GLEN BURNIE BANCORP
Form 10-Q
May 14, 2015

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

FORM 10-Q

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

For the Quarterly period ended March 31, 2015

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

Commission file number 0-24047

GLEN BURNIE BANCORP

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	52-1782444 (I.R.S. Employer Identification No.)
101 Crain Highway, S.E. Glen Burnie, Maryland (Address of principal executive offices)	21061 (Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a

smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-Accelerated Filer o Smaller Reporting Company x

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

At May 11, 2015, the number of shares outstanding of the registrant’s common stock was 2,767,798.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Cash and due from banks	$6,247	$7,101
Interest-bearing deposits in other financial institutions	6,136	2,155
Federal funds sold	5,058	4,024
Cash and cash equivalents	17,441	13,280
Investment securities available for sale, at fair value	97,316	87,993
Federal Home Loan Bank stock, at cost	1,203	1,328
Maryland Financial Bank stock	30	30
Loans, less allowance for credit losses		
(March 31: $3,193; December 31: $3,118)	268,233	273,986
Premises and equipment, at cost, less accumulated depreciation	3,632	3,671
Other real estate owned	45	45
Cash value of life insurance	9,193	9,139
Other assets	4,984	5,158
Total assets	$402,077	$394,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$346,571	$338,877
Long-term borrowings	20,000	20,000
Other liabilities	1,367	1,922
Total liabilities	367,938	360,799
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding:		
March 31: 2,764,458 shares; December 31: 2,760,964 shares	2,764	2,761
Surplus	9,890	9,854
Retained earnings	21,216	21,113
Accumulated other comprehensive gain (loss), net of taxes	269	103
Total stockholders' equity	34,139	33,831

Total liabilities and stockholders' equity	$402,077	$394,630

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Interest income on:		
Loans, including fees	$2,943	$3,106
U.S. Treasury and U.S. Government agency securities	210	216
State and municipal securities	302	330
Other	25	23
Total interest income	3,480	3,675
Interest expense on:		
Deposits	462	430
Long-term borrowings	158	158
Total interest expense	620	588
Net interest income	2,860	3,087
Provision for credit losses	150	38
Net interest income after provision for credit losses	2,710	3,049
Other income:		
Service charges on deposit accounts	105	124
Other fees and commissions	170	171
Other non-interest income	10	4
Income on life insurance	54	55
Gains on investment securities	199	79
Total other income	538	433
Other expenses:		
Salaries and employee benefits	1,668	1,677
Occupancy	214	222
Other expenses	937	1,016
Total other expenses	2,819	2,915
Income before income taxes	429	567
Income tax expense	49	94
Net income	$380	$473
Basic and diluted earnings per share of common stock	$0.14	$0.17

Weighted average shares of common stock outstanding	2,764,129	2,750,603
Dividends declared per share of common stock	$0.10	$0.10

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net income	$380	$473
Other comprehensive income, net of tax		
Unrealized gains on securities:		
Unrealized holding gains arising during the period	286	1,223
Reclassification adjustment for gains included in net income	(120)	(48)
Comprehensive income	$546	$1,648

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net income	$ 380	$ 473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	223	144
Provision for credit losses	150	38
Gains on disposals of assets, net	(199)	(1)
Income on investment in life insurance	(55)	(55)
Changes in assets and liabilities:		
Decrease in other assets	116	116
Decrease in other liabilities	(556)	(342)
Net cash provided by operating activities	59	373
Cash flows from investing activities:		
Maturities and proceeds of available for sale mortgage-backed securities	2,879	1,820
Proceeds from maturities and sales of other investment securities	6,368	2,263
Purchases of investment securities	(18,211)	(1,244)
Sale of Federal Home Loan Bank stock	125	125
Proceeds from sales of other real estate	-	230
Decrease (increase) in loans, net	5,603	(7,902)
Purchases of premises and equipment	(120)	(124)
Net cash used by investing activities	(3,356)	(4,832)
Cash flows from financing activities:		
Increase in deposits, net	7,694	13,120
Dividends paid	(275)	(275)
Common stock dividends reinvested	39	40
Net cash provided by financing activities	7,458	12,885
Increase in cash and cash equivalents	4,161	8,426
Cash and cash equivalents, beginning of year	13,280	10,953
Cash and cash equivalents, end of period	$ 17,441	$ 19,379

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed balance sheet as of December 31, 2014, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in stockholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the unaudited consolidated financial statements have been included in the results of operations for the three months ended March 31, 2015 and 2014.

Operating results for the three months ended March 31, 2015 is not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

NOTE 2 - EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2015	2014
Basic and diluted:		
Net income	$380,000	$473,000
Weighted average common shares outstanding	2,764,129	2,750,603
Basic and dilutive net income per share	$0.14	$0.17

Diluted earnings per share calculations were not required for the three months ended March 31, 2015 and 2014, since there were no options outstanding.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued several exposure drafts regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities, capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, is expected to eliminate diversity in practice as it provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The changes were effective for the Company during the first quarter of 2014. Adoption of this ASU had no impact on the financial statements of the Company.

In May 2014, the FASB and the International Accounting Standards Board (the "IASB") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and International Financial Reporting Standards ("IFRS"). Previous revenue recognition guidance in GAAP comprised broad revenue recognition concepts together with numerous revenue requirements for particular industries or transactions, which sometimes resulted in different accounting for economically similar transactions. In contrast, IFRS provided limited revenue recognition guidance and, consequently, could be difficult to apply to complex transactions. Accordingly, the FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS that would: (1) Remove inconsistencies and weaknesses in revenue requirements; (2) Provide a more robust framework for addressing revenue issues; (3) Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) Provide more useful information to users of financial statements through improved disclosure requirements; and (5) Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. To meet those objectives, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is now effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for interim or annual reporting periods beginning after December 15, 2015; early adoption is permitted. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As of June 30, 2014, the Company did not have any share-based payment awards that include performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 is not expected to have a material impact on the Company's Consolidated 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 us on January 1, 2015 and did not have a significant impact on our 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 is effective for us beginning January 1, 2016, though early adoption is permitted. ASU 2015-01 is not expected to have a significant impact on our 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 will be effective for us on January 1, 2016 and is not expected to 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 will be effective for us on January 1, 2016, though early adoption is permitted. ASU 2015-03 is not expected to 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 will be effective for us on January 1, 2016 and is not expected to have a significant impact on our financial statements.

NOTE 4 – FAIR VALUE

ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

Fair Value Hierarchy

ASC 820-10 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. In accordance with ASC 820-10, these inputs are summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical securities

- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities)

- Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10.

The Company's bond holdings in the investment securities portfolio are the only asset or liability subject to fair value measurements on a recurring basis. Two assets are valued under Level 1 inputs at March 31, 2015 or December 31, 2014. The Company has assets measured by fair value measurements on a non-recurring basis during 2015. At March 31, 2015, these assets include 32 loans classified as impaired, which include nonaccrual, past due 90 days or more and still accruing, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs and one property classified as OREO valued under Level 2 inputs.

The changes in the assets subject to fair value measurements are summarized below by Level:

	(Dollars in Thousands)			
	Level 1	Level 2	Level 3	Fair Value
December 31, 2014				
Recurring:				
Investment securities available for sale (AFS)	$ 790	$ 86,815	$ 388	$ 87,993
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	5,176	5,176
OREO	-	45	-	45
	790	86,860	5,594	93,244
Activity:				
Investment securities AFS				
Purchases of investment securities	-	18,211	-	18,211
Sales, calls and maturities of investment securities	-	(9,248)	-	(9,248)
Amortization/accretion of premium/discount	-	(115)	-	(115)
Increase (decrease) in market value	191	340	(56)	475
Transfer to Level 2	(573)	797	(224)	-
Loans				
New impaired loans	-	-	389	389
Payments and other loan reductions	-	-	(132)	(132)
Change in total provision	-	-	(44)	(44)
OREO				
Sales of OREO	-	-	-	-
Loss on disposal of OREO	-	-	-	-
Write-down of OREO	-	-	-	-
March 31, 2015				
Recurring:				
Investment securities AFS	408	96,800	108	97,316
Non-recurring:				
Maryland Financial Bank stock	-	-	30	30
Impaired loans	-	-	5,389	5,389
OREO	-	45	-	45
	$ 408	$ 96,845	$ 5,527	$ 102,780

The estimated fair values of the Company’s financial instruments at March 31, 2015 and December 31, 2014 are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

(In Thousands)	March 31, 2015 Carrying Amount	March 31, 2015 Fair Value	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value
Financial assets:				
Cash and due from banks	$ 6,247	$ 6,247	$ 7,101	$ 7,101
Interest-bearing deposits	6,136	6,136	2,155	2,155
Federal funds sold	5,058	5,058	4,024	4,024
Investment securities	97,316	97,316	87,993	87,993
Investments in restricted stock	1,203	1,203	1,328	1,328
Ground rents	169	169	169	169
Loans, net	268,233	263,097	273,986	268,536
Accrued interest receivable	1,099	1,099	1,274	1,274
Financial liabilities:				
Deposits	346,571	319,332	338,877	310,239
Long-term borrowings	20,000	21,035	20,000	20,951
Dividends payable	276	276	276	276
Accrued interest payable	42	42	40	40
Off-balance sheet commitments	25,786	25,786	21,430	21,430

Fair values are based on quoted market prices for similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the credit risk, overhead costs and optionality of such instruments.

The fair value of cash and due from banks, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations. The fair value of loans receivable is estimated using discounted cash flow analysis.

The fair value of non-interest bearing deposits, interest-bearing checking, savings, and money market deposit accounts, securities sold under agreements to repurchase, and accrued interest payable are equal to the carrying amounts. The fair value of fixed-maturity time deposits is estimated using discounted cash flow analysis.

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 March 31, 2015 are as follows:

Securities available for sale: (Dollars in Thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Govt Agencies	$5	$4	$-	$-	$5	$4

State and Municipal	5,411	87	803	23	6,214	110
Corporate Trust Preferred	-	-	108	80	108	80
Mortgage Backed	27,537	117	16,509	457	44,046	574
	$32,953	$208	$17,420	$560	$50,373	$768

At March 31, 2015, the company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior Notes with a Moody's rating of Ca. The market for this security (two different portions) at March 31, 2015 was not active and markets for similar securities were also not active. As a result, the Company had cash flow testing performed as of March 31, 2015 by an unrelated third party specialist in order to measure the possible extent of other-than-temporary-impairment ("OTTI"). This testing assumed future defaults on the currently performing financial institutions of 150 basis points applied annually with a 0% recovery on both current and future defaulting financial institutions. No write-down was taken in the first three months of 2015.

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 it's investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of March 31, 2015, 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 March 31, 2015, the Bank held 24 investment securities having continuous unrealized loss positions for more than 12 months. 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 mortgage-backed securities. The Bank has no mortgage-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 securities are impaired due to reasons of credit quality. Except as noted above, as of March 31, 2015, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

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

	At March 31, 2015	At December 31, 2014
	(Dollars in Thousands)	
Estimated credit losses, beginning of year	$ 3,262	$ 3,262
Credit losses - no previous OTTI recognized	-	-
Credit losses - previous OTTI recognized	-	-