreases in refinance mortgage loans, construction loans for commercial and industrial loans and demand secured business loans. In 2012, mortgage participations purchased also decreased.

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

	At December 31,								
	2016		2015		2014		2013		2012
(Dollars in Thousands)	$	%	$	%	$	%	$	%	$
Mortgage:									
Residential	$105,878	39.79 %	$116,027	43.97 %	$120,932	43.47 %	$123,646	44.98 %	$107,729
Commercial	66,756	25.09	62,469	23.68	62,601	22.50	67,196	24.45	71,381
Construction and land development	5,211	1.96	5,519	2.09	7,074	2.54	6,582	2.40	3,915
Consumer:									
Installment	13,591	5.11	14,577	5.52	16,449	5.91	17,669	6.43	18,504
Personal unsecured lines	89	0.03	119	0.05	142	0.05	161	0.06	165
Indirect automobile	69,902	26.27	60,607	22.97	67,513	24.27	55,400	20.16	47,427
Commercial	4,679	1.76	4,540	1.72	3,519	1.26	4,173	1.53	4,901
Gross loan	266,106	100.00%	263,858	100.00%	278,230	100.00%	274,827	100.00%	254,022
Unearned income on loans	(1,049)		(1,071)		(1,126)		(1,171)		(1,083)
Gross loans net of unearned income	265,057		262,787		277,104		273,656		252,939
Allowance for credit losses	(2,484)		(3,150)		(3,118)		(2,972)		(3,308)
Loans, net	$262,573		$259,637		$273,986		$270,684		$249,631

The following table sets forth the maturities for various categories of the loan portfolio at December 31, 2016. Demand loans and loans, which have no stated maturity, are treated as due in one year or less. At December 31, 2016, the Bank had $25,639,922 in loans due after one year with variable rates and $221,175,310 in such loans with fixed rates.

	Due Within One Year	Due Over One To Five Years	Due Over Five Years	Total
	(In Thousands)			
Real Estate - mortgage				
Residential	$ 10,399	$ 3,745	$ 91,734	$ 105,878
Commercial	1,480	20,124	45,152	66,756
Construction and land development	937	1,822	2,452	5,211
Installment	2,563	5,425	5,603	13,591
Personal unsecured lines	89	-	-	89
Indirect automobile	925	41,203	27,774	69,902
Commercial	2,899	-	1,780	4,679
	$ 19,292	$ 72,319	$ 174,495	$ 266,106

Real Estate Lending. The Bank offers long-term mortgage financing for residential and commercial real estate as well as shorter term construction and land development loans. Residential mortgage and residential construction loans are originated with fixed rates, while commercial mortgages may be originated on either a fixed or variable rate basis. Commercial construction loans may be originated on either a fixed or a variable rate basis. Substantially all of the Bank’s real estate loans are secured by properties in Anne Arundel County, Maryland**.** Under the Bank’s loan policies, the maximum permissible loan-to-value ratio for owner-occupied residential mortgages is 80% of the lesser of the purchase price or appraised value. For residential investment properties, the maximum loan-to-value ratio is 80%. The maximum permissible loan-to-value ratio for residential and residential construction loans is 80%. The maximum loan-to-value ratio for permanent commercial mortgages is 75%. The maximum loan-to-value ratio for land development loans is 70% and for unimproved land is 65%. The Bank also offers home equity loans secured by the borrower’s primary residence, provided that the aggregate indebtedness on the property does not exceed 80% of its value for loan commitments greater than $100,000. Because mortgage lending decisions are based on conservative lending policies, the Company has no exposure to the credit issues affecting the sub-prime residential mortgage market.

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

Installment Lending. The Bank makes consumer and commercial installment loans for the purchase of automobiles, boats, other consumer durable goods, capital goods and equipment. Such loans provide for repayment in regular installments and are secured by the goods financed. Also included in installment loans are other types of credit repayable in installments. As of December 31, 2016, approximately 53.23% of the installment loans in the Bank's portfolio (other than indirect automobile lending) had been originated for commercial purposes and 46.77% had been originated for consumer purposes.

Indirect Automobile Lending. The Bank commenced its indirect automobile lending program in January 1998. The Bank finances new and used automobiles for terms of up to 75 months. The Bank will lend a maximum of 110% of invoice on new vehicles. On used vehicles, the Bank will not lend more than 120% of the clean wholesale value as published in a nationally recognized used vehicle pricing guide. The Bank requires all borrowers to obtain vendor's single interest coverage protecting the Bank against loss in the case a borrower's automobile insurance lapses. The Bank originates indirect loans through a network of approximately 60 dealers which are primarily new car dealers located in Anne Arundel County and the surrounding counties. Participating dealers take loan applications from their customers and transmit them to the Bank for approval.

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

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 an annual basis, the Bank’s Internal Auditor performs, or causes to be performed, an independent loan review in accordance with the Bank’s loan review policy. For significant problem loans, management review consists of evaluation of the financial strengths of the borrower and any guarantor, the related collateral, and the effects of economic conditions.

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

Under Maryland law, the maximum amount which the Bank is permitted to lend to any one borrower and their related interests may generally not exceed 10% of the Bank's unimpaired capital and surplus, which is defined to include the Bank's capital, surplus, retained earnings and 50% of its allowance for possible loan losses. Under this authority, the Bank would have been permitted to lend up to $3.56 million to any one borrower at December 31, 2016. By interpretive ruling of the Commissioner of Financial Regulation, Maryland banks have the option of lending up to the amount that would be permissible for a national bank which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any loan loss allowances not included in regulatory capital). Under this formula, the Bank was permitted to lend up to $5.60 million to any one borrower from and after January 1, 2016. At December 31, 2016, the largest amount of exposure to any one borrower and its related interests was $5,413,000. From and after January 1, 2017, the Bank is permitted to lend up to $5.52 million to any one borrower.

Non-Performing Loans

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

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

Our current charge-off policy is as follows:

When the probability for full payment of a loan is unlikely, the Bank will initiate a full charge-off or a partial write-down of the asset based upon the status of the loan. The following guidelines apply:

- Consumer loans *less than $25,000* for which payments of principal and/or interest are past due ninety (90) days shall be charged-off and referred for collection. *Consumer loans of $25,000 or more shall be evaluated for charge-off or partial write-down at the discretion of Bank management.*
- Any other loan over 120 days past due shall be evaluated for charge-off or partial write-down at the discretion of Bank management. [Note: any non-consumer unsecured loan more than 180 days delinquent in payment of principal and/or interest (or sooner if deemed uncollectible) must be charged-off in full].
- If secured, a charge-off must be made to reduce the loan balance to a level equal to the anticipated liquidation value of the collateral when payment of principal and/or interest is more than 180 days delinquent, or prior to that if deemed uncollectible.
- Generally, real estate secured loans are to be charged-off on a deficiency basis after liquidation of the collateral. In some cases, Bank management may determine that a charge-off or write-down is appropriate prior to liquidation of the collateral, when the full loan balance is clearly uncollectible and some loss is anticipated. In order to make this determination, an updated evaluation or appraisal of the property should be obtained.

All charge-offs or partial write-downs require the prior joint approval of the Chief Lending Officer and the President/CEO. All charge-offs or partial write-downs are be reported to the Board of Directors at the next regularly scheduled board meeting.

The Bank experienced a slight decrease in the total of non-accrual and past due loans, as management has taken an aggressive approach to bring these assets to resolution. The decrease in non-accrual loans is predominately attributed to one residential real estate investor, which consists of three borrowers and ten loans, where $768,390 was written off in March 2016. In November 2016, one commercial real estate loan was written down $136,000 and in December was written down $152,000 before being placed in OREO in December. 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,				
	2016	2015	2014	2013	2012
	(Dollars In Thousands)				
Restructured Loans	$312	$290	$253	$2,202	$2,202
Non-accrual loans:					
Real estate - mortgage:					
Residential	$2,648	$2,883	$1,164	$1,123	$1,109
Commercial	647	300	1,097	-	1,370
Installment	456	597	516	338	237
Commercial	-	-	-	1,252	1,293
Total non-accrual loans	3,751	3,780	2,777	2,713	4,009
Accruing loans past due 90 days or more :					
Real estate - mortgage:					
Residential	36	39	197	431	259
Commercial	-	-	-	-	-
Installment	-	16	-	-	-
Commercial	-	-	-	1,177	1,354
Total accruing loans past due 90 days or more	36	55	197	1,608	1,613
Total non-accrual and past due loans	$3,787	$3,835	$2,974	$4,321	$5,622
Non-accrual and past due loans to gross loans	1.42 %	1.45 %	1.07 %	1.58 %	2.22 %
Allowance for credit losses to non-accrual and past due loans	65.59%	82.14%	104.84%	68.78%	58.84%

The year 2015 non-accrual amount has changed from the original submitted to include $300,112 for commercial real estate, which was removed from the residential real estate amount for the same year.

For the year ended December 31, 2016, interest of $213,452 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. $3,702,457, or 98.71%, of the Bank's total $3,750,924 non-accrual loans at December 31, 2016 were attributable to 22 borrowers. Five of these borrowers were in bankruptcy at that date. Because of the legal protections afforded to borrowers in bankruptcy, collections on such loans are difficult and the Bank anticipates that such loans may remain delinquent for an extended period of time.

At December 31, 2016, there were $1,159,814 in loans outstanding, included in the current and 30-89 days past due columns in the above table, as to which known information about possible credit problems of borrowers caused management to have 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. The three loans outstanding, totaling $1,159,814, are as follows: $765,609 Commercial Real Estate loan where the guarantor is in bankruptcy and the loan has an accelerated payoff due to the direct collection of rents from the property which has a very long-term national tenant; $165,705 Home Equity Line of Credit which is paying as agreed, however the borrower has defaulted on other commercial loans which have been satisfied; and a $228,500 Commercial loan with a loan to value ratio which has deteriorated, which has a complete specific reserve of $228,500. All three of these loans are classified with a risk rating of Substandard.

At December 31, 2016, the Company had $113,900 in real estate acquired in partial or total satisfaction of debt, compared to $74,000 and $45,000 in such properties at each of December 31, 2015 and 2014. This increase for 2016 was due to one property being added at the end of the year for $113,893. During 2016, the two properties added in 2015 were sold in the third quarter 2016. In addition, during the first quarter of 2016, two properties (with the same owner) were added. These properties were also sold during the third quarter of 2016. This increase for 2015 was the result of one property with a value of $45,000 being sold and two properties, with one owner, being added in 2015. This decrease for 2014 was the result of $91,000 being written off on three properties and four properties with a value of $1,154,000 being sold. One property was added to OREO in 2014. 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, 2016, see “Item 2. — Properties.”

Allowance For Credit Losses

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

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

In 2016, the Bank decreased its provision for credit losses driven by a reduction in specifically reserved loans as problem loans have been resolved. There were two residential real estate investors that substantially comprised the additional provision for credit losses in 2015. One of these projects was resolved during the fourth quarter of 2015 resulting in a charge-off of $645,000 and the remaining real estate investor has significant specific reserves allocated to their ten loans which are in non-accrual status. The Bank utilizes a model to calculate the required reserves for potential losses that is based on historical loss factors/ratios. Thus, when the Bank experiences an increase in net charge-offs the historical loss ratios increase causing additional provisions to be required.

The significant decrease in the ALLL, as of December 31, 2016 as compared to prior periods, is due to an improvement in underwriting standards implemented during the first six months of 2014. This improvement in credit quality as a result of enhanced underwriting standards was not evident until the latter part of 2015 as we continued to work through problem loans originated prior to the change in business strategy. Substantially all of the charge-offs recognized in these portfolios were related to loans originated during a period whereby this portfolio had rapid growth and underwriting guidelines did not include underwriting best practice. As of December 31, 2016, the remaining Consumer and Indirect loan portfolio has less outstanding loan balances and less delinquencies than the prior year which is disclosed in Footnote 4, which has a direct impact on the calculation of required loan loss reserves. We have not changed our methodology in how we calculate loan loss reserves nor have we made any changes to our charge-off policies during the year ended December 31, 2016.

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars In Thousands)				
Beginning Balance	$3,150	$3,118	$2,972	$3,308	$3,931
Loans charged-off					
Real estate - mortgage:					
Residential	$854	$848	$235	$179	$735
Commercial	364	63	243	-	-
Installment	695	1,261	839	652	475
Commercial	-	3	29	202	55
Total	1,913	2,175	1,346	1,033	1,265
Recoveries:					
Real estate - mortgage:					
Residential	35	11	6	8	6
Commercial	-	13	128	89	89
Installment	334	487	331	313	287
Commercial	9	1	6	27	10
Total	378	512	471	437	392
Net charge offs	1,535	1,663	875	596	873
Provisions charged to operations	869	1,695	1,021	260	250
Ending balance	$2,484	$3,150	$3,118	$2,972	$3,308
Average Loans	$256,047	$266,457	$278,350	$256,820	$244,905
Net charge-offs to average loans	0.60 %	0.62 %	0.31 %	0.23 %	0.36 %

The following table shows the allowance for credit losses broken down by loan category as of December 31, 2016, 2015, 2014, 2013, and 2012:

	At December 31, 2016			2015		
Portfolio	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	
Real estate - mortgage:						
Residential	1,041	39.78	%	1,622	43.97	%
Commercial	259	25.09		262	23.68	
Real estate -construction	10	1.96		8	2.09	
Installment	182	5.11		227	5.52	
Personal unsecured lines	-	0.03		-	0.05	
Indirect automobile	694	26.27		577	22.97	
Commercial	284	1.76		305	1.72	
Unallocated	14	-		149	-	
Total	$2,484	100.00	%	$3,150	100.00	%

	At December 31, 2014			2013			2012		
Portfolio	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	
Real estate - mortgage:									
Residential	1,156	43.47	%	578	44.98	%	382	42.41	%
Commercial	335	22.50		898	24.45		1,183	28.10	
Real estate -construction	14	2.54		15	2.40		10	1.54	
Installment	349	5.91		335	6.43		223	7.28	
Personal unsecured lines	-	0.05		-	0.06		-	0.06	
Indirect automobile	932	24.27		853	20.16		835	18.68	
Commercial	386	1.26		413	1.52		542	1.93	
Unallocated	(54)	-		(120)	-		133	-	
Total	$3,118	100.00	%	$2,972	100.00	%	$3,308	100.00	%

Investment Securities

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

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

	2016	2015	2014
	(In Thousands)		
U.S. Treasury securities	$1,501	$2,995	$7,947
U.S. Government agencies and mortgage backed securities	60,110	66,660	46,859
Obligations of states and poltical subdivision	34,333	29,636	32,771
Corporate trust preferred	-	-	247
Total investment securities	$95,944	$99,291	$87,824

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The following table sets forth the scheduled maturities, amortized costs and weighted average yields for the Company's investment securities portfolio at December 31, 2016:

	One Year Or Less		One To Five Years		Five To Ten Years		More Than Ten Years		Total	
		Weighted Average		Weighted Average		Weighted Average		Weighted Average		Weighted Average
	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield
U.S. Treasury securities	$ -	%	$ 1,501	1.54 %	$ -	%	$ -	%	1,501	1.54 %
U.S. Government agencies and mortgage backed securities	-		-		6,862	3.36	53,248	2.54	60,110	2.64
Obligations of states and political subdivisions	-		-		1,054	3.4	33,279	3.83	34,333	3.82
Corporate trust preferred	-		-		-		-		-	-
Total investment securities	$ -	0 %	$ 1,501	1.54 %	$ 7,916	3.37 %	$ 86,527	3.04 %	$95,944	3.04 %

At December 31, 2016, the Bank had no investments in securities of a single issuer (other than the U.S. Government securities and securities of federal agencies and government-sponsored enterprises), which aggregated more than 10% of stockholders' equity.

Deposits And Other Sources of Funds

The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities surrounding its branches in Anne Arundel County. Consolidated total deposits were $333,237,328 as of December 31, 2016. 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 $65.63 million under a line of credit from the FHLB of Atlanta as of December 31, 2016.

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

As stated above, the Bank obtains deposits principally through its network of branch offices. The Bank does not solicit brokered deposits. At December 31, 2016, the Bank had approximately $47.14 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, 2016:

	Amount (In Thousands)
Three months or less	$ 2,812
Over three through six months	3,868
Over six through 12 months	2,600
Over 12 months	37,861
Total	$ 47,141

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 $65.63 million line of credit from the FHLB of Atlanta, which is secured by a floating lien on the Bank’s residential first mortgage loans. There was also a $10 million convertible advance with a 3.28% rate of interest (callable monthly and with a final maturity of November 1, 2017.) There was a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and was callable quarterly, starting July 23, 2009. There was a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly, starting August 22, 2011. The Bank also has three federal funds lines of credit in the amounts of $3 million, $5 million and $8 million, of which nothing was outstanding at December 31, 2016.

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, 2016, the Bank had 92 full-time equivalent employees. Neither the Company nor GBB currently has any employees.

Regulation of the Company

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

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

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") authorizes the Federal Reserve Board to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve Board may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. The Riegle-Neal Act also prohibits the Federal Reserve Board from approving such an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in the Riegle-Neal Act. Under Maryland law, a bank holding company is prohibited from acquiring control of any bank if the bank holding company would control more than 30% of the total deposits of all depository institutions in the State of Maryland unless waived by the Maryland Commissioner of Financial Regulation.

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

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

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

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

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

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

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

Regulation of the Bank

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

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

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

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

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

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

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

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

Capital Adequacy. The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. The regulations impose two sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to “risk-weighted” assets.

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

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

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

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

The FDIC has issued regulations which classify state non-member banks by capital levels and which authorize the FDIC to take various prompt corrective actions to resolve the problems of any bank that fails to satisfy the capital standards. Under such regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a leverage ratio of 5%. An adequately capitalized bank is one that does not qualify as well-capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank not meeting these criteria is treated as undercapitalized, significantly undercapitalized, or critically undercapitalized depending on the extent to which the bank's capital levels are below these standards. A state non-member bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation will be subject to severe regulatory sanctions. As of December 31, 2016, the Bank was well capitalized as defined by the FDIC's regulations.

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

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

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

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

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

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

ITEM 2. PROPERTIES

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

	Year Opened	Owned/ Leased	Book Value	**Approximate Square Footage**	Deposits
Main Office: 101 Crain Highway, S.E. Glen Burnie, MD 21061	1953	Owned	$411,677	10,000	$ 100,617,910

Branches:					
Odenton 1405 Annapolis Road Odenton, MD 21113	1969	Owned	143,935	6,000	35,190,312
Riviera Beach 8707 Ft. Smallwood Road Pasadena, MD 21122	1973	Owned	191,915	2,500	32,445,325
Crownsville 1221 Generals Highway Crownsville, MD 21032	1979	Owned	392,278	3,000	64,063,846
Severn 811 Reece Road Severn, MD 21144	1984	Owned	81,491	2,500	32,178,681
New Cut Road 740 Stevenson Road Severn, MD 21144	1995	Owned	1,096,713	2,600	32,890,477
Linthicum Burwood Village Shopping Center Glen Burnie, MD 21060	2005	Leased	74,866	2,500	19,695,309
Severna Park 534 Ritchie Highway Severna Park, MD 21146	2002	Leased	36,732	2,184	16,155,468
Operations Centers: 106 Padfield Blvd. Glen Burnie, MD 21061	1991	Owned	624,634	16,200	N/A
103 Crain Highway, S.E. Glen Burnie, MD 21061	2000	Owned	268,626	3,727	N/A

At December 31, 2016, the Bank owned one foreclosed real estate property.

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, 2016, 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.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company’s executive officers as of December 31, 2016.

NAME	**AGE**	**POSITIONS**
John D. Long	61	President and Chief Executive Officer; Acting Chief Financial Officer
Andrew J. Hines	55	Senior Vice President and Chief Lending Officer
Michelle Stambaugh	57	Senior Vice President and HR Director
Donna Smith	54	Senior Vice President and Head of Retail Banking

JOHN D. LONG was appointed President and Chief Executive Officer of the Company and the Bank effective April 1, 2016. From February 8, 2016 to that date, Mr. Long was Executive Vice President. Mr. Long has been Acting Chief Financial Officer of the Company and the Bank since December 16, 2016.

ANDREW J. HINES was appointed Chief Lending Officer of the Bank effective March 1, 2014. He was appointed Senior Lending Officer and Senior Vice President effective January 2, 2014. Effective January 12, 2017, he was appointed Executive Vice President.

MICHELLE STAMBAUGH was appointed Senior Vice President effective February 2, 2011. Effective November 28, 2016, she assumed the role of Corporate Secretary of the Bank and Bancorp. Prior to that, she was Vice President and Director of Human Resources for 18 years.

DONNA SMITH joined the Company in October 2015 as the Senior Vice President – Head of Retail Banking / Information/Physical Security Officer. Prior to that, she was the SVP – Enterprise Risk Manager at Bay Bank.

PART II

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

The Common Stock is traded on the Nasdaq Capital Market under the symbol "GLBZ". As of February 7, 2017, there were 373 record holders of the Common Stock. The closing price for the Common Stock on that date was $12.20.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2016 and 2015 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.

	2016			2015		
Quarter Ended	High	Low	Dividends	High	Low	Dividends
March 31	$12.37	$10.35	$ 0.10	$13.16	$11.95	$ 0.10
June 30	11.19	10.32	0.10	13.25	11.75	0.10
September 30	11.65	9.86	0.10	15.34	11.01	0.07
December 31	11.72	9.94	0.10	13.97	11.43	0.00

A regular dividend of $0.10 was declared for stockholders' of record on January 23, 2017, payable on February 3, 2017.

The Company recognizes the importance of dividends to its shareholders and intends to evaluate a variety of factors, on a quarterly basis, in determining whether dividend payments are prudent as well as the amount of the dividend. 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.

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ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,							
	2016		2015		2014		2013	
	(Dollars In Thousand Except Per Share Data)							
Operations Data:								
Net Interest Income	$11,158		$11,215		$11,986		$12,620	
Provision for Credit Losses	868		1,695		1,021		260	
Other Income	1,630		3,008		2,670		2,001	
Other Expense	10,902		10,930		11,412		11,113	
Net Income	1,101		1,353		1,915		2,614	
Share Data:								
Basic Net Income Per Share	$0.40		$0.49		$0.69		$0.95	
Diluted Net Income Per Share	0.40		0.49		0.69		0.95	
Cash Dividends Declared Per Common Share	0.40		0.27		0.40		0.40	
Weighted Average Common Shares Outstanding:								
Basic	2,780,477		2,768,966		2,755,671		2,742,003	
Diluted	2,780,477		2,768,966		2,755,671		2,742,003	
Financial Condition Data:								
Total Assets	$388,432		$390,580		$394,630		$377,194	
Loans Receivable, Net	262,574		259,637		273,986		270,684	
Total Deposits	333,237		335,192		338,877		323,803	
Long Term Borrowings	20,000		20,000		20,000		20,000	
Total Stockholder' Equity	33,814		34,176		33,830		31,583	
Performance Ratios:								
Return on Average Assets	0.28	%	0.34	%	0.48	%	0.68	%
Return on Average Equity	3.17		3.98		5.64		8.07	
Net Interest Margin (1)	3.17		3.16		3.50		3.72	
Dividend payout Ratio	100.96		55.24		57.58		41.96	
Capital Ratios:								
Average Equity to Average Assets	8.75	%	8.52	%	8.57	%	8.45	%
Leverage Ratio	8.74		8.77		8.52		8.69	
Total Risk-Based Capital Ratio	14.7		15.5		14.32		14.14	
Asset Quality Ratios:								
Allowance for Credit Losses to Gross Loans	0.94	%	1.20	%	1.12	%	1.09	%

Non-accrual and Past Due Loans to Gross Loans	1.43 %	1.45 %	1.07 %	1.58 %
Allowance for Credit Losses to Non-Accrual and Past Due Loans	65.59 %	82.14 %	104.84 %	68.78 %
Net Loan Charge-offs (Recoveries) to Average Loans	0.60 %	0.62 %	0.31 %	0.23 %

(1) Presented on a tax-equivalent basis

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

Forward-Looking Statements

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "intends," "estimate," "project" or similar expressions are intended identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors, including regional and national economic conditions, unfavorable judicial decisions, substantial changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected. The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Overview

During 2016, net interest income before provision for credit losses decreased to $11,158,028 from $11,214,964 in 2015 a 0.51% decrease. Total interest income decreased from $13,605,649 in 2015 to $13,281,390 in 2016, a 2.38% decrease. Interest expense for 2016 totaled $2,123,362, an 11.19% decrease from $2,390,685 in 2015. In spite of the impact the low interest rate environment had on net interest margin, the Company realized consolidated net income of $1,100,720 for 2016 by decreasing interest expense by $267,323 and by decreasing the provision for loan loss by $826,658**.**

The Federal Reserve ended their aggressive Quantitative Easing program and is monitoring the rates of growth, unemployment, and inflation to which they expect the national economy to converge over time in the absence of further shocks and under appropriate monetary policy. During December 2016, the Federal Reserve continued its assertion that the national economy has shown considerable strength and decided to raise the Federal Funds rate, further stating that it anticipates the pace of tightening to be gradual. Through this easing period, we experienced a decrease in outstanding loans and deposits while continuing to serve the needs of the communities we serve.

Comparison of Results of Operations for the Years Ended December 31, 2016 and 2015

General. For the year ended December 31, 2016, the Company reported consolidated net income of $1,100,720 ($0.40 basic and diluted earnings per share) compared to consolidated net income of $1,352,616 ($0.49 basic and diluted earnings per share) for the year ended December 31, 2015 and consolidated net income of $1,914,526 ($0.69 basic and diluted earnings per share) for the year ended December 31, 2014. The decrease in the 2016 consolidated net income was mainly due to decreases in loan income, a decrease in state and municipal security income, a decrease in gains on investment securities and an increase in salaries and wages and other expenses. This was partially offset by an increase in U.S. Government securities income, a decrease in deposit expense and a decrease in employee benefits. The decrease in the 2015 consolidated net income was mainly due to decreases in loan income, a decrease in state and municipal security income, and an increase in provision for credit losses, partially offset by an increase in other fees and commission income (due to the gain on the sale of insurance policies), and a decrease in deposit expense and other expenses.

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

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

Consolidated net interest income for the year ended December 31, 2016 was $11,158,028 compared to $11,214,964 for the year ended December 31, 2015 and $11,985,815 for the year ended December 31, 2014. The $56,936 decrease for the most recent year was primarily due to the decline in interest income on loans being greater than the decline in interest expense on deposits. The $770,851 decrease for 2015 was primarily due to the decline in interest income on loans and securities being greater than the decline in interest expense on deposits. The net interest income, on a tax equivalent basis, for 2016 was $11,753,000, a $165,000 or 1.38% decrease from the tax equivalent basis net interest income for 2015, which was $11,918,000, a $778,000 or 6.13% decrease from the tax equivalent basis net interest income for 2014.

Interest expense decreased from $2,390,685 in 2015 to $2,123,362 in 2016, a $267,323 or an 11.19% decrease, primarily due to a decrease in average deposits as well as a decrease in our cost of deposits. Interest expense decreased from $2,533,922 in 2014 to $2,390,685 in 2015, a $143,237 or a 5.66% decrease, primarily due to a decrease in average deposits as well as a decrease in our cost of deposits. Net interest margin for the year ended December 31, 2016 was 3.17% compared to 3.16% and 3.50% for the years ended December 31, 2015 and 2014, 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,								
	2016	VS.	2015	2015	VS.	2014	2014	VS.	2013
	Change Due To:			Change Due To:			Change Due To:		
	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume
ASSETS:									
Interest-earning assets:									
Federal funds sold	$36	$10	$ 26	$(1)	$-	$ (1)	$8	$-	$ 8
Interest-bearing deposits	(2)	11	(13)	14	34	(20)	17	2	15
Investment securities:									
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	235	230	5	74	(175)	249	(121)	27	(148)
Obligations of states and political subdivisions(1)	(277)	16	(293)	(283)	(121)	(162)	(451)	(113)	(338)
All other investment securities	(38)	-	(38)	17	34	(17)	(12)	(5)	(7)
Total investment securities	(80)	246	(326)	(192)	(262)	70	(584)	(91)	(493)
Loans, net of unearned income									
Demand, time and lease	32	-	32	(3)	(8)	5	(23)	12	(35)
Mortgage and construction	(355)	201	(556)	(348)	(30)	(318)	(627)	(738)	111
Installment and personal unsecured lines	(65)	(4)	(61)	(390)	(230)	(160)	295	(573)	868
Total gross loans(2)	(388)	197	(585)	(741)	(268)	(473)	(355)	(1,299)	944
Allowance for credit losses	-	-	-	-	-	-	-	-	-
Total net loans	(388)	197	(585)	(741)	(268)	(473)	(355)	(1,299)	944
Total interest-earning assets	$(434)	$464	$ (898)	$(920)	$(496)	$ (424)	$(914)	$(1,388)	$ 474
LIABILITIES:									
Interest-bearing deposits:									
Savings and NOW	$4	$-	$ 4	$-	$-	$ -	$(19)	$(21)	$ 2

Money market	(4)	(2)	$ (2)	3	3	-	(1)	-	(1)
Other time deposits	(271)	(129)	(142)	(145)	(63)	(82)	(101)	(218)	117
Total interest-bearing deposits	(271)	(131)	(140)	(142)	(60)	(82)	(121)	(239)	118
Borrowed funds	2	2	-	-	-	-	(8)	0	(8)
Total interest-bearing liabilities	$(269)	$(129)	$ (140)	$(142)	$(60)	$ (82)	$(129)	$(239)	$ 110

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

	Year Ended December 31,									
	2016			2015			2014			
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance
	(Dollars In Thousands)									
ASSETS:										
Interest-earning assets:										
Federal funds sold	$8,776	$46	0.52%	$3,864	$10	0.26 %	$4,248	$11	0.25%	$1,197
Interest-bearing deposits	7,540	73	0.97	8,880	75	0.84	11,316	61	0.54	8,433
Investment securities:										
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	67,891	1,059	1.56	67,556	824	1.22	47,237	750	1.59	56,850
Obligations of states and political subdivisions(1)	31,747	1,508	4.75	30,685	1,785	5.82	33,440	2,068	6.18	38,644
All other investment securities	-	-	0.00	184	38	20.65	266	21	8.04	345
Total investment securities	99,638	2,567	2.58	98,425	2,647	2.69	80,943	2,839	3.51	95,839
Loans, net of unearned income										
Demand, time and lease	4,494	246	5.47	3,904	214	5.48	3,809	217	5.70	4,478
Mortgage and construction	175,658	8,304	4.73	187,248	8,659	4.62	194,312	9,007	4.64	191,969
Installment and personal unsecured lines	76,836	2,639	3.43	78,524	2,704	3.44	83,084	3,094	3.72	63,519
Total gross loans(2)	256,988	11,189	4.35	269,676	11,577	4.29	281,205	12,318	4.38	259,966
Allowance for credit losses	(2,534)			(3,219)			(2,855)			(3,146)

Total net loans	254,454	11,189	4.40	266,457	11,577	4.34	278,350	12,318	4.43	256,820
Total interest-earning assets	370,408	13,875	3.75	377,626	14,309	3.79	374,857	15,229	4.06	362,289
Cash and due from banks	3,527			3,276			3,105			2,936
Other assets	18,983			18,128			17,795			19,348
Total assets	$392,918			$399,030			$395,757			$384,573
LIABILITIES AND STOCKHOLDER'S EQUITY:										
Interest-bearing deposits:										
Savings and NOW	$108,941	54	0.05%	$106,856	50	0.05 %	$103,253	50	0.05%	$99,085
Money market	18,908	9	0.05	20,151	13	0.06	19,940	10	0.05	21,249
Other time deposits	111,195	1,417	1.27	122,267	1,688	1.38	128,016	1,833	1.43	120,574
Total interest-bearing deposits	239,044	1,480	0.62	249,274	1,751	0.70	251,209	1,893	0.75	240,908
Short-term borrowed funds	-	-	0.00	27	-	0.00	47	-	0.29	1,876
Long-term borrowed funds	20,000	642	3.21	20,000	640	3.20	20,000	640	3.20	20,000
Total interest-bearing liabilities	259,044	2,122	0.82	269,301	2,391	0.89	271,256	2,533	0.93	262,784
Non-interest-bearing deposits	97,256			94,546			89,279			86,542
Other liabilities	2,212			1,170			1,301			2,838
Stockholder's equity	34,406			34,013			33,921			32,409
Total liabilities and equity	$392,918			$399,030			$395,757			$384,573
Net interest income		$11,753			$11,918			$12,696		
Net interest spread			2.93%			2.90 %			3.13%	
Net interest margin			3.17%			3.16 %			3.50%	

1 Tax equivalent basis. The incremental tax rate applied was 39.45% for 2016 and 39.44% for 2015.

2 Non-accrual loans included in average balance.

Provision for Credit Losses. During the year ended December 31, 2016, the Company made a provision of $868,342 for credit losses, compared to a provision of $1,695,000 and $1,021,000 for credit losses for the years ended December 31, 2015 and 2014, respectively**.** In 2016, the Bank decreased its provision for credit losses compared to prior periods as specifically reserved, impaired loans were resolved. A single borrower in collection proceedings with 10 residential real estate loans in non-accrual status had the balance of specific reserves applied in prior years, partially charged off in March 2016, leaving one of the loans with a specific reserve at December 31, 2016. In October and November 2016, a commercial real estate loan with specific reserves of $201,000 was moved to non-accrual status, subsequently charged-off when the Bank foreclosed on the collateral property. In December, a commercial real estate loan evaluated to be collateral impaired had a new specific reserve added to the provision balance for $236,011. At December 31, 2016, the allowance for credit losses equaled 65.59% of non-accrual and past due loans compared to 82.14% and 104.84% at December 31, 2015 and 2014, respectively. During the year ended December 31, 2016, the Company recorded net charge-offs of $1,534,000 compared to $1,663,000 and $875,000 in net charge-offs during the years ended December 31, 2015 and 2014, respectively.

Other Income. Other income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities, and income on Bank owned life insurance (BOLI). Other income decreased from $3,008,070 in 2015 to $1,629,615 in 2016, a $1,378,455, or 45.83% decrease. The decrease was primarily due to a decrease in other fees and commissions (due to the income of $421,067 on the sale of insurance policies during the third quarter of 2015), a decrease in the gains on investment securities, offset by the gain on the two BOLI policies (redemption of two policies for a former employee). Other income increased from $2,670,498 in 2014 to $3,008,070 in 2015, a $337,582, or 12.64% increase. The increase was primarily due to an increase in other fees and commissions due to the income of $421,067 on the sale of insurance policies during the third quarter of 2015.

Other Expenses. Other expenses, which consist of non-interest operating expenses, decreased from $10,930,497 in 2015 to $10,901,645 in 2016, a $28,852 or 0.26% decrease. This decrease was primarily due to a decrease in employee benefits, marketing expenses, telephone expenses, legal expenses, and collection expense. These decreases were offset by various increases in other areas, such as professional expenses, other ATM expenses, and the provision in OREO loss expense**.** Other expenses decreased from $11,412,259 in 2014 to $10,930,497 in 2015, a $481,762 or 4.22% decrease. This decrease was primarily due to a decrease in other expenses because of a reduction in marketing expenses, in salaries and wages, employee benefits, occupancy expense, and the reversal of the reserve for unfunded commitments during the fourth quarter of 2015 of $188,233, offset by increases in the other categories.

Income Taxes. During the year ended December 31, 2016, the Company recorded an income tax credit of (**$**83,064), compared to an income tax expense of $244,921 for the year ended December 31, 2015. This decrease was primarily due to the decrease in net income before taxes and the large amount of tax exempt interest income recognized during the period. During the year ended December 31, 2015, the Company recorded an income tax expense of $244,921, compared to an income tax expense of $308,652 for the year ended December 31, 2014. This decrease was primarily due to the decrease in net income before taxes.

Comparison of Financial Condition at December 31, 2016, 2015 and 2014

The Company’s total assets decreased to $388,431,995 at December 31, 2016 from $390,580,191 at December 31, 2015. The Company’s total assets decreased to $390,580,191 at December 31, 2015 from $394,629,508 at December 31, 2014.

The Company’s net loan portfolio increased to $262,573,603 at December 31, 2016 compared to $259,636,706 at December 31, 2015 and $273,986,237 at December 31, 2014. In 2016, the increase in the loan portfolio was primarily due to an increase in indirect loans and commercial and industrial mortgages with lesser increases in other areas. This was offset primarily by a decrease in refinance mortgages and lesser decreases in other areas. In 2015, the decrease in the loan portfolio was primarily due to decreases in indirect loans, purchase money mortgage and refinance loans with lesser decreases in other areas. These decreases were partially offset by increases in home equity loans and commercial and industrial loans with lesser increases in other areas. In 2015, mortgage participations sold also increased. In 2014, the increase in the loan portfolio was primarily due to increases in indirect loans, purchase money mortgage, and commercial and industrial construction loans, partially offset by decreases in refinance mortgage loans and commercial and industrial mortgages.

During 2016, the Company’s total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $94,606,576, a $4,183,434 or 4.23%, decrease from $98,790,010 at December 31, 2015. This decrease was primarily due to the pay-down of mortgage backed securities. During 2015, the Company’s total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $98,790,010, a $10,796,865 or 12.27%, increase from $87,993,145 at December 31, 2014. This increase was due to investing excess liquidity, which led to an increase in U. S. Government agencies and mortgage backed securities, offset by decreases in U. S. Treasury securities and state and municipal securities. The market value of municipal securities also increased from 2013 to 2014 and contributed to this increase.

Deposits as of December 31, 2016 totaled $333,237,328, a decrease of $1,954,202, or 0.59%, from the $335,191,530 total as of December 31, 2015. Deposits as of December 31, 2015 totaled $335,191,530, a decrease of $3,685,762, or 1.09%, from the $338,877,292 total as of December 31, 2014. Demand deposits as of December 31, 2016 totaled $100,089,967, a $6,505,103, or 6.95%, increase from $93,584,864 at December 31, 2015. NOW and Super NOW accounts, as of December 31, 2016, increased by $1,910,630, or 6.95% from their 2015 level to $29,412,646. Money market accounts decreased by $723,960, or 3.79%, from their 2015 level, to total $18,355,576 at December 31, 2016. Savings deposits increased by $1,993,650, or 2.56%, from their 2015 level, to $80,006,504 at December 31, 2016. Time deposits over $100,000 totaled $46,879,404 on December 31, 2016, a decrease of $4,282,625, or 8.37% from December 31, 2015. Other time deposits (made up of certificates of deposit less than $100,000 and individual retirement accounts) totaled $58,493,231 on December 31, 2016, a $6,896,346 or 10.55% decrease from December 31, 2015.

Total stockholders’ equity as of December 31, 2016 decreased by $361,624, or 1.062%, from the 2015 period. The decrease was attributed to the slight decrease in retained earnings of $10,587, as a result of 101% of net income paid out in dividends and the accumulated other comprehensive loss in 2016 (a $508,323 change). Total stockholders’ equity as of December 31, 2015 increased by $345,286, or 1.02%, from the 2014 period. The increase was attributed to the increase in retained earnings of $605,408, offset by the accumulated other comprehensive income in 2014 now being a loss (a $404,464 change) and by cash dividends paid, net of dividends reinvested.

Off-Balance Sheet Arrangements

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

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

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

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment.

Currently, we break-out our unfunded commitments into the following categories:

- Unfunded Construction commitments
- Unfunded Commercial lines of credit and other
- Unfunded Home Equity LOC
- Unfunded Demand Deposit overdraft LOC
- Committed Loans which have not closed
- Letters of Credit

During 2015, we revised the calculations for the following categories:

- Unfunded Commercial lines of credit and other – reduce reserve percentage to zero based on historical loss ratios and the Bank's sole discretion on future funding of any specific account (customer must request funding and the Bank does not have to fund the request if we deem the account is no longer worthy of continued funding; we freeze all funding of accounts that are past due and/or in non-accrual status.)
- Unfunded Home Equity LOC – reduce reserve percentage to zero based on historical loss ratios and the Bank's ability to freeze any account based on activity of the account or information which the Bank may obtain such as a drastic decline in collateral value.
- Unfunded Demand Deposit overdraft LOC – reduce reserve percentage to zero based on historical loss ratios.

We did not change the calculations for the other categories even though we have similar rights as those categories above for the following reasons:

- Constructions loans – we have the sole discretion to fund these requests, however not funding a construction request can have a material negative impact of our collateral value and therefore we will continue to allocate reserves for the unfunded amounts using the same loss ratio as the funded portion of the portfolio.
- Committed Loans which have not closed – we have the sole discretion to not fund these loans should material adverse information become known to the Bank, however we are typically near the final stages of our due diligence underwriting of the loan and feel we have similar loss exposure as already funded loans therefore will continue to use the same loss ratio as funded loans.
- Letters of Credit – in most instances, we must fund the Letter of Credit if such a request is made and do not have the sole discretion as we do for other categories.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2016, the Bank has accrued $24,794, an increase of $13,027 from 2015, for unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities. The additional provision amount is included in ‘other expense’.

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, 2016.

	0-3 Months	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars in Thousands)				
Assets:					
Cash and due from banks	$-	$-	$-	$-	$7,425
Federal funds and overnight deposits	3,197	-	-	-	3,197
Securities	-	-	1,507	93,100	94,607
Loans	2,070	13,690	72,319	174,495	262,574
Fixed assets	-	-	-	-	3,323
Other assets	-	-	-	-	17,306
Total assets	$5,267	$13,690	$73,826	$267,595	$388,432
Liabilities:					
Demand deposit accounts	$-	$-	$-	$-	$100,090

NOW accounts	29,413	-	-	-	29,413
Money market deposit accounts	18,356	-	-	-	18,356
Savings accounts	80,006	-	-	-	80,006
IRA accounts	1,872	6,678	26,278	812	35,640
Certificates of deposit	6,072	18,750	44,695	215	69,732
Long-term borrowings	-	10,000	10,000	-	20,000
Other liabilities	-	-	-	-	1,381
Stockholders' equity:	-	-	-	-	33,814
Total liabilities and stockholders' equity	$135,719	$35,428	$80,973	$1,027	$388,432
GAP	$(130,452)	$(21,738)	$(7,147)	$266,568	
Cumulative GAP	$(130,452)	$(152,190)	$(159,337)	$107,231	
Cumulative GAP as a % of total assets	-33.58%	-39.18%	-41.02%	27.61%	

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, 2016, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates			
	-200 Basis Points	-100 Basis Points	+100 Basis Points	+200 Basis Points
% Change in Net Interest Income	-16.1%	-7.5%	5.0%	9.4%
% Change in Economic Value of Equity	-15.4%	-2.1%	-2.5%	-12.0%

Inasmuch as a large portion of the Company's deposits are non-interest bearing in an increased interest rate environment the Company's interest income increases at a proportionally greater rate than its total interest expense, thereby resulting in higher net interest income. Conversely, in a declining interest rate environment the decreases in the Company's interest income will be greater than decreases in its already low interest expense, thereby resulting in lower net interest income. The Company's economic value of equity has a positive effect in an increased interest rate environment for shocks of 200 basis points and less because the increase in economic value of the Company's liabilities is greater than the decline in value of the Company's assets because the liabilities reprice much slower than our assets, especially considering our interest earning assets are much greater than our interest bearing liabilities. For an interest rate shock of 300 basis points economic and above produce results whereby the change in economic value of equity is worse. The Company's economic value of equity worsens in declining interest rate environments as the majority of our liabilities cannot continue to decrease much from their current levels thus the economic value of our liabilities and our assets both worsen in a declining rate environment.

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, 2016, totaled $10,622,162, a decrease of $1,749,246 or 14.14%, from the December 31, 2015 total of $12,371,408. This decrease was due to the normal inflows and outflow of deposits and loans and fluctuations on a daily basis.

As of December 31, 2016, the Bank was permitted to draw on a $65.62 million line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential first mortgage loans. As of December 31, 2015, there was nothing outstanding under the daily rate credit. As of December 31, 2015, the Bank had a $10 million convertible advance (callable monthly and with a final maturity of November 1, 2017) from the FHLB of Atlanta. This advance has a 3.28% rate of interest. In addition, the Bank had a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and is callable quarterly. Furthermore, the Bank had a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly**.** In addition, the Bank has three unsecured lines of credit totaling $3 million, $5 million, and $8 million, on which there were no outstanding balances at December 31, 2016.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2016, the Company was in compliance with these requirements with a leverage ratio of 8.74%, a Tier 1 risk-based capital ratio of 13.74%, a total risk-based capital ratio of 14.74% and a common equity tier I capital of 13.74%. At December 31, 2016, 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 and Note 4 to the consolidated financial statements.

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 9 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

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

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

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company’s financial statements.

ASU 2014-11, “Transfers and Servicing (Topic 860).” ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company’s financial statements.

ASU 2015-01, “Income Statement Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 became effective for the Company beginning January 1, 2016, though early adoption was permitted. ASU 2015-01 did not have a significant impact on the Company’s financial statements.

ASU 2015-02, “Consolidation (Topic 810) – Amendments to the Consolidation Analysis.” ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 became effective for us on January 1, 2016 and did not have a significant impact on our financial statements.

ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 became effective for us on January 1, 2016, though early adoption is permitted. ASU 2015-03 did not have a significant impact on our financial statements.

ASU 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.”ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 became effective for us on January 1, 2016 and did not have a significant impact on our financial statements.

ASU 2015-09, “Financial Services-Insurance: Disclosures About Short-Duration Contracts.” ASU 2015-09 requires entities to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumption used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a rollforward of the liability of unpaid claims and claim adjustment expense for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual period beginning after December 15, 2016. ASU 2015-09 is not expected to have any impact on the Company’s financial position, cash flows or results of operations.

ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. ASU 2015-16 became effective for us on January 1, 2016. ASU 2015-16 did not have any significant impact on our financial statements.

ASU 2016-1, “No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.”ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-02 “Leases (Topic 842).” ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-2 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the potential impact of ASU 2016-02 on our financial statements.

ASU 2016-05 “Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.”ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. *ASU 2016-05* will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." ASU 2016-08 was issued to clarify certain principal versus agent considerations within the implementation guidance of *ASC Topic 606, "Revenue from Contracts with Customers."* The effective date and transition of ASU 2016-08 is the same as the effective date and transition of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, as discussed above. The Company is currently evaluating the potential impact of ASU 2016-08 on our financial statements.

ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 will be effective on January 1, 2017 and is currently not expected to have a significant impact on our financial statements.

ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." ASU 2016-10 was issued to clarify *ASC Topic 606, "Revenue from Contracts with Customers"* related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of *ASU 2014-09, "Revenue from Contracts with Customers (Topic 606),"* as discussed above. The Company is currently evaluating the potential impact of ASU 2016-10 on our financial statements.

ASU No. 2016-12, "Revenue From Contracts With Customers (Topic 606) Narrow-Scope and Practical Expedients" which updated guidance intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments" which updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). This Accounting Standards Update addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate- owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

ASU 2016-16, "Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 provides guidance stating that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash." ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business." ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

Management (with the participation of the Company's Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the identity and business experience of the directors of the Company and their remuneration set forth in the section captioned “Proposal I — Election of Directors” in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A and issued in conjunction with the 2016 Annual Meeting of Stockholders (the “Proxy Statement”) is incorporated herein by reference. The information with respect to the identity and business experience of executive officers of the Company is set forth in Part I of this Form 10-K. The information with respect to the Company’s Audit Committee is incorporated herein by reference to the section captioned “Meetings and Committees of the Board of Directors” in the Proxy Statement. The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the section captioned “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement. The information with respect to the Company’s Code of Ethics is incorporated herein by reference to the section captioned “Code of Ethics” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

(a) 2. Financial Statement Schedules.

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

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

Exhibit No.

3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
3.2	Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047)
3.3	Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
3.4	

	By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant’s Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047)
10.1	Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant’s Registration Statement on Form S-8, File No.33-62280)
10.2	The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant’s Registration Statement on Form S-8, File No. 333-46943)
10.3	Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
10.4	The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant’s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, File No. 0-24047)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant’s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
23	Consent of TGM Group LLC
31.1	Rule 15d-14(a) Certification of Chief Executive Officer
32.1	Section 1350 Certifications

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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 29, 2017 By: /s/ John D. Long
John D. Long
President and Chief Executive Officer

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

Signature	**Title**	**Date**
/s/ John D. Long John D. Long	President, Chief Executive Officer and Director and Acting Chief Financial Officer	March 29, 2017
/s/ F. William Kuethe, Jr. F. William Kuethe, Jr.	President Emeritus and Director	March 29, 2017
/s/ John E. Demyan John E. Demyan	Chairman of the Board and Director	March 29, 2017
Thomas Clocker	Director	March 29, 2017
/s/ Norman E. Harrison, Jr. Norman E. Harrison, Jr.	Director	March 29, 2017
/s/ F. W. Kuethe, III F. W. Kuethe, III	Director	March 29, 2017
Charles Lynch	Director	March 29, 2017
/s/ Edward L. Maddox Edward L. Maddox	Director	March 29, 2017

/s/ Andrew Cooch Andrew Cooch	Director	March 29, 2017
 Karen B. Thorwarth	Director	March 29, 2017
 Mary Louise Wilcox	Director	March 29, 2017

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Glen Burnie Bancorp and Subsidiaries

Consolidated Financial Statements

December 31, 2016

CONTENTS

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, 2016, 2015, and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. Glen Burnie Bancorp and subsidiaries' management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2016, 2015, and 2014, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles general accepted in the United States of America.

Salisbury, Maryland

March 2, 2017

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Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,	2016	2015	2014
Assets			
Cash and due from banks	$6,946,065	$7,493,524	$7,101,352
Interest-bearing deposits in other financial institutions	479,178	2,308,117	2,154,817
Federal funds sold	3,196,919	2,569,767	4,024,065
Cash and cash equivalents	10,622,162	12,371,408	13,280,234
Investment securities available for sale, at fair value	94,606,576	98,790,010	87,993,145
Federal Home Loan Bank stock, at cost	1,200,100	1,203,100	1,327,800
Maryland Financial Bank stock	30,000	30,000	30,000
Ground rents, at cost	163,634	163,638	169,200
Loans, less allowance for credit losses **2016 $2,483,865;** 2015 $3,150,251**;** 2014 $3,117,870;	262,573,603	259,636,706	273,986,237
Premises and equipment, at cost, less accumulated depreciation	3,322,867	3,368,865	3,671,295
Accrued interest receivable on loans and investment securities	1,134,557	1,121,405	1,274,137
Deferred income tax benefits	3,159,917	2,684,611	3,045,235
Other real estate owned	113,893	74,400	45,175
Cash value of life insurance	9,327,878	9,357,712	9,138,658
Other assets	2,176,808	1,778,336	668,392
Total assets	$388,431,995	$390,580,191	$394,629,508
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Noninterest-bearing	$100,089,967	$93,584,864	$88,562,924
Interest-bearing	233,147,361	241,606,666	250,314,368
Total deposits	333,237,328	335,191,530	338,877,292
Long-term borrowings	20,000,000	20,000,000	20,000,000
Dividends payable	-	-	276,096
Accrued interest payable on deposits	34,123	39,855	39,823
Other liabilities	1,346,355	1,172,993	1,605,770
Total liabilities	354,617,806	356,404,378	360,798,981
Commitments and contingencies			

Stockholders' equity:			
Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding **2016 2,786,855** shares; 2015 2,773,361; 2014 2,760,964 shares;	2,786,855	2,773,361	2,760,964
Surplus	10,129,856	9,986,064	9,854,119
Retained earnings	21,707,535	21,718,122	21,112,714
Accumulated other comprehensive (loss) income, net of tax	(810,057)	(301,734)	102,730
Total stockholders' equity	33,814,189	34,175,813	33,830,527
Total liabilities and stockholders' equity	$388,431,995	$390,580,191	$394,629,508

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

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Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2016	2015	2014
Interest income on:			
Loans, including fees	$11,189,838	$11,577,254	$12,318,461
U.S. Treasury securities	33,501	79,623	27,763
U.S. Government agency securities	1,025,927	744,813	722,587
State and municipal securities	913,114	1,080,824	1,357,355
Corporate trust preferred securities	-	37,906	21,414
Federal funds sold	46,245	10,132	10,714
Other	72,765	75,097	61,443
Total interest income	13,281,390	13,605,649	14,519,737
Interest expense on:			
Deposits	1,481,132	1,750,074	1,893,314
Short-term borrowings	2	138	134
Long-term borrowings	642,228	640,473	640,474
Total interest expense	2,123,362	2,390,685	2,533,922
Net interest income	11,158,028	11,214,964	11,985,815
Provision for credit losses	868,342	1,695,000	1,020,876
Net interest income after provision for credit losses	10,289,686	9,519,964	10,964,939
Other income:			
Service charges on deposit accounts	323,112	443,247	463,734
Other fees and commissions	866,584	1,308,106	826,945
Gains on the redemption of BOLI policies	222,855	-	-
Gains on investment securities, net	2,416	1,037,663	1,155,978
Income on life insurance	214,648	219,054	223,841
Total other income	1,629,615	3,008,070	2,670,498
Other expenses:			
Salaries and wages	5,050,700	4,926,255	4,998,402
Employee benefits	1,161,152	1,565,384	1,633,443

Occupancy	745,092	778,275	806,916
Furniture and equipment	952,585	932,281	925,207
Other expenses	2,992,116	2,728,302	3,048,291
Total other expenses	10,901,645	10,930,497	11,412,259
Income before income taxes	1,017,656	1,597,537	2,223,178
Federal and state income taxes	(83,064)	244,921	308,652
Net income	$1,100,720	$1,352,616	$1,914,526
Basic and diluted earnings per share of common stock	$0.40	$0.49	$0.69

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31,	2016	2015	2014
Net income	$1,100,720	$1,352,616	$1,914,526
Other comprehensive income (loss), net of tax			
Unrealized holding gains (losses) arising during the period (net of deferred taxes (benefits) **2016 ($334,756)**; 2015 $145,606; 2014 $1,305,107)	(506,868)	220,469	1,976,117
Reclassification adjustment for net gains included in net income (net of deferred taxes) **2016 $961**; 2015 $412,730; 2014 $459,212)	(1,455)	(624,933)	(695,312)
Total other comprehensive (loss) income	(508,323)	(404,464)	1,280,805
Comprehensive income (loss)	$592,397	$948,152	$3,195,331

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, 2016, 2015, and 2014

	Common Stock Shares	Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balances, December 31, 2013	2,747,370	2,747,370	9,713,335	20,300,531	(1,178,075)	31,583,161
Net income	-	-	-	1,914,526	-	1,914,526
Cash dividends, $.40 per share	-	-	-	(1,102,343)	-	(1,102,343)
Dividends reinvested under dividend reinvestment plan	13,594	13,594	140,784	-	-	154,378
Other comprehensive income net of tax	-	-	-	-	1,280,805	1,280,805
Balances, December 31, 2014	2,760,964	$2,760,964	$9,854,119	$21,112,714	$ 102,730	$33,830,527
Net income	-	-	-	1,352,616	-	1,352,616
Cash dividends, $.27 per share	-	-	-	(747,208)	-	(747,208)
Dividends reinvested under dividend reinvestment plan	12,397	12,397	131,945	-	-	144,342
Other comprehensive loss, net of tax	-	-	-	-	(404,464)	(404,464)
Balances, December 31, 2015	2,773,361	$2,773,361	$9,986,064	$21,718,122	$ (301,734)	$34,175,813
Net income	-	-	-	1,100,720	-	1,100,720
Cash dividends, $.40 per share	-	-	-	(1,111,307)	-	(1,111,307)
Dividends reinvested under dividend reinvestment plan	13,494	13,494	143,792	-	-	157,286
Other comprehensive loss, net of tax	-	-	-	-	(508,323)	(508,323)

Balances, December 31, 2016	2,786,855	$2,786,855	$10,129,856	$21,707,535	$(810,057)	$33,814,189

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,	2016	2015	2014
Cash flows from operating activities:			
Net income	$1,100,720	$1,352,616	$1,914,526
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	1,190,711	1,139,547	812,331
Provision for credit losses	868,342	1,695,000	1,020,876
Deferred income tax benefits, net	(147,029)	627,749	(286,670)
Gains on disposals of assets, net	(3,866)	(1,073,286)	(1,213,844)
Provision on losses of other real estate owned	35,799	-	91,448
Income on investment in life insurance	(214,648)	(219,054)	(223,841)
Changes in assets and liabilities:			
Decrease in ground rents	-	5,562	-
(Increase) decrease in accrued interest receivable	(13,152)	152,732	235,101
(Increase) decrease in other assets	(398,473)	(1,109,944)	56,011
(Decrease) increase in accrued interest payable	(5,732)	32	11,300
Increase (decrease) in other liabilities	173,362	(432,777)	101,973
Net cash provided by operating activities	2,586,034	2,138,177	2,519,211
Cash flows from investing activities:			
Maturities and principal paydowns of available for sale mortgage-backed securities	18,000,155	15,088,957	9,109,664
Proceeds from sales of available for sale debt securities	5,265,658	27,030,183	30,269,965
Purchases of available for sale mortgage-backed securities	(9,584,734)	(38,206,832)	(28,703,606)
Purchases of other available for sale investment securities	(11,148,131)	(15,089,446)	(21,464,085)
Purchase of FHLB stock	3,000	124,700	125,100
(Increase) decrease in loans, net	(4,045,333)	12,580,131	(4,368,168)
Proceeds from sales of other real estate	166,257	80,420	1,153,883
Proceeds from redemption of life insurance policy	244,483	-	-
Purchases of premises and equipment	(328,412)	(90,392)	(442,529)
Net cash provided (used) by investing activities	(1,427,057)	1,517,721	(14,319,776)

Cash flows from financing activities:			
Increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	6,505,103	5,021,940	1,815,399
(Decrease) increase in time deposits, net	(8,459,305)	(8,707,702)	13,258,537
Cash dividends paid	(1,111,307)	(1,023,304)	(1,100,984)
Common stock dividends reinvested	157,286	144,342	154,378
Net cash (used) provided by financing activities	(2,908,223)	(4,564,724)	14,127,330
(Decrease) increase in cash and cash equivalents	(1,749,246)	(908,826)	2,326,765
Cash and cash equivalents, beginning of year	12,371,408	13,280,234	10,953,469
Cash and cash equivalents, end of year	$10,622,162	$12,371,408	$13,280,234

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

(Continued)

Years Ended December 31,	2016	2015	2014
Supplementary Cash Flow Information:			
Interest paid	$2,129,094	$2,390,653	$2,522,622
Income taxes paid	-	625,000	300,000
Total decrease (increase) in unrealized depreciation on available for sale securities	(836,600)	(670,016)	2,126,700
Supplementary Noncash Investing Activities:			
Loans converted to other real estate	240,098	74,400	45,175

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

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

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities, in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIE’s) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interest, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

Accounting Standards Codification:

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

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 the ASC Topic 320, *Accounting for Certain Investments in Debt and Equity Securities*, because their ownership is restricted and they lack a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLB or another member institution.

Loans and Allowance for Credit Losses:

Loans are generally carried at the amount of unpaid principal, adjusted for deferred loan fees, which are amortized over the term of the loan using the effective interest rate method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank's policy to discontinue the accrual of interest when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. When a loan is placed on nonaccrual status all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Cash collections on such loans are applied as reductions of the loan principal balance and no interest income is recognized on those loans until the principal balance has been collected. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. The carrying value of impaired loans is based on the present value of the loan’s expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

The allowance for loan losses typically consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either ASC Topic 450, Accounting for Contingencies, or ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. Loans of similar type and purpose, not meeting the criteria of ASC 310, are pooled into homogenous sub portfolios and to each sub portfolio a total reserve factor is applied based on the historical loss experience and six adjustment factors. To determine the correct amount of allowance for credit losses the Bank uses the current year's loss data and the previous three years of loss data for each portfolio on a non-weighted average. The current year's data is annualized to a twelve-month basis to determine a loss percentage. The averages for each portfolios historical losses are then adjusted by six broad qualitative factors applied to each of the loan sub-portfolios. The historical loss analysis is performed quarterly and loss factors are updated monthly based on actual experience.

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.

Our current charge-off policy is as follows:

When the probability for full payment of a loan is unlikely, the Bank will initiate a full charge-off or a partial write-down of the asset based upon the status of the loan. The following guidelines apply:

- Consumer loans *less than $25,000* for which payments of principal and/or interest are past due ninety (90) days shall be charged-off and referred for collection. *Consumer loans of $25,000 or more shall be evaluated for charge-off or partial write-down at the discretion of Bank management.*
- Any other loan over 120 days past due shall be evaluated for charge-off or partial write-down at the discretion of Bank management. [Note: any non-consumer unsecured loan more than 180 days delinquent in payment of principal and/or interest (or sooner if deemed uncollectible) must be charged-off in full].
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- If secured, a charge-off must be made to reduce the loan balance to a level equal to the anticipated liquidation value of the collateral when payment of principal and/or interest is more than 180 days delinquent, or prior to that if deemed uncollectible.
  Generally, real estate secured loans are to be charged-off on a deficiency basis after liquidation of the collateral. In some cases, Bank management may determine that a charge-off or write-down is appropriate prior to liquidation of the collateral, when the full loan balance is clearly uncollectible and some loss is anticipated. In order to make this determination, an updated evaluation or appraisal of the property should be obtained.

All charge-offs or partial write-downs require the prior joint approval of the Chief Lending Officer and the President/CEO. All charge-offs or partial write-downs are be reported to the Board of Directors at the next regularly scheduled board meeting.

Reserve for Unfunded Commitments:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Troubled Debt Restructurings:

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

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 less the estimated cost to sell) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or expenses. Loans converted to OREO through foreclosure proceedings totaled **$113,893,** $74,400, and $45,175 for the years ended December 31, 2016, 2015, and 2014, respectively. The Bank financed no sales of OREO for 2016, 2015, or 2014, respectively.

Bank Premises and Equipment:

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

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Asset*. As of December 31, 2016, 2015, and 2014, 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 accrued deferred compensation, accumulated impairment losses on investment securities, allowance for credit losses, non-accrual interest, unused alternative minimum tax credits, net unrealized depreciation on investment securities available for sale, accumulated depreciation, OREO, and reserve for unfunded commitments.

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

Credit Risk:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents:

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

Accounting for Stock Options:

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

Earnings per share:

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

Financial Statement Presentation:

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

Note 2. Restrictions on Cash and Due from Banks

The Federal Reserve requires the Bank to maintain noninterest-bearing cash reserves against certain categories of average deposit liabilities. Such reserves averaged approximately **$3,546,000**, $4,469,000, and $4,985,000 during the years ended December 31, 2016, 2015, and 2014, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury	$1,501,359	$5,301	$-	$1,506,660
State and municipal	34,333,029	92,261	579,863	33,845,427
Mortgage-backed	60,109,799	12,771	868,081	59,254,489
	$95,944,187	$110,333	$1,447,944	$94,606,576

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury	$2,995,525	$122	$4,162	$2,991,485
State and municipal	29,635,572	397,568	37,041	29,996,099
Mortgage-backed	66,659,924	21,182	878,680	65,802,426
	$99,291,021	$418,872	$919,883	$98,790,010

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Treasury	$7,946,530	$5,843	$23,883	$7,928,490
U.S. Government agencies	28,360	295,584	-	323,944
State and municipal	32,771,006	813,974	75,534	33,509,446
Corporate trust preferred	247,150	-	83,695	163,455
Mortgage-backed	46,831,094	95,832	859,116	46,067,810
	$87,824,140	$1,211,233	$1,042,228	$87,993,145

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, 2016 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
U.S. Treasury	$-	$-	$-	$-	$-	$-

State and Municipal	19,199,670	579,863	-	-	19,199,670	579,863
Mortgaged-backed	43,094,293	575,326	10,588,751	292,755	53,683,044	868,081
	$62,293,963	$1,155,189	$10,588,751	$292,755	$72,882,714	$1,447,944

At December 31, 2016, the Company did not have any securities that had impairment charges. During the year ending December 31, 2015, the Company sold the Regional Diversified Funding, Senior notes and the FNMA/FHLMC Preferred stocks, which had previous impairment charges. As a result of this testing, no write-downs were required in 2015 and 2014.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2016, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On December 31, 2016, the Bank held 18 investment securities having continuous unrealized loss positions for more than 12 months. Except as noted above, management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgaged-backed securities. The Bank has no mortgaged-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the remaining securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2016, management believes the impairments detailed in the table above are temporary and no additional impairment loss is required to be realized in the Company’s consolidated income statement.

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

	2016	2015	2014
Estimated credit losses, beginning of year	$ -	$3,262,496	$3,262,496
Sales of securities with previous OTTI recognized	-	(3,262,496)	-
Credit losses - no previous OTTI recognized	-	-	-
Credit losses - previous OTTI recognized	-	-	-
Estimated credit losses, end of year	$ -	$-	$3,262,496

Contractual maturities of investment securities at December 31, 2016, 2015, and 2014 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

	Available for Sale	
December 31, 2016	Amortized Cost	Fair Value
Due within one year	$-	$-
Due over one to five years	1,501,359	1,506,660
Due over five to ten years	1,054,391	1,017,123
Due over ten years	33,278,638	32,828,304
Mortgage-backed, due in monthly installments	60,109,799	59,254,489
	$95,944,187	$94,606,576

	Available for Sale	
December 31, 2015	Amortized Cost	Fair Value
Due within one year	$-	$-
Due over one to five years	2,995,525	2,991,485
Due over five to ten years	-	-
Due over ten years	29,635,572	29,996,099
Mortgage-backed, due in monthly installments	66,659,924	65,802,426
	$99,291,021	$98,790,010

	Available for Sale	
December 31, 2014	Amortized Cost	Fair Value
Due within one year	$61,064	$61,780
Due over one to five years	5,938,706	5,923,560
Due over five to ten years	2,007,824	2,004,890
Due over ten years	32,957,092	33,611,161
Mortgage-backed, due in monthly installments	46,859,454	46,391,754
	$87,824,140	$87,993,145

Proceeds from sales of available for sale securities prior to maturity totaled **$5,265,658,** $27,030,183, and $30,269,965 for the years ended December 31, 2016, 2015, and 2014, respectively. The Bank realized gains of **$21,653** and losses of **$19,237** on those sales for 2016. The Bank realized gains of $1,038,084 and losses of $421 on those sales for 2015. The Bank realized gains of $1,210,332 and losses of $54,354 on those sales for 2014. 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 **$965,** $409,306, and $455,976 for the years ended December 31, 2016, 2015, and 2014, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance

Major categories of loans are as follows:

	2016	2015	2014
Mortgage:			
Residential	$105,878,368	$116,027,206	$120,933,420
Commercial	66,756,432	62,469,425	62,601,469
Construction and land development	5,210,949	5,518,588	7,073,720
Demand and time	4,679,475	4,539,701	3,518,752
Installment	83,581,052	75,302,771	84,103,142
	266,106,276	263,857,691	278,230,503
Unearned income on loans	(1,048,808)	(1,070,734)	(1,126,396)
	265,057,468	262,786,957	277,104,107
Allowance for credit losses	(2,483,865)	(3,150,251)	(3,117,870)
	$262,573,603	$259,636,706	$273,986,237

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 **$69,902,000**, $60,607,000, and $67,551,000 of such loans at December 31, 2016, 2015 and 2014, 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 collectability or present other unfavorable terms. At December 31, 2016, 2015, and 2014, the amounts of such loans outstanding totaled **$444,568,** $787,894, and $556,188 respectively. During 2016, loan additions and repayments/transfers totaled $**607,000** and **$950,326**, respectively.

Allowance for Loan Losses

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

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

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

- Changes in asset quality including past due (30-89 days) loans, nonaccrual loans, classified assets, watch list loans all in relation to total loans. Also policy exception in relationship to loan volume.
- Changes in the rate and direction of the loan volume of the portfolio.
- Concentration of credit including the percentage, changes, and relative to goals.
- Changes in macro economic factors including the rates and direction of unemployment, median income and population.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

- Changes in internal factors including external loan review required reserve changes, internal review penetration, internal required reserve changes and weighted required reserve trends.
- Changes in the charge offs / recoveries adjusting with rate and direction.

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

All credit exposures graded above a rating of "5" with outstanding balances (see ratings on page F-21) are to be reviewed no less than quarterly for the purpose of determining if a specific allocation is needed for that credit. The establishment of a specific reserve does not necessarily mean that the credit with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2016.

The following table presents the total allowance by loan segment:

2016	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 305,323	$ 261,663	$ 803,902	$ 1,630,898	$ 148,465	$ 3,150,251
Provision for credit losses	(29,619)	361,024	431,428	239,803	(134,294)	868,342
Recoveries	8,615	-	335,464	34,336	-	378,415
Loans charged off	-	(363,822)	(695,242)	(854,079)	-	(1,913,143)
Balance, end of year	$ 284,319	$ 258,865	$ 875,552	$ 1,050,958	$ 14,171	$ 2,483,865
Individually evaluated for impairment:						
Balance in allowance	$ 228,500	$ -	$ 49,509	$ 251,504	$ -	$ 529,513
Related loan balance	228,500	1,412,914	503,460	2,871,898	-	5,016,772

Collectively evaluated for impairment:						
Balance in allowance	$ 55,819	$ 258,865	$ 826,043	$ 799,454	$ 14,171	$ 1,954,352
Related loan balance	4,450,975	68,008,950	83,077,591	105,551,988	-	261,089,504

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2015	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 385,631	$ 335,009	$ 1,281,222	$ 1,169,627	$ (53,619)	$ 3,117,870
Provision for credit losses	(78,901)	(23,814)	296,437	1,299,194	202,084	1,695,000
Recoveries	1,400	13,468	486,776	10,473	-	512,117
Loans charged off	(2,807)	(63,000)	(1,260,533)	(848,396)	-	(2,174,736)
Balance, end of year	$ 305,323	$ 261,663	$ 803,902	$ 1,630,898	$ 148,465	$ 3,150,251
Individually evaluated for impairment:						
Balance in allowance	$ 240,500	$ 100,745	$ 65,353	$ 697,088	$ -	$ 1,103,686
Related loan balance	240,500	1,143,317	950,722	2,792,239	-	5,126,778
Collectively evaluated for impairment:						
Balance in allowance	$ 64,823	$ 160,918	$ 738,549	$ 933,810	$ 148,465	$ 2,046,565
Related loan balance	4,299,201	63,128,304	74,352,049	116,951,359	-	258,730,913

2014	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 412,909	$ 898,362	$ 1,187,604	$ 593,463	$ (120,319)	$ 2,972,019
Provision for credit losses	(4,580)	(448,027)	601,522	805,261	66,700	1,020,876
Recoveries	6,440	128,068	331,108	5,714	-	471,330
Loans charged off	(29,138)	(243,394)	(839,012)	(234,811)	-	(1,346,355)
Balance, end of year	$ 385,631	$ 335,009	$ 1,281,222	$ 1,169,627	$ (53,619)	$ 3,117,870
Individually evaluated for impairment:						
Balance in allowance	$ 252,500	$ 148,791	$ 186,226	$ 682,642	$ -	$ 1,270,159
Related loan balance	252,500	2,155,816	1,106,217	2,931,143	-	6,445,676

Collectively evaluated for impairment:						
Balance in allowance	$ 133,131	$ 186,218	$ 1,094,996	$ 486,985	$ (53,619)	$ 1,847,711
Related loan balance	3,266,252	63,486,816	82,996,925	122,034,834	-	271,784,827

As of December 31, 2016, the allowance for loan losses included an unallocated portion in the amount of **$14,171**. The unallocated portion for 2015 and 2014 was $148,465 and ($53,619), respectively. The unallocated portion of the allowance for credit losses is available to absorb further losses that may not necessarily be accounted for in the current model. Management believes the allowance for credit losses is at an appropriate level to absorb inherent probable losses in the portfolio.

Following is a sheet showing activity for non-accrual loans during the years 2016, 2015, and 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Totals
December 31, 2013 Balance	14,286	1,237,647	338,212	1,123,248	2,713,393
Transfers into non-accrual	261,500	1,460,146	1,325,078	488,136	3,534,860
Transfers to OREO	-	-	-	(45,175)	(45,175)
Loans paid down/payoffs	(246,648)	(1,357,287)	(308,926)	(165,958)	(2,078,819)
Loans returned to accrual status	-	-	-	-	-
Loans charged off	(29,138)	(243,394)	(839,012)	(234,811)	(1,346,355)
December 31, 2014 Balance	-	1,097,112	515,352	1,165,440	2,777,904
Transfers into non-accrual	2,807	-	1,910,251	4,229,549	6,142,607
Transfers to OREO	-	-	-	(74,400)	(74,400)
Loans paid down/payoffs	-	(734,000)	(568,741)	(1,588,885)	(2,891,626)
Loans returned to accrual status	-	-	-	-	-
Loans charged off	(2,807)	(63,000)	(1,260,533)	(848,396)	(2,174,736)
December 31, 2015 Balance	-	300,112	596,329	2,883,308	3,779,749
Transfers into non-accrual	-	840,300	968,536	1,461,106	3,269,942
Transfers to OREO	-	(113,893)	-	(126,205)	(240,098)
Loans paid down/payoffs	-	(15,392)	(102,038)	(209,702)	(327,132)
Loans returned to accrual status		-	(311,953)	(506,443)	(818,396)
Loans charged off	-	(363,822)	(695,242)	(854,079)	(1,913,143)
December 31, 2016 Balance	-	647,305	455,632	2,647,985	3,750,922

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the year ending December 31, 2016. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank’s internal risk ratings are as follows:

1 Superior – minimal risk. (normally supported by pledged deposits, United States government securities, etc.)
2 Above Average – low risk. (all of the risks associated with this credit based on each of the bank’s creditworthiness criteria are minimal)
3 Average – moderately low risk. (most of the risks associated with this credit based on each of the bank’s creditworthiness criteria are minimal)
4 Acceptable – moderate risk. (the weighted overall risk associated with this credit based on each of the bank’s creditworthiness criteria is acceptable)
5 Other Assets Especially Mentioned – moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)
6 Substandard – (the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)
7 Doubtful – (weaknesses make collection or liquidation in full, based on currently existing facts, improbable)
8 Loss – (of little value; not warranted as a bankable asset)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

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

The Bank contracts with an independent 3rd party loan review firm that reviews and validates the internal credit risk program on an annual basis. Results of these reviews are presented to the Audit Committee for approval and then to management for implementation. The loan review process compliments and reinforces the risk identification and assessment decisions made by the lenders and credit personnel as well as the Bank's policies and procedures.

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

2016	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$4,357,475	$64,207,732	$82,942,573	$105,225,879	$256,733,659
Special mention	93,500	3,801,217	276,012	527,189	4,697,918
Substandard	228,500	1,412,915	326,653	2,492,601	4,460,669
Doubtful	-	-	35,814	178,216	214,030
Loss	-	-	-	-	-
	$4,679,475	$69,421,864	$83,581,052	$108,423,885	$266,106,276
Non-accrual	-	647,305	455,632	2,647,985	3,750,922
Troubled debt restructures	228,500	-	35,814	48,131	312,445
Number of TDRs accounts	1	-	1	1	3
Non-performing TDRs	-	-	35,814	48,131	83,945
Number of TDR accounts	-	-	1	1	2

2015	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$3,878,588	$58,706,189	$72,975,858	$116,323,949	$251,884,584

Special mention	168,113	4,422,115	1,652,579	539,483	6,782,290
Substandard	493,000	1,443,429	509,211	2,048,338	4,493,978
Doubtful	-	-	165,123	531,716	696,839
Loss	-	-	-	-	-
	$4,539,701	$64,571,733	$75,302,771	$119,443,486	$263,857,691
Non-accrual	-	300,112	596,329	2,883,308	3,779,749
Troubled debt restructures	240,500	-	-	49,868	290,368
Number of TDRs accounts	1	-	-	1	2
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

The chart for 2015 has been changed since originally submitted to reflect changes in the non-accrual amount for commercial real estate (an increase of $300,112) and a decrease in the residential real estate amount of $300,112. There has also been an increase in the residential real estate amount for the substandard of $272,500, which has decreased the residential real estate Pass amount by $272,500.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2014	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$3,177,639	$58,837,254	$80,501,928	$121,244,374	$263,761,195
Special mention	88,613	4,649,562	2,555,654	832,546	8,126,375
Substandard	252,500	2,155,816	882,600	2,726,156	6,017,072
Doubtful	-	-	162,960	-	162,960
Loss	-	-	-	162,901	162,901
	$3,518,752	$65,642,632	$84,103,142	$124,965,977	$278,230,503
Non-accrual	-	1,097,112	515,352	1,165,440	2,777,904
Troubled debt restructures	252,500	-	-	-	252,500
Number of TDRs accounts	1	-	-	-	1
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

At December 31, 2016, the recorded investment in TDR's reflected one loan in the amount of **$228,500** which is performing under the terms of the modified agreement and two loans in the amount of **$83,945** which are on nonaccrual. At December 31, 2015, the recorded investment in TDR's reflected one loan in the amount of $240,500 which is performing under the terms of the modified agreement and one loan in the amount of $49,868 which is on nonaccrual. At December 31, 2014, the recorded investment in TDR's reflected one loan in the amount of $252,500 which is still performing under the terms of the modified agreement.

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

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

	30-89 Days	90 Days or More and

2016	Current	Past Due	Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,679,475	$-	$ -	$-	$4,679,475
Commercial real estate	68,774,559	-	-	647,305	69,421,864
Consumer and indirect	82,133,896	991,524	-	455,632	83,581,052
Residential real estate	103,941,243	1,798,391	36,266	2,647,985	108,423,885
	$259,529,173	$2,789,915	$ 36,266	$3,750,922	$266,106,276

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2015	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,539,701	$-	$ -	$-	$4,539,701
Commercial real estate	64,270,345	1,276	-	300,112	64,571,733
Consumer and indirect	73,568,010	1,122,155	16,277	596,329	75,302,771
Residential real estate	115,715,127	806,566	38,485	2,883,308	119,443,486
	$258,093,183	$1,929,997	$ 54,762	$3,779,749	$263,857,691

The 2015 chart has changed from the original submitted in 2016 in order to agree to another chart that has changed. The change was a reclassification to include $300,112 in non-accrual for commercial real estate, which was removed from the residential real estate amount for non-accrual. Total nonaccruals in 2015 has not changed.

2014	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$3,518,752	$-	$ -	$-	$3,518,752
Commercial real estate	64,545,207	313	-	1,097,112	65,642,632
Consumer and indirect	81,315,689	2,272,101	-	515,352	84,103,142
Residential real estate	123,284,983	318,782	196,772	1,165,440	124,965,977
	$272,664,631	$2,591,196	$ 196,772	$2,777,904	$278,230,503

Loans on which the accrual of interest has been discontinued totaled **$3,750,922**, $3,779,749, and $2,777,904 at December 31, 2016, 2015, and 2014, respectively. Interest that would have been accrued under the terms of these loans totaled **$213,452**, $239,038, and $255,682 for the years ended December 31, 2016, 2015, and 2014, respectively. Loans past due 90 days or more and still accruing interest totaled **$36,266,** $54,762, and $196,772 at December 31, 2016, 2015, and 2014, respectively. Management believes these particular loans are well secured and in the process of full collection of all amounts owed.

Non-accrual loans with specific reserves at December 31, 2016 are comprised of:

Residential Real Estate – Three loans to three borrowers in the amount of $1,393,327 secured by residential properties with specific reserves of $251,504 established for the loans.

Consumer and Indirect Loans – Two loans to two borrowers in the amount of $128,151 with $49,509 of specific reserves established for the loans.

Commercial Real Estate – One Loan to one borrower in the amount of $228,500 secured by commercial and or residential properties with specific reserves of $228,500 established for the loan.

Impaired Loans

A loan is evaluated for individual impairment if it meets one or more of the following criteria:

(1) In a non-accrual status

(2) Risk rated substandard and not paying according to contractual terms

(3) Risk rated substandard and in default of loan agreement

(4) Risk rated doubtful

(5) Classified as TDR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management used the current fair value of the collateral, less selling cost when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. Loans that are identified to be individually evaluated for impairment where the allowance measure is zero but continue to meet the criteria above, are considered non-performing, are in a collection status and remain under continuous monitoring for potential impairment. These loans are not returned to the pool of loans collectively evaluated for impairment.

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

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

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

2016	**Recorded Investment**	**Unpaid Principal**	**Interest Income**	**Specific Reserve**	**Average Recorded**

		Balance	Recognized		Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$1,393,327	$1,421,965	$ 58,115	$251,504	$1,442,544
Commercial	-	-	-	-	-
Consumer	128,151	128,151	-	49,509	166,841
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	228,500	228,500	8,014	228,500	234,579
Total impaired loans with specific reserves	$1,749,978	$1,778,616	$ 66,129	$529,513	$1,843,964
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$1,478,571	$2,218,332	$ 20,983	**n/a**	$2,463,089
Commercial	1,412,914	1,565,219	58,797	**n/a**	1,593,903
Consumer	182,320	182,320	109	**n/a**	74,880
Installment	192,989	192,989	-	**n/a**	-
Home Equity	-	-	-	**n/a**	-
Commercial	-	-	-	**n/a**	-
Total impaired loans with no specific reserve	$3,266,794	$4,158,860	$ 79,889	-	$4,131,872

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2015	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$1,809,429	$1,809,429	$ 56,804	$697,088	$1,820,233
Commercial	300,112	300,112	-	100,745	314,929
Consumer	145,874	145,874	-	65,353	170,499
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	240,500	240,500	10,517	240,500	246,571
Total impaired loans with specific reserves	$2,495,915	$2,495,915	$ 67,321	$1,103,686	$2,552,232
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$982,810	$1,115,579	$ 14,664	n/a	$1,170,747
Commercial	843,205	843,205	37,786	n/a	876,376
Consumer	364,695	449,370	1,696	n/a	452,682
Installment	440,153	440,153	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$2,630,863	$2,848,307	$ 54,146	-	$2,499,805

2014	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$2,726,247	$2,726,247	$ 177,707	$682,642	$2,747,299
Commercial	1,094,708	1,094,708	783	148,791	1,162,367
Consumer	611,728	611,728	30,903	186,226	622,854
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	252,500	252,500	11,027	252,500	258,577
Total impaired loans with specific reserves	$4,685,183	$4,685,183	$ 220,420	$1,270,159	$4,791,097

Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$204,896	$266,091	$ 2,641	n/a	$340,435
Commercial	1,061,108	1,061,108	48,548	n/a	1,089,641
Consumer	60,656	60,656	-	n/a	-
Installment	433,833	433,833	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$1,760,493	$1,821,688	$ 51,189	-	$1,430,076

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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	2016	2015	2014
Land		$684,977	$684,977	$684,977
Buildings	5-50 years	6,372,495	6,283,741	6,221,980
Equipment and fixtures	5-30 years	5,442,106	5,365,211	5,400,514
Construction in progress		7,364	500	53,197
		12,506,942	12,334,429	12,360,668
Accumulated depreciation		(9,184,075)	(8,965,564)	(8,689,373)
		$3,322,867	$3,368,865	$3,671,295

Depreciation expense totaled **$374,409,** $393,200, and $399,083 for the years ended December 31, 2016, 2015, and 2014, respectively. Amortization of software totaled **$87,389,** $59,506, and $21,970 for the years ended December 31, 2016, 2015, and 2014, respectively.

The Bank leases its Severna Park and Linthicum branches**.** Minimum lease obligations under the Severna Park branch are $33,000 per year through September 2017. Minimum lease obligations under the Linthicum branch are $120,952 per year through December 2024, adjusted annually on a pre-determined basis. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled **$160,029,** $153,659, and $150,145 for the years ended December 31, 2016, 2015, and 2014, respectively.

Note 6. Federal Home Loan Bank and Short-term Borrowings

The Bank owned **12,000** shares of common stock of the FHLB at December 31, 2016. The Bank is required to maintain an investment of 0.2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 20% of the

Bank's total assets, or approximately **$65,626,000** at December 31, 2016. Long-term advances totaled **$20,000,000** under this credit arrangement at December 31, 2016 (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 **$137,** $21,918, and $24,658 for 2016, 2015, and 2014, respectively.

The Bank also had available unsecured federal funds lines of credit from three financial institutions for $3,000,000, $5,000,000, and $8,000,000. No balances were outstanding on these lines of credit on December 31, 2016

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2016	2015	2014
Federal Home Loan Bank of Atlanta, convertible advances	$20,000,000	$20,000,000	$20,000,000
	$20,000,000	$20,000,000	$20,000,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-term Borrowings (continued)

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

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

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

At December 31, 2016, the scheduled maturities of long-term borrowings are as follows:

	2016
2017	$10,000,000
2018	10,000,000
	$20,000,000

Note 8. Deposits

Major classifications of interest-bearing deposits are as follows:

	2016	2015	2014

NOW and SuperNOW	$29,412,646	$27,502,016	$26,990,274
Money Market	18,355,576	19,079,536	20,465,436
Savings	80,006,504	78,107,913	74,973,038
Certificates of Deposit, $100,000 or more	30,874,898	34,239,331	36,118,031
Other time deposits	74,497,737	82,677,870	91,767,589
	$233,147,361	$241,606,666	$250,314,368

Interest expense on deposits is as follows:

	2016	2015	2014
NOW and SuperNOW	$8,801	$9,711	$11,608
Money Market	9,462	12,763	9,965
Savings	44,866	39,936	37,537
Certificates of Deposit, $100,000 or more	455,781	522,637	523,472
Other time deposits	962,222	1,165,027	1,310,732
	$1,481,132	$1,750,074	$1,893,314

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Deposits (continued)

At December 31, 2016, the scheduled maturities of time deposits are approximately as follows:

	2016
2017	$33,373,000
2018	21,195,000
2019	26,390,000
2020	14,494,000
2021	8,894,000
2022 and thereafter	1,027,000
	$105,373,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately **$1,623,000,** $1,971,000, and $2,331,000 at December 31, 2016, 2015, and 2014, respectively.

The Bank had no brokered deposits at December 31, 2016, 2015, and 2014.

Note 9. Income Taxes

The components of income tax expense for the years ended December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Current:			
Federal	$37,591	$(322,723)	$408,056
State	26,374	(60,104)	187,266

Total current	63,965	(382,827)	595,322
Deferred income (benefits) taxes:			
Federal	(185,031)	352,543	(253,848)
State	38,002	275,205	(32,822)
Total deferred (benefits) taxes	(147,029)	627,748	(286,670)
Income tax expense	$(83,064)	$244,921	$308,652

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, 2016, 2015, and 2014 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes (continued)

	2016	2015	2014
Income before income tax expense (benefit)	$1,017,656	$1,597,537	$2,223,178
Taxes computed at Federal income tax rate	$346,003	$543,163	$755,881
Increase (decrease) resulting from:			
Tax-exempt income	(457,858)	(441,890)	(531,764)
State income taxes, net of Federal income tax benefit	42,488	141,966	101,933
Other	(13,697)	1,682	(17,398)
Income tax expense	$(83,064)	$244,921	$308,652

The components of the net deferred income tax benefits as of December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Deferred income tax benefits:			
Accrued deferred compensation	$145,654	$153,256	$142,308
Impairment loss on investment securities	-	-	1,305,584
Allowance for credit losses	94,628	362,732	364,697
Nonaccrual interest	445,173	445,173	445,173
Alternative minimum tax credits	966,855	929,264	615,186
Net operating loss carryforward credits	665,119	373,986	-
Accumulated depreciation	53,706	61,019	72,354
Other real estate owned	18,293	14,940	14,940
Reserve for unfunded commitments	9,780	4,641	78,890
Other temporary differences	22,540	2,116	2,116
Accumulated securities premium accretion	210,615	138,207	71,834
Net unrealized depreciation on investment securities available for sale	527,554	199,277	-
Total deferred income tax benefits	3,159,917	2,684,611	3,113,082
Deferred income tax liabilities:			
Accumulated securities discount accretion	-	-	-
Net unrealized appreciation on investment securities available for sale	-	-	67,847
Total deferred income tax liabilities	-	-	67,847

Net deferred income tax benefits	$3,159,917	$2,684,611	$3,045,235

Management has determined that no valuation allowance is required as it believes it is more likely than not that all of the deferred tax assets will be fully realizable in the future. At December 31, 2016, 2015, and 2014, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes (formerly FIN 48, Accounting for Uncertainty in Income Taxes).

The Company’s federal income tax returns for 2015, 2014, and 2013 are subject to examinations by the IRS generally for three years after they were filed. In addition, the Company’s state tax returns for the same years are subject to examination by state tax authorities for similar time periods. The 2016 income tax return will be filed in 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Pension and Profit Sharing Plans

The Bank 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. Annual contributions, included in employee benefit expense, totaled **$210,604,** $225,179, and $229,500 for the years ended December 31, 2016, 2015, and 2014, respectively.

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 **$21,261,** $191,391, and $228,516 for the years ended December 31, 2016, 2015 and 2014, respectively.

The Bank had a money purchase pension plan, which provided for annual employer contributions based on employee compensation, and covered substantially all employees. The Bank made additional contributions under this plan for the benefit of certain employees, whose retirement funds were negatively affected by the termination of this pension plan. These additional contributions, also included in employee benefit expense, totaled **$1,014,** $1,014, and $8,159 for the years ended December 31, 2016, 2015, and 2014, respectively.

Note 11. 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 **$9,327,878,** $9,357,712, and $9,138,658 at December 31, 2016, 2015, and 2014, respectively. Income on their insurance investment totaled **$214,648,** $219,054, and $223,841 for 2016, 2015, and 2014, respectively.

The Bank has an unfunded grantor trust, as part of a change in control severance plan, covering substantially all employees. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Other Operating Expenses

Other operating expenses include the following:

	2016	2015	2014
Professional services	$757,288	$712,851	$677,308
Stationery, printing and supplies	208,644	172,709	185,963
Postage and delivery	160,058	138,691	164,814
FDIC assessment	288,182	305,972	279,584
Directors fees and expenses	224,516	223,542	239,769
Marketing	78,851	142,224	239,437
Data processing	120,089	76,895	25,404
Correspondent bank services	50,821	51,308	45,362
Telephone	191,814	229,257	223,071
Liability insurance	65,962	74,508	73,925
Losses (gains) and expenses on OREO	17,987	29,536	62,493
Other ATM expense	165,498	121,487	125,845
Other	662,406	449,322	705,316
	$2,992,116	$2,728,302	$3,048,291

Note 13. 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:

	2016	2015	2014
Loan commitments:			
Construction and land development	$-	$-	$-
Other mortgage loans	3,066,000	970,000	1,666,000
	$3,066,000	$970,000	$1,666,000
Unused lines of credit:			
Home-equity lines	$2,991,126	$2,558,091	$3,825,462
Commercial lines	18,474,238	17,195,796	15,156,201
Secured consumer line	-	27,500	50,000
Unsecured consumer lines	633,351	634,122	674,429
	$22,098,715	$20,415,509	$19,706,092
Letters of credit:	$47,580	$47,580	$57,580

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Commitments and Contingencies (continued)

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, 2016, the Bank has accrued **$24,794** 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 14. 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 **$19,729,000**, $18,752,000, and $17,171,000 at December 31, 2016, 2015, and 2014, 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. There were no options issued during the years ended December 31, 2016, 2015, and 2014.

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:

At December 31, 2016, shares of common stock reserved for issuance under the plan totaled **48,011**.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders’ Equity (continued)

During 2016, 2015, and 2014, shares of common stock purchased under the plan totaled **13,494,** 12,397, and 13,594 respectively. At December 31, 2016, shares of common stock reserved for issuance under the plan totaled **171,645**.

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, 2016, 2015, and 2014.

At December 31, 2016, shares of common stock reserved for issuance under the plan totaled **313,919.**

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.

The Common Equity Tier 1 (beginning in 2015), Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Bank and Bancorp to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders' Equity (continued)

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank or Bancorp. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2016 for the Bank and Bancorp under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2016 and December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

Management believes that as of December 31, 2016, the Bancorp and the Bank are "well capitalized" based on the ratios presented below.

	Actual		Minimum Capital Required - Basel III Phased-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016								
Total Capital (to Risk Weighted Assets)								
Company	$36,750,000	14.7 %	$21,503,986	8.625 %	$ 26,178,765	10.5 %	**N/A**	

Bank	36,471,000	14.6 %	21,486,501	8.625 %	26,157,480	10.5 %	$ 24,911,885	10.0 %
Tier I Capital (to Risk Weighted Assets)								
Company	$ 34,241,000	13.7 %	$ 16,509,944	6.625 %	$ 21,182,569	8.5 %	**N/A**	
Bank	33,962,000	13.6 %	16,507,575	6.625 %	21,179,530	8.5 %	19,933,676	8.0 %
Tier I Capital (to Average Assets)								
Company	$ 34,241,000	8.7 %	$ 15,670,938	4.000 %	$ 15,670,938	4.0 %	**N/A**	
Bank	33,962,000	8.7 %	15,650,691	4.000 %	15,650,691	4.0 %	19,563,364	5.0 %
Common Equity Tier I Capital (to Risk Weighted Assets)								
Company	$ 34,241,000	13.7 %	$ 12,771,843	5.125 %	$ 17,444,469	7.0 %	**N/A**	
Bank	33,962,000	13.6 %	12,770,011	5.125 %	17,441,966	7.0 %	16,196,112	6.5 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders' Equity (continued)

	Actual		Minimum Capital Required - Basel III Phased-In Schedule		Minimum Capital Required - Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015								
Total Capital (to Risk Weighted Assets)								
Company	$37,506,000	15.5%	$19,382,946	8.0%	$25,440,116	10.5%	N/A	
Bank	37,213,000	15.4%	19,369,161	8.0%	25,422,023	10.5%	$24,211,451	10.0%
Tier I Capital (to Risk Weighted Assets)								
Company	$34,477,000	14.2%	$14,537,034	6.0%	$20,594,132	8.5%	N/A	
Bank	34,185,000	14.1%	14,526,204	6.0%	20,578,789	8.5%	19,368,272	8.0%
Tier I Capital (to Average Assets)								
Company	$34,477,000	8.8%	$15,724,971	4.0%	$15,724,971	4.0%	N/A	
Bank	34,185,000	8.7%	15,717,241	4.0%	15,717,241	4.0%	19,646,552	5.0%
Common Equity Tier I Capital (to Risk Weighted Assets)								
Company	$34,477,000	14.2%	$10,902,776	4.5%	$16,959,874	7.0%	N/A	
Bank	34,185,000	14.1%	10,894,653	4.5%	16,947,238	7.0%	15,736,721	6.5%

As of December 31, 2014					
Total Capital (to Risk Weighted Assets)					
Company	$36,959,000	14.3%	$20,645,810	8.0%	N/A

Bank	36,655,000	14.3%	20,477,654	8.0%	$25,597,067	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	$33,728,000	13.1%	$10,322,265	4.0%	N/A	
Bank	33,454,000	13.1%	10,238,409	4.0%	15,357,613	6.0 %
Tier I Capital (to Average Assets)						
Company	$33,728,000	8.5 %	$15,834,742	4.0%	N/A	
Bank	33,454,000	8.4 %	16,006,699	4.0%	20,008,373	5.0 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Earnings Per Common Share

Earnings per common share are calculated as follows:

	2016	2015	2014
Basic:			
Net income	$1,100,720	$1,352,616	$1,914,526
Weighted average common shares outstanding	2,780,477	2,768,966	2,755,671
Basic net income per share	$0.40	$0.49	$0.69

Diluted earnings per share calculations were not required for 2016, 2015, and 2014 as there were no options outstanding at December 31, 2016, 2015, and 2014.

Note 16. Fair Values of Financial Instruments

ASC Topic 825, *Disclosure about Fair Value of Financial Instruments*, requires the disclosure of the estimated fair values of financial instruments. Quoted market prices, where available, are shown as estimates of fair values. Because no quoted market prices are available or a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on the amount and timing of future cash flows and estimated discount rates.

Present value techniques used in estimating the fair value of the Company's financial instruments are significantly affected by the assumptions used. Fair values derived from using present value techniques are not substantiated by comparisons to independent markets, and in many cases, could not be realized in immediate settlement of the instruments.

ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Fair Values of Financial Instruments (continued)

The following table shows the estimated fair value and the related carrying values of the Company's financial instruments as December 31, 2016, 2015, and 2014. Items that are not financial instruments are not included.

	2016 Carrying Amount	Fair Value	2015 Carrying Amount	Fair Value	2014 Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	$6,946,065	$6,946,065	$7,493,524	$7,493,524	$7,101,352	$7,101,352
Interest-bearing deposits in other financial institutions	479,178	479,178	2,308,117	2,308,117	2,154,817	2,154,817
Federal funds sold	3,196,919	3,196,919	2,569,767	2,569,767	4,024,065	4,024,065
Investment securities available for sale	94,606,576	94,606,576	98,790,010	98,790,010	87,993,145	87,993,145
Federal Home Loan Bank Stock	1,200,100	1,200,100	1,203,100	1,203,100	1,327,800	1,327,800
Maryland Financial Bank Stock	30,000	30,000	30,000	30,000	30,000	30,000
Ground rents	163,634	163,634	163,638	163,638	169,200	169,200
Loans, less allowance for credit losses	262,573,603	260,223,000	259,636,706	252,239,000	273,986,237	268,536,000
Accrued interest receivable	1,134,557	1,134,557	1,121,405	1,121,405	1,274,137	1,274,137
Cash value of life insurance	9,327,878	9,327,878	9,357,712	9,357,712	9,138,658	9,138,658
Financial liabilities:						
Deposits	333,237,328	315,418,000	335,191,530	307,924,000	338,877,292	310,239,000
Long-term borrowings	20,000,000	20,445,000	20,000,000	20,688,000	20,000,000	20,951,000
Dividends payable	-	-	-	-	276,096	276,096
Accrued interest payable	34,123	34,123	39,855	39,855	39,823	39,823
Unrecognized financial instruments:						
Commitments to extend credit	25,164,714	25,164,714	21,385,509	21,385,509	21,372,092	21,372,092

Standby letters of credit	47,580	47,580	47,580	47,580	57,580	57,580

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments.

December 31, 2016	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial instruments - Assets					
Cash and cash equivalents	$10,622,162	$10,622,162	$10,622,162	-	$-
Loans receivable, net	262,573,603	260,223,000	-	-	260,223,000
Cash value of life insurance	9,327,878	9,327,878	-	9,327,878	-
Financial instruments - Liabilities					
Deposits	333,237,328	315,418,000	210,525,000	104,893,000	-
Long-term debt	20,000,000	20,445,000	-	20,445,000	-

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:

Fair values for investment securities are based on quoted market prices, where applicable. When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. 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.

Borrowings:

The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed rate borrowings is estimated by discounting future cash flows using current interest rates currently offered for similar financial instruments over the same maturities.

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 17. Fair Value Measurements

The Company follows ASC Topic 820, *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or on a nonrecurring basis.

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Bank’s own assumptions in determining the fair value of assets or liabilities)

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820. The Bank’s securities available-for-sale are the only assets or liabilities subject to fair value measurements on a recurring basis. The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. At December 31, 2016 these non-recurring assets consisted of 24 loans classified as both nonaccrual (5) and accruing loans (19) and a homogeneous pool of indirect and consumer loans considered to be impaired, which are valued under Level 3 inputs and two properties classified as OREO valued under Level 2 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Fair Value Measurements (continued)

Fair value measurements on a recurring and non-recurring basis at December 31, 2016 are as follows:

	Level 1	Level 2	Level 3	Fair Value
December 31, 2016				
Recurring:				
Securities available for sale				
U.S. Treasury	$ -	$1,506,660	$-	$1,506,660
State and Municipal	-	33,845,427	-	33,845,427
Mortgaged-backed	-	59,254,489	-	59,254,489
Non-recurring:				
Maryland Financial Bank stock	-	-	30,000	30,000
Impaired loans	-	-	2,891,369	2,891,369
OREO		113,893	-	113,893
	$ -	$94,720,469	$2,921,369	$97,641,838

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. Based on these appraisals, management has applied a specific valuation allowance allocation of **$293,502** to the impaired loans, which management considers to be level 3 inputs.

Fair Value Measurements

We obtain fair values for our impaired loans through a variety of data points and mostly rely on appraisals from independent appraisers. These appraisals do not include an inside inspection of the property as our loan documents do not require the borrower to allow access to the property. Therefore the most significant unobservable inputs is the details of the amenities included within the property and the condition of the property. Further, we cannot always accurately assess the amount of time it takes to gain ownership of our collateral through the foreclosure process and the damage, as well as potential looting, of the property further decreasing our value.

We typically get independent appraisals of properties within three months from the time we determine there may be a collateral shortfall from an impaired loan. The appraisals are typically updated every 12 months from the independent appraiser and more frequently if we feel material changes in value may have occurred for this specific property. During interim periods, typically at the end of each calendar quarter, we review other data points such as a comparable from other like properties or changes in tax assessment values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Fair Value Measurements (continued)

Non-Financial Assets and Non-Financial Liabilities

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

Foreclosed real estate were adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year. Foreclosed real estate, which are considered to be non-financial assets, have been valued using a market approach. The values were determined using market prices of similar current real estate assets in the same geographical area, which the Bank considers to be level 2 inputs.

Note 18. Recently Issued Accounting Pronouncements

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

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

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Company on January 1, 2018. The Company is still evaluating the potential impact on the Company's financial statements.

ASU 2014-11, "Transfers and Servicing (Topic 860)." ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 became effective for the Company on January 1, 2015 and did not have a significant impact on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Recently Issued Accounting Pronouncements (continued)

ASU 2015-01, "Income Statement Extraordinary and Unusual Items (Subtopic 225-20) – Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items, which, among other things, required an

entity to segregate extraordinary items considered to be unusual and infrequent from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. ASU 2015-01 became effective for the Company beginning January 1, 2016, though early adoption was permitted. ASU 2015-01 did not have a significant impact on the Company's financial statements.

ASU 2015-02, "Consolidation (Topic 810) – Amendments to the Consolidation Analysis." ASU 2015-02 implements changes to both the variable interest consolidation model and the voting interest consolidation model. ASU 2015-02 (i) eliminates certain criteria that must be met when determining when fees paid to a decision maker or service provider do not represent a variable interest, (ii) amends the criteria for determining whether a limited partnership is a variable interest entity and (iii) eliminates the presumption that a general partner controls a limited partnership in the voting model. ASU 2015-02 became effective for us on January 1, 2016 and did not have a significant impact on our financial statements.

ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 became effective for us on January 1, 2016, though early adoption is permitted. ASU 2015-03 did not have a significant impact on our financial statements.

ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 became effective for us on January 1, 2016 and did not have a significant impact on our financial statements.

ASU 2015-09, “Financial Services-Insurance: Disclosures About Short-Duration Contracts.” ASU 2015-09 requires entities to provide additional disclosures about the liability for unpaid claims and claim adjustment expenses to increase the transparency of significant estimates. ASU 2015-09 also requires entities to disclose information about significant changes in methodologies and assumption used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. ASU 2015-09 also requires entities to disclose a rollforward of the liability of unpaid claims and claim adjustment expense for annual and interim reporting periods. The effective date of ASU 2015-09 is for annual reporting periods beginning after December 15, 2015, and interim reporting periods within annual period beginning after December 15, 2016. ASU 2015-09 is not expected to have any impact on the Company’s financial position, cash flows or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Recently Issued Accounting Pronouncements (continued)

ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. ASU 2015-16 became effective for us on January 1, 2016. ASU 2015-16 did not have any significant impact on our financial statements.

ASU 2016-1, “No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.”ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-02 “Leases (Topic 842).” ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-2 will be effective for us on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the potential impact of ASU 2016-02 on our financial statements.

ASU 2016-05 “Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.”ASU 2016-05 *clarifies* that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. *ASU 2016-05* will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-07, “Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.” The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. ASU 2016-07 will be effective for us on January 1, 2017 and is not expected to have a significant impact on our financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Recently Issued Accounting Pronouncements (continued)

ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." ASU 2016-08 was issued to clarify certain principal versus agent considerations within the implementation guidance of *ASC Topic 606, "Revenue from Contracts with Customers."* The effective date and transition of ASU 2016-08 is the same as the effective date and transition of *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, as discussed above. The Company is currently evaluating the potential impact of ASU 2016-08 on our financial statements.

ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 will be effective on January 1, 2017 and is currently not expected to have a significant impact on our financial statements.

ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." ASU 2016-10 was issued to clarify *ASC Topic 606, "Revenue from Contracts with Customers"* related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of *ASU 2014-09, "Revenue from Contracts with Customers (Topic 606),"* as discussed above. The Company is currently evaluating the potential impact of ASU 2016-10 on our financial statements.

ASU No. 2016-12, "Revenue From Contracts With Customers (Topic 606) Narrow-Scope and Practical Expedients" which updated guidance intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” which updated guidance intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The updated guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Recently Issued Accounting Pronouncements (continued)

ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). This Accounting Standards Update addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory.” ASU 2016-16 provides guidance stating that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash.” ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business.” ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for us on January 1, 2018 and is not expected to have a significant impact on our financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Parent Company Financial Information

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

Balance Sheets

December 31,	2016	2015	2014
Assets			
Cash	$169,234	$184,366	$283,796
Investment in The Bank of Glen Burnie	33,526,974	33,882,666	33,557,329
Investment in GBB Properties, Inc.	104,270	104,570	254,870
Due from subsidiaries	3,044	6,211	2,095
Other assets	10,667	8,000	8,533
Total assets	$33,814,189	$34,185,813	$34,106,623
Liabilities and Stockholders' Equity			
Other liabilities	$-	$10,000	$-
Dividends payable	-	-	276,096
Total liabilities	-	10,000	276,096
Stockholders' equity:			
Common stock	2,786,855	2,773,361	2,760,964
Surplus	10,129,856	9,986,064	9,854,119
Retained earnings	21,707,535	21,718,122	21,112,714
Accumulated other comprehensive income (loss), net of benefits	(810,057)	(301,734)	102,730
Total stockholders' equity	33,814,189	34,175,813	33,830,527
Total liabilities and stockholders' equity	$33,814,189	$34,185,813	$34,106,623

Statements of Income

Years Ended December 31,	2016	2015	2014
Dividends and distributions from subsidiaries	$1,005,000	$678,000	$980,000
Other expenses	(92,831)	(86,843)	(77,375)
Income before income tax benefit and equity in undistributed net income of subsidiaries	912,169	591,157	902,625
Income tax benefit	36,219	31,958	28,136
Change in undistributed equity of subsidiaries	152,332	729,501	983,765
Net income	$1,100,720	$1,352,616	$1,914,526

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Parent Company Financial Information (continued)

Statements of Cash Flows

Years Ended December 31,	2016	2015	2014
Cash flows from operating activities:			
Net income	$1,100,720	$1,352,616	$1,914,526
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) decrease in other assets	(2,667)	533	3,424
(Decrease) increase in other liabilities	(10,000)	10,000	-
Decrease (increase) in due from subsidiaries	3,167	(4,116)	(28)
Distribution from Investment in GBB	-	150,000	-
Change in undistributed equity of subsidiaries	(152,332)	(729,501)	(983,765)
Net cash provided by operating activities	938,888	779,532	934,157
Cash flows from financing activities:			
Proceeds from dividend reinvestment plan	157,286	144,342	154,378
Dividends paid	(1,111,306)	(1,023,304)	(1,100,984)
Net cash used in financing activities	(954,020)	(878,962)	(946,606)
(Decrease) increase in cash	(15,132)	(99,430)	(12,449)
Cash, beginning of year	184,366	283,796	296,245
Cash, end of year	$169,234	$184,366	$283,796

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Quarterly Results of Operations (Unaudited)

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

2016

(Dollars in thousands, except per share amounts)	Three months ended, December 31	September 30	June 30	March 31
Interest income	$3,343	$ 3,318	$3,269	$ 3,351
Interest expense	509	526	536	552
Net interest income	2,834	2,792	2,733	2,799
Provision for credit losses	635	116	-	117
Net securities gains	1	-	-	1
Income before income taxes	289	60	352	317
Net income	395	115	308	283
Net income per share (basic and diluted)	$0.15	$ 0.04	$0.11	$ 0.10

2015

(Dollars in thousands, except per share amounts)	Three months ended, December 31	September 30	June 30	March 31
Interest income	$3,356	$ 3,396	$3,374	$ 3,480
Interest expense	576	588	607	620
Net interest income	2,780	2,808	2,767	2,860
Provision for credit losses	410	985	150	150
Net securities gains	369	200	270	199
Income before income taxes	552	(169)	786	429
Net income	447	8	518	380
Net income per share (basic and diluted)	$0.16	$ -	$0.19	$ 0.14

2014

(Dollars in thousands, except per share amounts)	Three months ended, December 31	September 30	June 30	March 31

Interest income	$3,627	$ 3,658	$3,560	$ 3,675
Interest expense	652	666	628	588
Net interest income	2,975	2,992	2,932	3,087
Provision for credit losses	746	125	112	38
Net securities gains	575	361	141	79
Income before income taxes	521	637	498	567
Net income	480	526	435	473
Net income per share (basic and diluted)	$0.17	$ 0.19	$0.16	$ 0.17