GLEN BURNIE BANCORP
Form 10-K
April 02, 2018
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2017 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 (State or other jurisdiction of incorporation or organization)	52 1782444 (I.R.S. Employer Identification No.)
101 Crain Highway, S.E., Glen Burnie, Maryland (Address of principal executive offices)	21061 (Zip Code)
Registrant's telephone number, including area code	(410) 766 3300

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

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

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

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

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

Yes No

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

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

Indicate by check mark 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 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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b 2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's outstanding common equity held by non-affiliates was $23,553,580, computed by reference to the closing sales price of such equity as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017). For the purposes of this calculation, directors, executive officers, and the controlling investor are considered affiliates.

The number of shares of common stock outstanding as of March 23, 2018 was 2,804,456.

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Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement for the 2018 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

GLEN BURNIE BANCORP

2017 ANNUAL REPORT ON FORM 10 K

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PART I

As used in this Annual Report, the term “the Company” refers to Glen Burnie Bancorp and, unless the context clearly requires otherwise, the terms “we,” “us,” and “our,” refer to Glen Burnie Bancorp and its consolidated subsidiaries.

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. It 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”). We attract deposit customers from the general public and use such funds, together with other borrowed funds, to make loans. Our results of operations are primarily determined by the difference between interest incomes earned on our interest-earning assets, primarily interest and fee income on loans, and interest paid on our interest-bearing liabilities, including deposits and borrowings.

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.

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.

RECENT DEVELOPMENTS

On December 22, 2017, President Trump signed into law major tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform Act"). The Tax Reform Act reduces the U.S. federal corporate income tax rate from 35 percent to 21 percent and makes many other changes to the U.S. tax code. We were required to revalue our deferred tax assets and liabilities at the new statutory tax rate upon enactment. As a result of this revaluation, in 2017, we recognized a one-time $0.6 million income tax expense.

AVAILABILITY OF INFORMATION

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 practicable after 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.

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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 the suburbs of the City of Baltimore and is 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. Lending activities are broader, including the entire State of Maryland, and, to a limited extent, the surrounding states. All of our revenue is generated within the United States.

COMPETITION

Our principal competitors for deposits are other financial institutions, including other savings institutions, commercial banks, credit unions, and local banks and branches or affiliates of other larger banks located in our primary market area. Competition among these institutions is based primarily on interest rates and other terms offered, service charges imposed on deposit accounts, the quality of services rendered, and the convenience of banking facilities. Additional competition for depositors' funds comes from mutual funds, U.S. Government securities, insurance companies and private issuers of debt obligations and suppliers of other investment alternatives for depositors such as securities firms. Competition from credit unions has intensified in recent years as historical federal limits on membership have been relaxed. Because federal law subsidizes credit unions by giving them a general exemption from federal income taxes, credit unions have a significant cost advantage over banks and savings associations, which are fully subject to federal income taxes. Credit unions may use this advantage to offer rates that are highly competitive with those offered by banks and thrifts.

The Bank’s interest rates, loan and deposit terms, and offered products and services are impacted, to a large extent, by competition. With respect to indirect lending, the Bank faces competition from other banks and the financing arms of automobile manufacturers. We compete in this area by offering competitive rates and responsive service to dealers. 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.

STRATEGY

We operate on the premise that the consolidation activities in the banking industry have created an opportunity for a well-capitalized community bank to satisfy banking needs that are no longer being adequately met in the local market. Large national and regional banks are catering to larger customers and provide an impersonal experience, and typical community banks, because of their limited capacity, are unable to meet the needs of many small-to-medium-sized businesses. Specifically, as a result of bank mergers in the 1990s, many banks in the Baltimore metropolitan area became local branches of large regional and national banks. Although size gave the larger banks some advantages in competing for business from large corporations, including economies of scale and higher lending limits, we believe that these larger, national banks remain focused on a mass market approach which de-emphasizes personal contact and service. We also believe that the centralization of decision-making power at these large institutions has resulted in a lack of customer service. At many of these institutions, determinations are made at the out-of-state “home office" by individuals who lack personal contact with customers as well as an understanding of the customers' needs and scope of the relationship with the institution. We believe that this trend is ongoing, and continues to be particularly frustrating to owners of small and medium-sized businesses, business professionals and individual consumers who traditionally have been accustomed to dealing directly with a bank executive who had an understanding of their banking needs with the ability to deliver a prompt response.

We attempt to differentiate ourselves from the competition through personalized service, flexibility in meeting the needs of customers, prompt decision making and the availability of senior management to meet with customers and prospective customers.

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PRODUCTS AND SERVICES

General

Our primary market focus is on making loans to and gathering deposits from small and medium-sized businesses and their owners, professionals and executives, real estate investors and individual consumers in our primary market area. We lend to customers throughout Maryland, with our core market being Northern Anne Arundel County and surrounding areas of Central Maryland. To a limited extent, we lend to customers in neighboring states. 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.

Lending Activities

Credit Policies and Administration

The Bank's lending activities are conducted pursuant to written policies approved by the Board of Directors ("Board") 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. 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. We have adopted a comprehensive lending policy, which includes stringent underwriting standards for all types of loans. Our lending staff follows pricing guidelines established periodically by our management team. The Bank maintains two committees, separate from the Board of Directors, which have authorization to approve extensions of credit. The two committees are called the Officer's Loan Committee ("OLC") and the Executive Committee ("EC"). The OLC is authorized to approve extensions of credit where the total aggregate amount of credit to the borrower or guarantor is less than or equal to $1,000,000. The OLC consists of the President/Chief Executive Officer ("President/CEO"), Chief Financial Officer ("CFO"), and Chief Lending Officer ("CLO") plus two additional loan officers. The EC approves extensions of credit where the aggregate amount of credit to an existing borrower is less than or equal to $3,000,000. The EC is comprised of the Chairman of the Board, or the President/CEO plus two (2) outside Directors. Extensions of credit greater than $3,000,000 must be approved by the Board of Directors. Under the leadership of our executive management team, we believe that we employ experienced lending officers, secure appropriate collateral and carefully monitor the financial conditions of our borrowers and the concentration of loans in our portfolio.

All loans by the Bank to our directors and executive officers and their affiliates require pre-approval by the Bank's Board of Directors to ensure, among other things, compliance with Section 23A and Section 23B of the Federal

Reserve Act and Regulation O promulgated thereunder. It is the Bank's policy that all approved loans must be made on substantially the same terms as loans made to persons who are unrelated to the Bank.

In addition to the normal repayment risks, all loans in the portfolio are subject to the state of the economy and the related effects on the borrower and/or the real estate market. Generally, longer-term loans have periodic interest rate

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adjustments and/or call provisions. Senior management monitors the loan portfolio closely to ensure that we minimize past due loans and that we swiftly deal with potential problem loans.

The Bank also retains an outside, independent firm to review the loan portfolio. This firm performs a detailed annual review. We use the results of the firm's report primarily to validate the risk ratings applied to loans in the portfolio and identify any systemic weaknesses in underwriting, documentation or management of the portfolio. Results of the annual review are presented to executive management, the audit committee of the board and the full board of directors and are available to and used by regulatory examiners when they review the Bank's asset quality.

The Bank maintains the normal checks and balances on the loan portfolio not only through the underwriting process but through the utilization of an internal credit administration group that both assists in the underwriting and serves as an additional reviewer of underwriting. The separately managed loan administration group also has oversight for documentation, compliance and timeliness of collection activities. Our internal audit department also reviews documentation, compliance and file management.

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.

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.

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.

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.

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, 2017, approximately 43% of the installment loans in the Bank's portfolio (other than indirect automobile lending) had been originated for commercial purposes and 57% 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 no more than 72 months except for vehicles with original purchase prices greater than $60,000 which may be written for terms up to 75 months if approved by a Senior Loan Officer, CLO, CFO, CEO, or President. The Bank will lend a maximum of 100% of invoice on new vehicles. On used vehicles, the Bank will not lend more than 90% of the of the average retail value as defined by a major national publication approved by the Bank. 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 65 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.

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.

Consumer Lending

We offer various types of secured and unsecured consumer loans. Generally, our consumer loans are made for personal, family or household purposes as a convenience to our customer base. As a general guideline, a consumer's total debt service should not exceed 38% of their gross income. The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of his or her ability to meet existing obligations and payments on the proposed loan.

Consumer loans may present greater credit risk than residential real estate loans because many consumer loans are unsecured or are secured by rapidly depreciating assets. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance because of the greater likelihood of damage, loss or depreciation. Consumer loan collections also depend on the borrower's continuing financial stability. If a borrower suffers personal financial difficulties, the loan may not be repaid. Also, various federal and state laws, including bankruptcy and insolvency laws, may limit the amount we can recover on such loans.

Personal Unsecured Lines

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

Loan Originations, Purchases, Sales, Participations and Servicing

All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate standard underwriting guidelines. We originate both fixed and variable rate loans. Our loan origination activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. We occasionally sell participations in commercial loans to correspondent banks if the amount of the loan exceeds our internal limits. More rarely, we purchase loan participations from correspondent banks in the local market as well. Those loans are underwritten in-house with the same standards as loans directly originated.

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Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, and the adequacy of the value of the collateral that will secure the loan, if applicable. To assess a business borrower's ability to repay, we review and analyze, among other factors: current income, credit history including the Bank's prior experience with the borrower, cash flow, any secondary sources of repayment, other debt obligations in regards to the equity/net worth of the borrower and collateral available to the Bank to secure the loan.

We require appraisals or valuations of all real property securing one-to-four family residential and commercial real estate loans and home equity loans and lines of credit. All appraisers are state licensed or state certified appraisers, and a list of approved appraisers is maintained and updated on an annual basis.

Deposit Activities

Deposits are the major source of our funding. We offer a broad array of consumer and business deposit products that include demand, money market, and savings accounts, as well as time deposits. We offer a competitive array of commercial cash management products, which allow us to attract demand deposits. We believe that we pay competitive rates on our interest-bearing deposits. As a relationship-oriented organization, we generally seek to obtain deposit relationships with our loan clients.

Other Banking Products

We offer our customers treasury services products that include wire transfer and ACH services, checkcards and automated teller machines at most of our full service branch locations, safe deposit boxes at some full service locations and credit cards through a third party processor. In addition to traditional deposit services, we offer telephone banking services, mobile banking, internet banking services and internet bill paying services to our customers.

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, 2017, the Bank had 99 full-time equivalent employees. Neither the Company nor GBB currently has any employees. None of our employees are represented by a union or covered under a collective bargaining agreement. Management considers its employee relations to be excellent.

SUPERVISON AND REGULATION

General

The Company and the Bank are extensively regulated under federal and state law. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular

statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on our business and our prospective business. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We are unable to predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, economic controls, or new federal or state legislation may have in the future.

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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. As a publicly traded company whose common stock is registered under Section 12(g) of the Exchange Act, we are under the jurisdiction of the SEC and subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. We are listed on the NASDAQ Global Select Market and we are subject to the rules of NASDAQ for listed companies.

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 ("Commissioner") and the FDIC. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance funds and depositors, and not for the protection of stockholders. The Commissioner and FDIC regularly examine the operations of the Bank, including but not limited to capital adequacy, assets, earnings, liquidity, sensitivity to market interest rates, reserves, loans, investments and management practices. 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.

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.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank ("FHLB"), which is one of 12 regional banks in the Federal Home Loan Bank System. The FHLB System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. The Bank is required to acquire and hold shares of capital stock of the FHLB as a condition of membership. As of December 31, 2017, the Bank was in compliance with this requirement.

Consumer Financial Protection Laws

The Bank is subject to a number of federal and state consumer financial protection laws and regulations that extensively govern its transactions with consumers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, and the Service Members Civil Relief Act. The Bank must also comply with applicable state usury laws and other laws prohibiting unfair and deceptive acts and practices. These laws, among other things, require disclosures of the cost of credit and the terms of deposit accounts, prohibit discrimination in credit transactions, regulate the use of credit report information, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight. Violations of these laws may expose us to

liability from potential lawsuits brought by affected customers. Federal bank regulators, state attorneys general and state and local consumer protection agencies may also seek to enforce these consumer financial protection laws, in which case we may be subject to regulatory sanctions, civil money penalties, and customer rescission rights.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was signed into law in 2010, significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affected the regulation of community banks, thrifts, and small bank and thrift holding companies. Among other things, these provisions relaxed rules on interstate branching, allow financial institutions to pay interest on business checking accounts, and impose heightened capital requirements on bank and thrift holding companies. The Dodd-Frank Act also includes several corporate governance provisions that apply to all public companies, not just financial institutions. These include provisions mandating certain disclosures regarding executive compensation and provisions addressing proxy access by shareholders.

The Dodd-Frank Act also establishes the Consumer Financial Protection Bureau ("CFPB") as an independent entity within the Federal Reserve and transferred to the CFPB primary responsibility for administering substantially all of the consumer compliance protection laws formerly administered by other federal agencies. The Dodd-Frank Act also authorizes the CFPB to promulgate consumer protection regulations that will apply to all entities, including banks that offer consumer financial services or products. It also includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payment penalties.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, including some that may affect our business in substantial and unpredictable ways. We have incurred higher operating costs in complying with the Dodd-Frank Act, and we expect that these higher costs will continue for the foreseeable future. Our management continues to monitor the ongoing implementation of the Dodd-Frank Act and as new regulations are issued, will assess their effect on our business, financial condition, and results of operations.

The Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and from investing and sponsoring hedge funds and private equity funds. The provision of the statute imposing these restrictions is commonly called the "Volcker Rule." The regulations implementing the Volcker Rule require institutions to conform their activities to the requirements of the Volcker Rule by July 21, 2015, and to conform their investments in certain "legacy covered funds" by July 21, 2017. These regulations exempt the Bank, as a bank with less than $10 billion in total consolidated assets that does not engage in any covered activities.

Liquidity Requirements

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source.

In September 2015, the federal bank regulators approved final rules implementing the LCR for advanced approaches banking organizations (i.e., banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure) and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approach banking organizations, neither of which would apply to the Company or the Bank. The federal bank regulators have not yet proposed rules to implement the NSFR, but the Federal Reserve has stated its intent to adopt a version of this measure as well.

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Bank Holding Company Act (BHCA)

Under the BHCA our activities are limited to business closely related to banking, managing, or controlling banks. We are also subject to capital requirements applied on a consolidated basis in a form substantially similar to those required of the Bank. The BHCA also requires a bank holding company to obtain approval from the Federal Reserve before (i) acquiring, or holding more than 5% voting interest in any bank or bank holding company, (ii) acquiring all or substantially all of the assets of another bank or bank holding company, or (iii) merging or consolidating with another bank holding company. The BHCA also restricts non-bank activities to those which, by statute or by Federal Reserve regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

Gramm-Leach-Bliley Act of 1999 (GLBA)

The GLBA removed barriers to affiliations among banks, insurance companies, the securities industry, and other financial service providers, and provides greater flexibility to these organizations in structuring such affiliations. The GLBA also expanded the types of financial activities a bank may conduct through a financial subsidiary and established a distinct type of bank holding company, known as a financial holding company, which may engage in an expanded list of activities that are “financial in nature.” These activities include securities and insurance brokerage, securities underwriting, insurance underwriting, and merchant banking. A bank holding company may become a financial holding company only if all of its subsidiary financial institutions are well-capitalized and well-managed and have at least a satisfactory Community Reinvestment Act (CRA) rating. While we meet these standards, we do not currently intend to file notice with the Federal Reserve to become a financial holding company or to engage in expanded financial activities through a financial subsidiary of the Bank. The GLBA also includes privacy protections for nonpublic personal information held by financial institutions regarding their customers, and establishes a system of functional regulation that makes the Federal Reserve the “umbrella supervisor” for holding companies, and other federal and state agencies the supervisor of the holding company’s subsidiaries.

Financial Privacy

In accordance with the GLBA, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLBA affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We are also subject to various state laws that generally require us to notify any customer whose personal financial information may have been released to an unauthorized person as the result of a breach of our data security policies and procedures.

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 Commissioner. 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 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 Standards

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In July 2013, the Federal Reserve and other federal banking agencies approved final rules implementing the Basel Committee on Banking Supervision's capital guidelines for all U.S. banks and for bank holding companies with greater than $500 million in assets. The Federal bank regulatory agencies use capital adequacy guidelines in their examination and regulation of bank holding companies and banks. If capital falls below the minimum levels established by these guidelines, a bank holding company or bank must submit an acceptable plan for achieving compliance with the capital guidelines and, until its capital sufficiently improves, will be subject to denial of applications and appropriate supervisory enforcement actions. Under these final rules, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio. The final rules also require a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. A three-year phase in period for the capital buffer requirement began in 2016. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis. These capital requirements were effective January 1, 2015.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

The final rules also increase the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. The final rules adopt the risk weights for residential mortgages under the existing general risk-based capital rules, which assign a risk weight of either 50% (for most first-lien exposures) or 100% for other residential mortgage exposures.

As of December 31, 2017, we were in compliance with all applicable regulatory capital requirements. Management also believes that, as of that date, we would have met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis had those requirements been currently in effect.

Loans-to-One Borrower

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

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the Bank's capital, surplus, retained earnings and 50% of its allowance for possible loan losses. 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). As of December 31, 2017, the Bank was in compliance with the loans-to-one-borrower limitations.

Prompt Corrective Action Regulations

The FDIC's prompt corrective action regulations establish five capital levels for financial institutions ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"), and impose mandatory regulatory scrutiny and limitations on institutions that are less than adequately capitalized. At December 31, 2017, the Bank was categorized as "well capitalized," meaning that our total risk-based capital ratio exceeded 10.00%, our Tier 1 risk-based capital ratio exceeded 8.00%, our common equity Tier-1 risk-based capital ratio exceeded 6.50%, our leverage ratio exceeded 5.00%, and we are not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure.

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.

USA Patriot Act of 2001

The USA Patriot Act of 2001 (the "Patriot Act") substantially broadened the scope of anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions. The regulations adopted by the Treasury under the Patriot Act require financial institutions to maintain appropriate controls to combat money laundering activities, perform due diligence of private banking and correspondent accounts, establish standards for verifying customer identity, and provide records related to suspected anti-money laundering activities upon request from federal authorities. A financial institution's failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches, and could also have other serious legal and reputational consequences for the institution. We have established policies, procedures and systems designed to comply with these regulations. However, 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

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The Community Reinvestment Act of 1977 ("CRA") requires that, in connection with examinations of financial institutions, federal banking regulators must evaluate the record of the financial institution in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of the bank. Federal banking regulators are required to consider a financial institution's performance in these areas as they review applications filed by the institution to engage in mergers or acquisitions or to open a branch or facility. 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.

Interstate Branching

The Dodd-Frank Act expanded the authority of a state or national bank to open offices in other states. A state or national bank may now open a de novo branch in a state where the bank does not already operate a branch if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch. This provision removed restrictions under prior law that restricted a state or national bank from expanding into another state unless the laws of the bank's home state and the laws of the other state both permitted out-of-state banks to open de novo branches.

Dividend Limitations

The ability of the Bank to pay dividends is limited by state and federal laws and regulations that require the Bank to obtain the prior approval before paying a dividend that, together with other dividends it has paid during a calendar year, would exceed the sum of its net income for the year to date combined with its retained net income for the previous two years. 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.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("SOX") includes provisions intended to enhance corporate responsibility and protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws, and which increase penalties for accounting and auditing improprieties at public traded companies. The SOX generally applies to all companies that file or are required to file periodic reports with the SEC under the Exchange Act.

Among other things, the SOX creates the Public Company Accounting Oversight Board ("PCAOB") as an independent body subject to SEC supervision with responsibility for setting auditing, quality control, and ethical standards for auditors of public companies. The SOX also requires public companies to make faster and more-extensive financial disclosures, requires the chief executive officer and the chief financial officer of public companies to provide signed certifications as to the accuracy and completeness of financial information filed with the SEC, and provides enhanced criminal and civil penalties for violations of the federal securities laws.

The SOX also addresses functions and responsibilities of audit committees of public companies. The statute, by mandating certain stock exchange listing rules, makes the audit committee directly responsible for the appointment, compensation, and oversight of the work of the company's outside auditor, and requires the auditor to report directly to

the audit committee. The SOX authorizes each audit committee to engage independent counsel and other advisors, and requires a public company to provide the appropriate funding, as determined by its audit committee, to pay the company's auditors and any advisors that its audit committee retains. The SOX also requires public companies to prepare an internal control report and assessment by management, along with an attestation to this report prepared by the company's independent registered public accounting firm, in their annual reports to stockholders.

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FDIC Deposit Insurance Assessment

The Dodd-Frank Act which was signed into law on July 21, 2010, changed how the FDIC calculates deposit insurance premiums payable by insured depository institutions. The Dodd-Frank Act directs the FDIC to calculate the deposit insurance assessments payable by each insured depository institution based generally upon the institution's average total consolidated assets minus its average tangible equity during the assessment period. Previously, an institution's assessments were based on the amount of its insured deposits. The minimum deposit insurance fund rate will increase from 1.15% to 1.35% by September 30, 2020, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. The Dodd-Frank Act also provides the FDIC with discretion to determine whether to pay rebates to insured depository institutions when its deposit insurance reserves exceed certain thresholds.

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 (dollars in thousands):

	Year Opened	Owned/ Leased	Book Value	Approximate Square Footage	Deposits

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Main Office:					
101 Crain Highway, S.E. Glen Burnie, MD 21061	1953	Owned	$ 385	10,000	$ 97,932
Branches:					
Odenton 1405 Annapolis Road Odenton, MD 21113	1969	Owned	120	6,000	35,522
Riviera Beach 8707 Ft. Smallwood Road Pasadena, MD 21122	1973	Owned	182	2,500	33,912
Crownsville 1221 Generals Highway Crownsville, MD 21032	1979	Owned	370	3,000	63,859
Severn 811 Reece Road Severn, MD 21144	1984	Owned	81	2,500	33,022
New Cut Road 740 Stevenson Road Severn, MD 21144	1995	Owned	1,040	2,600	36,022
Linthicum Burwood Village Shopping Center Glen Burnie, MD 21060	2005	Leased	65	2,500	18,857
Severna Park 534 Ritchie Highway Severna Park, MD 21146	2002	Leased	39	2,184	15,112
Operations Centers:					
106 Padfield Blvd. Glen Burnie, MD 21061	1991	Owned	585	16,200	N/A
103 Crain Highway, S.E. Glen Burnie, MD 21061	2000	Owned	264	3,727	N/A

At December 31, 2017, the Bank owned one foreclosed real estate property.

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank from time to time are involved in legal proceedings related to collection suits and other actions that arise in the ordinary course of business against their borrowers and are defendants in legal actions arising from normal business activities. The Company's management, after consultation with legal counsel, believe there are

no pending or threatened legal proceedings that, upon resolution, are expected to have a material adverse effect upon the Company’s or the Bank’s financial condition or results of operations based on all known information at this time.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company’s executive officers as of December 31, 2017.

NAME	AGE	POSITIONS
John D. Long	62	President and Chief Executive Officer
Andrew J. Hines	56	Executive Vice President and Chief Lending Officer
Jeffrey D. Harris	62	Senior Vice President and Treasurer and Chief Financial Officer
Michelle Stambaugh	58	Senior Vice President and HR Director
Donna Smith	55	Senior Vice President and Director of Branch and Deposit Operations

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.

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.

JEFFREY D. HARRIS was appointed Senior Vice President, Treasurer of the Company and Senior Vice President, Chief Financial Officer, and CRA and Compliance Officer of the Bank effective March 30, 2017. Prior to that, he was the SVP – Controller at Bay Bank.

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

DONNA SMITH was appointed Senior Vice President – Director of Retail Banking / Information/Physical Security Officer on October 26, 2015. 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

Our authorized common stock consists of 15,000,000 shares, of which 2,801,149 shares are issued and outstanding as of December 31, 2017. The Common Stock is traded on the Nasdaq Capital Market under the symbol “GLBZ”. As of March 12, 2018, there were 364 record holders of the Common Stock. The closing price for the Common Stock on that date was $12.30.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2017 and 2016 as reported by Nasdaq. The quotations represent prices between dealers and do not reflect the

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retailer markups, markdowns or commissions, and may not represent actual transactions. Also shown are dividends declared per share for these periods.

	2017			2016		
Quarter Ended	High	Low	Dividends	High	Low	Dividends
March 31,	$ 12.55	$ 11.10	$ 0.10	$ 12.37	$ 10.35	$ 0.10
June 30,	12.10	10.51	0.10	11.19	10.32	0.10
September 30,	11.50	10.34	0.10	11.65	9.86	0.10
December 31,	11.61	10.55	0.10	11.72	9.94	0.10

A regular dividend of $0.10 was declared for stockholders of record on February 12, 2018, payable on February 23, 2018.

The payment of dividends by the Company depends upon the ability of the Bank to declare and pay dividends to the Company because the principal source of the Company's revenue will be dividends paid by the Bank. 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.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include projections, predictions, expectations or statements as to beliefs or future events or results, or refer to other matters that are not purely statements of historical facts. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking statements contained in this Annual Report are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like "may", "will", "should", "expect", "plan", "anticipate", "intend", "believe", "estimate", "predict", "potential", or "continue" or the negative of those wo other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. Further, factors or events that could cause our actual results to differ from our forward-looking statement s may emerge from time to time, and it is not possible for us to predict all of them. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Factors that might cause such differences include, but are not limited to:

- changes in our plans and strategies and the results thereof;
- the impact of acquisitions and other strategic transactions;
- unexpected changes in the housing market, business markets, and/or general economic conditions in our market area, or a slower-than-anticipated economic recovery, which might lead to increased or decreased demand for loans, deposits and other products and services;
- unexpected changes in market interest rates or monetary policy;
- the impact of new laws, regulations and governmental policies and guidelines that might require changes to our business model;
- changes in laws, regulations and governmental policies and guidelines that might impact our ability to collect on outstanding loans or otherwise negatively impact our business;
- higher than anticipated loan losses or the insufficiency of the allowance for credit losses;
- our potential exposure to various types of market risks, such as interest rate risk and credit risk;
- our ability to recover the fair values of available for sale securities;
- our obligation to fund commitments to extend credit and unused lines of credit;
- changes in consumer confidence, spending and savings habits relative to the services we provide;
- continued relationships with major customers;
- competition from other financial institutions in originating loans, attracting deposits, and providing various financial services that may affect our profitability;
- the ability to continue to grow our business internally and through acquisition and successful integration of bank entities while controlling our costs;
- changes in competitive, governmental, regulatory, accounting, technological and other factors that may affect us specifically or the banking industry generally, including as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act");
- changes in our sources and availability of liquidity;

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- the impact of pending and future legal proceedings; and
- losses that we may realize from off-balance sheet arrangements.

You should also carefully consider additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

OVERVIEW

This section is intended to help investors understand the financial performance of the Company through a discussion of the factors affecting our financial condition at December 31, 2017 and December 31, 2016 and our results of operations for the years ended December 31, 2017 and December 31, 2016. This section should be read in conjunction with the consolidated financial statements and notes thereto that appear elsewhere in this Annual Report on Form 10-K. During 2017, net interest income increased to $11.7 million from $11.2 million in 2016, a 4.59% increase. Total interest income increased from $13.3 million in 2016 to $13.6 million in 2017, a 2.45% increase. Interest expense for 2017 totaled $1.9 million, an 8.76% decrease from $2.1 million in 2016. Due to the increase in tax expense resulting from the revaluation of deferred tax assets resulting from the Tax Reform Act, net income decreased by $0.2 million to $0.9 million in 2017 compared to $1.1 million in 2016.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

General. For the year ended December 31, 2017, the Company reported consolidated net income of $0.9 million ($0.33 basic and diluted earnings per share) compared to consolidated net income of $1.1 million ($0.40 basic and diluted earnings per share) for the year ended December 31, 2016. The decrease in the 2017 consolidated net income was mainly due $0.6 million increase in tax expense due to the effect of the decrease in the federal tax rate on deferred tax assets. For the year ended December 31, 2017, the Company reported a net income before taxes of $1.8 million compared to $1.0 million for the year ended December 31, 2016. The primary reason for the increase in net income before taxes was an overall increase in interest income due to a larger volume of loans in 2017 compared to 2016, a lower provision for loan losses in 2017 compared to 2016, and a decrease in interest expense resulting from a decrease in the volume of interest earning time deposits in 2017 compared to 2016. Annualized return on average assets was 0.23% at December 31, 2017 compared to 0.28% at December 31, 2016. Annualized return on average equity was 2.65% and 3.17% at December 31, 2017 and 2016, respectively. The dividend payout ratio was 123.0% at December 31, 2017 compared to 101.0% at December 31, 2016. The equity to asset ratio was 8.74% and 8.71% at December 31, 2017 and 2016, repectively.

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.

The Company’s net interest margin is determined by dividing net interest income by the Company’s average interest-earning assets.

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.

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Consolidated net interest income for the year ended December 31, 2017 was $11.7 million compared to $11.2 million for the year ended December 31, 2016, a $0.5 million, or a 4.6% increase. Total interest income increased from $13.3 million for 2016 to $13.6 million for 2017, a $0.3 million, or a 2.45% increase, primarily due to an increase in interest and fees on loans.

Total interest expense decreased from $2.1 million in 2016 to $1.9 million in 2017, a $0.2 million or an 8.76% 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, 2017 was 3.12% compared to 2.98% for the year ended December 31, 2016.

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,					
	2017	VS.	2016	2016	VS.	2015
	Change Due To:			Change Due To:		
(dollars in thousands)	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume
ASSETS:						
Interest-earning assets:						
Interest-bearing deposits w/ banks & fed funds	$ 49	$ 81	$ (32)	$ (23)	$ (34)	$ 11
Investment securities:						
Investment securities available for sale	35	202	(167)	(637)	(659)	22
Restricted equity securities	11	7	4	19	(30)	49
Total investment securities	46	209	(163)	(618)	(689)	71
Loans, net of unearned income						
Consumer	(32)	22	(54)	(33)	(38)	5
Residential Real Estate	(548)	(255)	(293)	(156)	524	(680)
Indirect	436	(15)	451	(58)	(38)	(20)
Commercial	31	65	(34)	(22)	(42)	20
Construction	95	(9)	104	(10)	10	(20)
Commercial Real Estate	249	264	(15)	(108)	(270)	162
Total net loans	231	72	159	(387)	146	(533)
Total interest-earning assets	$ 326	$ 361	$ (36)	$ (1,028)	$ (577)	$ (451)
LIABILITIES:						
Interest-bearing deposits:						
Interest-bearing checking and savings	$ 5	$ 4	$ 1	$ 4	$ 2	$ 2
Money market	—	——	——	(3)	(3)	0
Other time deposits	(186)	(53)	(133)	(271)	(131)	(140)
Total interest-bearing deposits	(181)	(49)	(132)	(270)	(132)	(138)
Borrowed funds	(5)	(48)	43	2	2	—
Total interest-bearing liabilities	$ (186)	$ (97)	$ (89)	$ (268)	$ (130)	$ (138)

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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,									
	2017				2016					
	Average Balance	Interest	Yield/ Cost		Average Balance	Interest	Yield/ Cost	
	(dollars In thousands)							
ASSETS:								
Interest-earning assets:								
Interest-bearing deposits w/ banks & fed funds	$ 11,679	$ 111	0.95	%	$ 15,099	$ 62	0.41	%
Investment securities:								
Investment securities available for sale	91,634	2,007	2.19		99,281	1,972	1.99	
Restricted equity securities	1,291	68	5.20		1,231	57	4.59	
Total investment securities	92,925	2,075	2.23		100,512	2,029	2.06	
Loans								
Consumer	15,257	933	6.11		16,135	965	5.98	
Residential Real Estate	86,672	3,976	4.59		93,063	4,524	4.86	
Indirect	81,463	2,118	2.60		64,108	1,682	2.62	
Commercial	11,842	670	5.66		12,442	639	5.14	
Construction	6,316	359	5.68		4,483	264	5.89	
Commercial Real Estate	68,051	3,365	4.95		68,352	3,116	4.56	
Total gross loans(1)	269,601	11,421	4.24		258,583	11,190	4.33	
Total interest-earning assets	374,205	13,607	3.64		374,194	13,281	3.55	
Cash and due from banks	3,342				3,530			
Allowance for credit losses	(2,626)				(2,536)			
Other assets	17,439				17,756			
Total assets	$ 392,360				$ 392,944			
LIABILITIES AND STOCKHOLDER'S EQUITY:								
Interest-bearing deposits:								
Interest-bearing checking and savings	$ 112,788	59	0.05	%	$ 109,819	54	0.05	%
Money market	19,375	10	0.05		18,911	10	0.05	
Certificates of deposit	100,350	1,231	1.23		111,201	1,417	1.27	
Total interest-bearing deposits	232,513	1,300	0.56		239,931	1,481	0.62	
Borrowed funds:								
FHLB advances	21,458	637	2.97		20,000	642	3.21	
Total interest-bearing liabilities	253,971	1,937	0.76		259,931	2,123	0.82	
Non-interest-bearing deposits	103,292				97,491			
Other liabilities	1,033				1,066			

Stockholder's equity	34,064			34,456		
Total liabilities and equity	$ 392,360			$ 392,944		
Net interest income		$ 11,670			$ 11,158	
Net interest spread			2.87 %			2.73 %
Net interest margin			3.12 %			2.98 %

1 Nonaccrual loans included in average balance.

Provision for Credit Losses. The Company's loan portfolio is subject to varying degrees of credit risk and an allowance for loan losses is maintained to absorb losses inherent in its loan portfolio. Credit risk includes, but is not limited to, the potential for borrower default and the failure of collateral to be worth what the Bank determined it was worth at the time of the granting of the loan. The Bank monitors its loan portfolio loan delinquencies monthly. All loans that are delinquent and all loans within the various categories of the Bank's portfolio as a group are evaluated. The Bank's management estimates an allowance for loan losses. Included in determining the calculation are such factors as historical losses for each loan portfolio, current market value of the loan's underlying collateral, inherent risk contained within the portfolio after considering the state of the general economy, economic trends, consideration of

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particular risks inherent in different kinds of lending and consideration of known information that may affect loan collectability.

During the year ended December 31, 2017, the Company made a provision of $0.3 million for loan losses, compared to a provision of $0.9 million for loan losses for the year ended December 31, 2016. In 2017, the Bank decreased its provision for credit losses compared to the prior period as specifically reserved, impaired loans were resolved. At December 31, 2017, the allowance for loan losses equaled 77.7% of nonaccrual and past due loans compared to 65.6% at December 31, 2016. During the year ended December 31, 2017, the Company recorded net charge-offs of $0.2 million compared to $1.5 million in net charge-offs during the year ended December 31, 2016.

Noninterest Income. Noninterest income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities sold, and income on bank owned life insurance (BOLI). Noninterest income decreased from $1.6 million in 2016 to $1.3 million in 2017, a $0.3 million, or 18.67% decrease. The decrease was primarily due to $0.4 million decrease in other income due to a death benefit associated with BOLI recorded in 2016, partially offset by an overall $0.2 million increase in other fees and commissions.

Noninterest Expenses. Other non-interest expenses decreased from $10.9 million in 2016 to $10.8 million in 2017, a $0.1 million or 0.53% decrease. Salary and employee benefits decreased by $0.04 million, or 0.76%, due to a decrease in overall salaries paid to employees in 2017 compared to 2016. Occupancy and equipment expenses increased by $0.1 million in 2017. The increase is due to software purchased by the Bank for several deparments in 2017. Legal, accounting and other professional fees increased from $0.8 million in 2016 to $0.9 million in 2016, a $0.1 million, or 18.23% increase. The increase was due to higher legal and accounting fees paid in 2017 compared to 2016. Data processing and item processing services decreased by $0.1 million, or 18.70%, to $0.6 million in 2017 compared to $0.7 million in 2016. The decrease was due to the renegotiation of several services contracts in 2017. FDIC insurance costs decreased by $0.04 million, or 12.85%. Advertising and marketing expenses increased by $0.1 million, or 107.69 %, from $0.1 million in 2016, to $0.2 in 2017. This increase was primarily due to an increase in printing of marketing materials expenses. Loan collection costs decreased to $0.1 million at December 31, 2017, compared to $0.2 million at December 31, 2016, a $0.1 million, or 61.58% decrease. The decrease is due to a decrease in the amount of collection expenses paid in 2017 compared to 2016. Telephone cost increased by $0.1 million, or 43.75%, to $0.3 million in 2017 compared to $0.2 million in 2016. The increase was due to a new phone system purchased and implemented in 2017. Other expenses decreased to $1.2 million at December 31, 2017, compared to $1.4 million at December 31, 2016, a $0.2 million, or 10.27% decrease. The decrease was mainly due to a decrease in ATM expenses and office supplies purchased in 2017 compared to 2016.

Income Taxes. During the year ended December 31, 2017, the Company recorded an income tax expense of $0.9 million, compared to an income tax credit of $0.08 million for the year ended December 31, 2016, a $1.0 million or 1,200.0% decrease. This increase was primarily due to $0.8 million higher income before taxes and $0.6 million tax expense associated with the revaluation of deferred tax assets as a result of the reduction in the federal tax rate included in the Tax Reform Act.

FINANCIAL CONDITION

Total assets increased by $1.1 million, or 0.26% to $389.5 million at December 31, 2017, compared to the $388.4 million at December 31, 2016. Increases in cash, and loans, offset by a decrease in investment securities available for sale, were the reasons for the increase.

Cash

Cash and cash equivalents increased by $2.0 million primarily due to an increase in Federal Funds at yearend 2017.

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Investment Securities

The Company's investment policy authorizes management to invest in traditional securities instruments in order to provide ongoing liquidity, income and a ready source of collateral that can be pledged in order to access other sources of funds. The investment portfolio consists mainly of securities available for sale. Securities available for sale are those securities that we intend to hold for an indefinite period of time but not necessarily until maturity. These securities are carried at fair value and may be sold as part of an asset/liability management strategy, liquidity management, interest rate risk management, regulatory capital management or other similar factors.

The investment portfolio consists primarily of U.S. Treasury securities, U.S. Government agency securities, residential mortgage-backed securities and state and municipal obligations. The income from state and municipal obligations is exempt from federal income tax. State and municipal obligations from the State of Maryland are exempt from state income taxes. We use the investment portfolio as a source of both liquidity and earnings. Management continuously evaluates investment options that will produce income without assuming significant credit or interest rate risk and looks for opportunities to use liquidity from maturing investments to reduce our use of high cost time deposits and borrowed funds.

During 2017, the Company's investment securities portfolio totaled $89.3 million, a $5.3 million or 5.6%, decrease from $94.6 million at December 31, 2016. This decrease was primarily driven by $19.5 million of net sales and redemption of investment securities, offset by $13.8 million of purchases and a 0.4 million increase in the market value of available for sale securities.

The composition of investment securities, at carrying value, at December 31, 2017 and 2016 are presented in the following table:

	2017			2016		
(dollars in thousands)	Amount	%		Amount	%	
Available for sale securities:						
U.S. Treasury	$ 1,493	1.7	%	$ 1,507	2	%
U.S. Government agency	3,480	3.9	%	—	—	%
Residential mortgage-backed securities	48,743	54.6	%	59,254	63	%
State and municipal	35,633	39.9	%	33,845	36	%
Total debt securities	$ 89,349	100.0	%	$ 94,606	100.0	%

At December 31, 2017, 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.

Maturities and weighted average yields for investment securities at December 31, 2017 are presented in the following table:

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	2017		
(dollars in thousands)	Amortized Cost	Fair Value	Yield (1), (2)
Maturing Available for sale securities:			
Within one year	$ 899	$ 905	3.60 %
Over one to five years	1,819	1,806	1.78 %
Over five to ten years	18,024	17,849	2.33 %
Over ten years	69,526	68,789	2.96 %
Total debt securities	$ 90,268	$ 89,349	

(1) Yields are stated as book yields which are adjusted for amortization and accretion of purchase premiums and discounts, respectively.
(2) Yields on tax-exempt obligations have been computed on a tax-equivalent basis.

Restricted Equity Securities

Restricted equity securities were $1.2 million at December 31, 2017 and 2016.

Loans

A comparison of the loan portfolio for the years indicated is presented in the following table:

	December 31, 2017		2016		2015		2014		2013
(dollars in thousands)	$	%	$	%	$	%	$	%	$
Consumer	$ 16,112	6 %	$ 14,739	6 %	$ 16,465	6 %	$ 16,406	6 %	$ 17,328
Residential real estate	81,926	30	93,468	35	103,018	39	109,496	40	111,072
Indirect	85,186	31	71,656	27	62,220	24	69,547	25	57,230
Commercial	11,257	4	12,351	5	12,697	5	12,132	4	13,421
Construction	3,536	1	4,397	2	4,651	2	5,565	2	6,063
Commercial real estate	73,595	27	68,447	26	63,735	24	63,958	23	68,542
Gross loans	271,612	100 %	265,058	100 %	262,787	100 %	277,104	100 %	273,656
Allowance for credit losses	(2,589)		(2,484)		(3,150)		(3,118)		(2,972)
Net loans	$ 269,023		$ 262,574		$ 259,637		$ 273,986		$ 270,684

The Company's loans, net of deferred fees and costs, increased by $6.4 million to $269.0 million at December 31, 2017 from $262.6 million at December 31, 2016 primarily due to $79.9 million in new originations outpacing pay downs and a slowing in the pace of impaired loan resolutions. This change in the composition of the loan portfolio resulted primarily from the $20.1 million increase in indirect loans, consumer loans and commercial real estate, offset

by $13.5 million decrease in residential real estate, commercial and industrial mortgages and construction loans.

The following table summarizes the scheduled repayments of our loan portfolio, both by loan category and by fixed and adjustable rates, at December 31, 2017. Demand loans and loans, which have no stated maturity, are treated as due in one year or less.

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	Due Within One Year	Due Over One To Five Years	Due Over Five Years	Total
	(dollars in thousands)			
By Loan Category:				
Consumer	$ 11,791	$ 614	$ 3,707	$ 16,112
Residential real estate	105	2,686	79,135	81,926
Indirect automobile	821	49,832	34,533	85,186
Commercial & industrial	7,075	2,667	1,515	11,257
Construction	2,378	—	1,158	3,536
Commercial real estate	2,995	26,782	43,818	73,595
Total	25,165	82,581	163,866	271,612
By Rate Term:				
Fixed rate	878	59,574	156,707	217,159
Adjustable rate	24,287	23,007	7,159	54,453
Total	$ 25,165	$ 82,581	$ 163,866	$ 271,612

Loans are placed on nonaccrual status when they are past due 90 days as to either principal or interest or when, in the opinion of management, the collection of all interest and/or principal is in doubt. Placing a loan on nonaccrual status means that we no longer accrue interest on such loan and reverse any interest previously accrued but not collected. Management may grant a waiver from nonaccrual status for a 90 day past due loan that 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. A loan remains on nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to make payments in accordance with the terms of the loan and remains current.

A loan is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the fair value of the collateral for collateral dependent loans and at the present value of expected future cash flows using the loans' effective interest rates for loans that are not collateral dependent.

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.

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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 are charged-off and referred for collection. Loans over 120 days past due are evaluated for charge-off or partial write-down at the discretion of Bank management.
· Any non-consumer unsecured loan more than 180 days delinquent in payment of principal and/or interest (or sooner if deemed uncollectible) is charged-off in full.
· If secured, a charge-off is 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 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 is obtained.

The Bank experienced a $0.5 million or 11.7% decrease in the total nonperforming loans, as management has taken an aggressive approach to bring these impaired assets to resolution. The following table presents details of our nonperforming loans and nonperforming assets, as these asset quality metrics are evaluated by management, for the years indicated:

	As of December 31,				
	2017	2016	2015	2014	2013
(dollars in thousands)					
Nonaccrual loans	$ 3,270	$ 3,751	$ 3,780	$ 2,778	$ 2,713
TDR loans excluding those in nonaccrual loans	217	229	290	253	-
Accruing loans past due 90+ days	60	36	55	197	1,608
Total nonperforming loans	3,547	4,015	4,125	3,227	4,321
Real estate acquired through foreclosure	114	114	74	45	1,171
Total nonperforming assets	$ 3,661	$ 4,129	$ 4,200	$ 3,273	$ 5,492
Nonperforming loans to gross loans	1.3 %	1.5 %	1.6 %	1.2 %	1.6 %
Allowance for credit losses to nonperforming loans	73.0%	61.9%	76.4%	96.6%	68.8%

Nonperforming assets, which consist of nonaccrual loans, troubled debt restructurings, accruing loans past due 90 days or more, and real estate acquired through foreclosure, decreased to $3.7 million at December 31, 2017 from $4.1 million at December 31, 2016. Nonperforming assets represented 0.94% of total assets at December 31, 2017, compared to 1.06% at December 31, 2016. The level of nonperforming assets decreased primarily due to decreases in nonaccrual loans of $0.5 million. Management has worked diligently to identify borrowers that may be facing difficulties in order to restructure terms where appropriate, secure additional collateral or pursue foreclosure and other secondary sources of repayment.

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Allowance for Loan Losses and Credit Risk Management

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 loan losses is established to estimate losses that may occur on loans by recording a provision for loan losses that is charged to earnings in the current period. The allowance is evaluated on at least a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historic experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Measured impairment and credit losses are charged against the allowance when management believes the loan or a portion of the loan's balance is not collectable. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to individual loans that are classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement and primarily includes nonaccrual and TDRs. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price, whichever is appropriate, of the impaired loan is lower than the carrying value of the loan. For collateral-dependent impaired loans, any measured impairment is properly charged off against the loan and allowance in the applicable reporting period. The specific component may fluctuate from period to period if changes occur in the nature and volume of impaired loans.

The general component covers pools of similar loans and is based upon historical loss experience of the Bank or peer bank group if the Bank's loss experience is deemed by management to be insufficient and several qualitative factors. These qualitative factors address various risk characteristics in the Bank's loan portfolio after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data. The general component may fluctuate from period to period if changes occur in the mix of the Bank's loan portfolio, economic conditions, or specific industry conditions.

A test of the adequacy of the allowance, using the methodology outlined above, is performed by management and reported to the Board of Directors on at least a quarterly basis. The complex evaluations involved in such testing require significant estimates. Management uses available data to establish the allowance at a prudent level, recognizing that the determination is inherently subjective, and that future adjustments may be necessary, depending upon many items including a change in economic conditions affecting specific borrowers, or in general economic conditions, and new information that becomes available. However, there are no assurances that the allowance will be sufficient to absorb losses on nonperforming loans, or that the allowance will be sufficient to cover losses on nonperforming loans in the future.

The allowance was $2.6 million at December 31, 2017, compared to $2.5 million at December 31, 2016. The allowance as a percentage of total portfolio loans was 0.95% at December 31, 2017 and 0.94% at December 31, 2016.

During the year ended December 31, 2017, we recorded net charge offs of $0.23 million, compared to net charge offs of $1.54 million during the year ended December 31, 2016.

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The following table reflects activity in the allowance for loan losses for the periods indicated:

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(dollars in thousands)				
Beginning Balance	$ 2,484	$ 3,150	$ 3,118	$ 2,972	$ 3,308
Loans charged-off					
Consumer	96	18	389	228	33
Residential Real Estate	3	853	848	235	179
Indirect	458	677	872	611	619
Commercial	9	—	3	29	202
Construction	—	—	—	—	—
Commercial Real Estate	—	364	63	243	—
Total	566	1,912	2,175	1,346	1,033
Recoveries					
Consumer	8	17	122	89	14
Residential Real Estate	27	34	11	6	7
Indirect	286	318	365	242	300
Commercial	—	9	1	6	27
Construction	—	—	—	—	—
Commercial Real Estate	14	—	13	128	89
Total	335	378	512	471	437
Net charge offs	231	1,534	1,663	875	596
Provisions for loan loss	336	868	1,695	1,021	260
Balance at end of year	$ 2,589	$ 2,484	$ 3,150	$ 3,118	$ 2,972
Allowance as a percentage of total loans at the end of the year	0.95 %	0.94 %	1.20 %	1.13 %	1.09 %
Net charge offs as a percentage of average loans during the year	0.09 %	0.59 %	0.62 %	0.31 %	0.23 %

At December 31,							
2017		2016		2015		2014	
Allowance For Each	Percentage Of Loans In Each Category To	Allowance For Each	Percentage Of Loans In Each Category To	Allowance For Each	Percentage Of Loans In Each Category To	Allowance For Each	Percentage Of Loans In Each Category To

Portfolio (dollars in thousands)	Category	Total Loans		Category	Total Loans		Category	Total Loans		Category	Total Loans	
Consumer	214	8.27	%	182	7.33	%	227	7.21	%	349	11.20	%
Residential Real Estate	1,061	40.99		1,042	41.96		1,622	51.50		1,156	37.07	
Indirect	774	29.90		693	27.90		577	18.30		932	29.90	
Commercial	237	9.15		284	11.43		305	9.69		386	12.37	
Construction	12	0.45		10	0.39		8	0.27		14	0.45	
Commercial Real Estate	291	11.24		259	10.42		262	8.30		335	10.75	
Unallocated	—	—		14	0.56		149	4.73		(54)	(1.73)	
Total	$ 2,589	100.00	%	$ 2,484	100.00	%	$ 3,150	100.00	%	$ 3,118	100.00	%

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Deposits

The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities in Anne Arundel County. The Bank's deposit products include savings accounts, money market deposit accounts, demand deposit accounts, NOW checking accounts, IRA and SEP accounts, Holiday Club accounts and certificates of deposit. The Bank does not solicit brokered deposits. 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.

The following deposit table presents the composition of deposits at December 31, 2017 and 2016:

	2017			2016			2017 vs 2016		
	Amount in thousands	% of Total		Amount in thousands	% of Total		$ Change	% Change	
Noninterest-bearing deposits	$ 104,017	31.1	%	$ 100,099	30.0	%	$ 3,918	3.9	%
Interest-bearing deposits:									
Checking	28,774	8.6	%	29,413	8.8	%	(639)	(2.2)	%
Savings	85,890	25.7	%	80,006	24.0	%	5,886	7.4	%
Money market	$ 19,855	5.9	%	$ 18,356	5.5	%	$ 1,499	8.2	%
Total interest-bearing checking, savings and money market deposits	134,519	40.2	%	127,775	38.3	%	6,746	5.3	%
Time deposits under $100,000	52,250	15.6	%	58,493	17.6	%	(6,244)	(10.7)	%
Time deposits of $100,00 or more	43,452	13.0	%	46,879	14.1	%	(3,427)	(7.3)	%
Total time deposits	95,702	28.6	%	105,372	31.6	%	(9,671)	(9.2)	%
Total interest-bearing deposits	230,221	68.9	%	233,147	70.0	%	(2,924)	(1.3)	%
Total Deposits	$ 334,238	100.0	%	$ 333,246	100.0	%	$ 994	0.3	%

Total deposits were $334.2 million at December 31, 2017, an increase of $1.0 million, or 0.3%, when compared to the $333.2 million recorded at December 31, 2016. Within the deposit base, noninterest bearing deposits balances increased $3.9 million, or 3.9%, interest bearing checking account balances decreased $0.6 million, or 2.2%, interest bearing savings account balances increased by $5.9 million, or 7.4%, money market balances increased $1.5 million, or 8.2%, and time deposit balances decreased by $9.7 million, or 9.2%, when compared to the amounts at December 31, 2016.

The following table presents the maturity distribution for time deposits of $100,000 or more at December 31, 2017:

(dollars in thousands)	Amount
Three months or less	$ 1,616
Over three months through twelve months	13,454
Over twelve months through twenty-four months	14,825
Over twenty-four months	13,557
Total Time Deposits of $100,000 or More	$ 43,452

Borrowings

The Bank uses borrowings from the Federal Home Loan Bank ("FHLB") of Atlanta, of which it is a member, to supplement funding from deposits. The Bank's total credit availability is $97.5 million and it may draw $52.4 million which is secured by a floating lien on the Bank's residential first mortgage loans. There was a $10 million convertible

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advance with a 3.28% rate of interest that matured November 1, 2017. A variable rate (3-month LIBOR) $10 million borrowing was executed on November 1, 2017 to replace it, which was converted into a 2.105% fixed rate payment using a pay-fixed swap on the same date. There was a $5 million convertible advance that 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 executed 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 pay-fixed swap executed November 1, 2017 is based on a $10 million notional amount, matures on 10/30/2022 (5 years) and has a floating received leg based on 3-month LIBOR. The Bank also entered into two forward starting swaps on the same date which will convert the two fixed rate $5 million borrowings maturing in July and August 2018 into fixed rates of 2.235% and 2.246%, respectively. The market value of the derivative contracts at December 31, 2017 was $48,809.

The Bank also has two federal funds lines of credit in the amounts of $5 million and $6 million, of which nothing was outstanding at December 1, 2017.

CAPITAL RESOURCES

Ample capital is necessary to sustain growth, provide a measure of protection against unanticipated declines in asset values and safeguard the funds of depositors. Capital also provides a source of funds to meet loan demand and enables us to manage assets and liabilities effectively.

Stockholders’ equity increased to $34.0 million at December 31, 2017, compared to $33.8 million at December 31, 2016. The $0.2 million, or 0.7%, increase for the year ended December 31, 2017 resulted primarily from $0.3 million increase in accumulated other comprehensive income and $0.1 million investment resulting from the Bank’s dividend reinvestment plan, offset by $0.2 million decrease as a result of the $1.1 million or 123% of net income payout in dividends. The book value of the Company’s common stock was $12.15 at December 31, 2017 and $12.13 at December 31, 2016.

The Bank is subject to various regulatory capital requirements administered by federal 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, federal bank regulatory agencies issued a final rule that revises their risk based capital requirements and the method for calculating risk weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. These Basel III Capital Rules were applicable to the Bank effective January 1, 2015, but they do not apply to the Company since it is a small bank holding company with less than $1.0 billion in total consolidated assets. The Federal Reserve Board raised the threshold for the small bank holding company exclusion from $500 million to $1 billion in April 2015.

The rule imposes higher risk based capital and leverage requirements than those in place at the time the rule was issued. Specifically, the rule imposes the following minimum capital requirements to be considered adequately capitalized:

· A new common equity Tier 1 risk based capital ratio of 4.5%;

- A Tier 1 risk-based capital ratio of 6% (increased from the previous 4% requirement);
- A total risk-based capital ratio of 8% (unchanged from previous requirements); and
- A leverage ratio of 4%.

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The rule also includes changes in what constitutes regulatory capital, some of which are subject to a transition period. These changes include the phasing out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Certain deferred tax assets over designated percentages of common stock are required to be deducted from capital, subject to a transition period. Finally, common equity Tier 1 capital includes accumulated other comprehensive income (which includes all unrealized net gains and losses on available for sale debt and equity securities and all unrealized net gain or loss on defined benefit pension plan), subject to a transition period and a one-time opt-out election. The Bank elected to opt-out of this provision. As such, accumulated comprehensive income is not included in determining the Bank's regulatory capital ratios.

The rule also includes changes in the risk weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisitions, development and construction loans and non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status, a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, a 250% risk weight (up from 100%) for deferred tax assets that are not deducted from capital and increased risk weights (from 0% to up to 600%) for certain equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% (once fully phased in) of common equity Tier 1 capital to risk weighted assets in addition to the amount necessary to meet its minimum risk based capital requirements.

The final rule became effective on January 1, 2015, and the requirements in the rule will be fully phased-in by January 1, 2019. While the ultimate impact of the fully phased-in capital standards on the Company and the Bank continues to be reviewed, we currently do not believe that compliance with the Basel III Capital Rules will have a material impact once fully implemented.

For regulatory capital purposes as of March 31, 2015, deferred tax assets that arise from net operating loss and tax credit carryforwards (net of any related valuations allowances and net of deferred tax liabilities) are excluded from regulatory capital, in addition to certain overall limits on net deferred tax assets as a percentage of common equity Tier 1 capital. At December 31, 2017, $1.2 million of the Bank's net deferred tax asset was excluded from common equity Tier 1, Tier 1 and total regulatory capital. We will continue to evaluate the realizability of our net deferred tax asset on a quarterly basis for both financial reporting and regulatory capital purposes. This evaluation may result in the inclusion of a deferred tax asset in regulatory capital in an amount that is different from the amount determined under GAAP.

In addition, the Bank is required to maintain a minimum level of Tier 1 capital to average total assets excluding intangibles. This measure is known as the leverage ratio. The current regulatory minimum for the leverage ratio for institutions to be considered "well capitalized" is 5%, but an individual institution could be required to maintain a higher level.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of total, common equity Tier 1 and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio of Tier 1 capital (as defined) to average tangible assets (as defined). At December 31, 2017 and 2016, the Bank had regulatory capital in excess of that required under each requirement and was classified as "well capitalized".

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Actual capital amounts and ratios for the Bank are presented in the following tables (dollars in thousands):

(dollars in thousands)	Actual Amount	Ratio	To Be Considered Adequately Capitalized Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2017						
Common Equity Tier 1 Capital	$ 32,946	12.83 %	$ 11,553	4.50 %	$ 16,687	6.50 %
Total Risk-Based Capital	$ 35,543	13.84 %	$ 20,538	8.00 %	$ 25,673	10.00 %
Tier 1 Risk-Based Capital	$ 32,946	12.83 %	$ 15,404	6.00 %	$ 20,538	8.00 %
Tier 1 Leverage	$ 32,928	8.43 %	$ 15,617	4.00 %	$ 19,521	5.00 %

(dollars in thousands)	Actual Amount	Ratio	To Be Considered Adequately Capitalized Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2016						
Common Equity Tier 1 Capital	$ 33,962	13.63 %	$ 11,213	4.50 %	$ 16,197	6.50 %
Total Risk-Based Capital	$ 36,471	14.64 %	$ 19,935	8.00 %	$ 24,918	10.00 %
Tier 1 Risk-Based Capital	$ 33,962	13.63 %	$ 14,951	6.00 %	$ 19,935	8.00 %
Tier 1 Leverage	$ 33,962	8.68 %	$ 15,659	4.00 %	$ 19,574	5.00 %

Federal bank regulatory agencies are required to take certain supervisory actions against an undercapitalized bank, the severity of which depends upon the bank's degree of capitalization. Failure to maintain an appropriate level of capital could cause the regulator to take any one or more of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

LIQUIDITY

Liquidity describes our ability to meet financial obligations, including lending commitments and contingencies, which arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of the Company's customers, as well as to meet current and planned expenditures. Management monitors the liquidity position daily.

Our liquidity is derived primarily from our deposit base, scheduled amortization and prepayments of loans and investment securities, funds provided by operations and capital. Additionally, liquidity is provided through our portfolios of cash and interest-bearing deposits in other banks, federal funds sold and securities available for

sale. While scheduled principal repayments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and rates offered by the Bank's competitors.

The borrowing requirements of customers include commitments to extend credit and the unused portion of lines of credit, which totaled $22.3 million at December 31, 2017. Management notes that, historically, a small percentage of unused lines of credit are actually drawn down by customers within a 12-month period.

Our most liquid assets are cash and assets that can be readily converted into cash, including interest-bearing deposits with banks and federal funds sold, and investment securities. At December 31, 2017, we had $2.6 million in cash and due from banks, $10.0 million in interest-bearing deposits with banks and federal funds sold, and $89.3 million in investment securities available for sale.

The Bank also has external sources of funds through the Federal Reserve Bank and FHLB, which can be drawn upon when required. The Bank has a line of credit totaling approximately $97.5 million with the FHLB of which $32.4 million was available to be drawn on December 31, 2017 based on qualifying loans pledged as collateral. In addition, the Bank can pledge securities at the Federal Reserve Bank and FHLB and, depending on the type of security, may

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borrow approximately 50% to 97% of the fair market value of the securities. The Bank had no securities pledged at the FHLB or Federal Reserve Bank as of December 31, 2017.

Additionally, the Bank has unsecured federal funds lines of credit totaling $11.0 million with two institutions. The proceeds of the Company's line of credit may be used for general corporate purposes. At December 31, 2017, there were outstanding balances of $20.0 million under the Bank's FHLB line and of $0 under the Company's other line of credit.

To further aid in managing liquidity, the Bank's Board of Directors has approved and formed an Asset/Liability Management Committee ("ALCO") to review and discuss recommendations for the use of available cash and to maintain an investment portfolio. By limiting the maturity of securities and maintaining a conservative investment posture, management can rely on the investment portfolio to help meet any short-term funding needs.

We believe the Bank has adequate cash on hand and available through liquidation of investment securities and available borrowing capacity to meet our liquidity needs. Although we believe sufficient liquidity exists, if economic conditions and consumer confidence deteriorate, this liquidity could be depleted, which would then materially affect our ability to meet operating needs and to raise additional capital.

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

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- 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 nonaccrual 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, 2017, the Bank has accrued $24,334, a decrease of $460 from the $24,794 accrued as of December 31, 2016. 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

Our primary market risk is interest rate fluctuation. Interest rate risk results primarily from the traditional banking activities in which the Bank engages, such as gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates and consumer preferences affect the difference between the interest earned on our assets and the interest paid on liabilities. Our interest rate risk represents the level of exposure we have to fluctuations in interest rates and is primarily measured as the change in earnings and the theoretical market value of equity that results from changes in interest rates. The ALCO oversees our management of interest rate risk. The objective of the management of interest rate risk is to maximize stockholder value, enhance profitability and increase capital, serve customer and community needs, and protect us from any material financial consequences associated with changes in interest rate risk.

Interest rate risk is that risk to earnings or capital arising from movement of interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships across yield curves that affect bank activities (basis risk); from changing rate relationships across the

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spectrum of maturities (yield curve risk); and from interest rate related options embedded in certain bank products (option risk). Changes in interest rates may also affect a bank's underlying economic value. The value of a bank's assets, liabilities, and interest-rate related, off-balance sheet contracts is affected by a change in rates because the present value of future cash flows, and in some cases the cash flows themselves, is changed.

We believe that accepting some level of interest rate risk is necessary in order to achieve realistic profit goals. Management and the Board have chosen an interest rate risk profile that is consistent with our strategic business plan.

The Company's Board of Directors has established a comprehensive interest rate risk management policy, which is administered by ALCO. The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change in U.S. Treasury interest rates. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology we employ. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

We prepare a current base case and up to eight alternative simulations at least once a quarter and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions or strategy analysis so dictate.

The statement of condition is subject to quarterly testing for up to eight alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/ - 100, 200, 300, and 400 basis points ("bp"), although we may elect not to use particular scenarios that we determine are impractical in the current rate environment. It is our goal to structure the balance sheet so that net interest-earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

At December 31, 2017, we were in an asset sensitive position over a one year measurement horizon. Management continuously strives to reduce higher costing fixed rate funding instruments, while increasing assets that are more fluid in their repricing. An asset sensitive position, theoretically, is favorable in a rising rate environment since more assets than liabilities will reprice in a given time frame as interest rates rise. Similarly, a liability sensitive position, theoretically, is favorable in a declining interest rate environment since more liabilities than assets will reprice in a given time frame as interest rates decline. Management works to maintain a consistent spread between yields on assets and costs of deposits and borrowings, regardless of the direction of interest rates.

	Static Balance Sheet/Immediate Change in Rates			
Estimated Changes in Net Interest Income	`-200 bp	`-100 bp	`+100 bp	`+200 bp
Policy Limit	(4) %	(3)%	(3)%	(4)%
December 31, 2017	(17)%	(8)%	4 %	8 %

December 31, 2016	(16)%	(8)%	5 %	9 %

As shown above, measures of net interest income at risk were slightly less favorable at December 31, 2017 than at December 31, 2016 over a 12 month modelling period. All measures remained within prescribed policy limits. The primary contributor to the less favorable position was the less asset sensitive balance sheet.

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the

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present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

	Static Balance Sheet/Immediate Change in Rates			
Estimated Changes in Economic Value of Equity (EVE)	`-200 bp	`-100 bp	`+100 bp	`+200 bp
Policy Limit	(15)%	(10)%	(10)%	(15)%
December 31, 2017	(5) %	0 %	(1) %	(9) %
December 31, 2016	(15)%	(2) %	(2) %	(12)%

The EVE at risk declined slightly at December 31, 2017 when compared to December 31, 2016 in all interest rate shock levels. The Company's economic value of equity has a negative effect in both an increased and decreased interest rate environment because the liabilities reprice much slower than our assets, and our interest earning assets are much greater than our interest bearing liabilities. The Company's economic value of equity worsens in declining interest rate environments as the majority of our liabilities cannot continue to decrease from their current levels thus the economic value of our liabilities and our assets both worsen in a declining rate environment i.e., given the current rate environment, down shocks may not be meaningful as market rates can only be shocked down to zero.

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

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) and follow general practices within the industries in which we operate. All intercompany transactions are eliminated in consolidation and certain reclassifications are made when necessary in order to conform the previous year's financial statements to the current year's presentation. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates or judgments reflect management's view of the most appropriate manner in which to record and report our overall financial performance. Because these estimates or judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experience. As such, changes in these estimates, judgments, and/or assumptions may have a significant impact on our financial statements. All accounting policies are important, and all policies described in Part II, Item 8, Financial Statements and Supplementary Data, Note 1, should be reviewed for a greater understanding of how our financial performance is recorded and reported.

We have identified the following three policies as being critical because they require management to make particularly difficult, subjective, and/or complex estimates or judgments about matters that are inherently uncertain and because of

the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the determination of the allowance for loan losses, fair value measurements, valuation of the securities portfolio and the accounting for income taxes. Management believes it has used the best information available to make the estimations or judgments necessary to value the related assets and liabilities. Actual performance that differs from estimates or judgments and future changes in the key variables could change future valuations and impact net income. Management has reviewed the application of these policies with the Audit Committee of the Board of Directors. Following is a discussion of the areas we view as our most critical accounting policies, including the identification of the variables most important in the estimation process.

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Allowance for Loan Losses

The reserve for loan losses represents management's estimate of probable losses inherent in the loan portfolio and the establishment of a reserve that is sufficient to absorb those losses. In determining an appropriate reserve, management makes numerous judgments, assumptions, and estimates based on continuous review of the loan portfolio, estimates of client performance, collateral values, and disposition, as well as historical loss rates and expected cash flows. In assessing these factors, management benefits from a lengthy organizational history and experience with credit decisions and related outcomes. Nonetheless, if management's underlying assumptions prove to be inaccurate, the reserve for loan losses would have to be adjusted. Our accounting policy related to the reserve is disclosed in Note 1 under the heading "Allowance for Loan Losses."

Fair Value Measurements

We use fair value measurements to record certain financial instruments and to determine fair value disclosures. Available for sale securities and interest rate swap agreements are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other financial assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve write-downs of, or specific reserves against, individual assets. GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market data. For financial instruments that trade actively and have quoted market prices or observable market data, there is minimal subjectivity involved in measuring fair value. When observable market prices and data are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. Therefore, when market data is not available, we use valuation techniques that require more management judgment to estimate the appropriate fair value measurement. Fair value is discussed further in Note 1 under the heading "Fair Value Measurements" and in Note 16, "Fair Value of Financial Instruments".

Accounting for Income Taxes

We use the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates in effect when these differences reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. Realization of deferred tax assets is dependent on generating sufficient taxable income in the future.

Other significant accounting policies are presented in Note 1 to the consolidated financial statements that appear elsewhere in this Annual Report on Form 10K. We have not substantively changed any aspect of our overall approach

in the application of the foregoing policies.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DICLOSURES ABOUT MARKET RISK

Not applicable.

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

None.

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 ("CEO") and Chief Financial Officer ("CFO") 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 CEO and CFO, 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 CEO and CFO) 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, 2017.

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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 2017 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.

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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 2018 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 “Proposal I — 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 “Proposal II — Authorization for Appointment of Auditors” “Disclosure of Independent Auditor Fees” in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements.

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(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.	Description
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, 1