GLEN BURNIE BANCORP
Form 10-K/A
November 13, 2009
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008 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 x

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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. x

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was $26,280,443.

The number of shares of common stock outstanding as of February 4, 2009 was 2,967,729.

documents incorporated by reference

To the extent specified, Part III of this Form 10-K incorporates information by reference to the Registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders (to be filed).

The Registrant hereby amends Item 15(a)(1) of its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed with the Commission on March 17, 2009. The purpose of the amendment is to add the signature of the Registrant's Independent Registered Public Accounting Firm on its Report included on page F-1 of the Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

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

Exhibit No.	
31.1	Rule 15d-14(a) Certification of Chief Executive Officer
31.2	Rule 15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLEN BURNIE BANCORP

November 12, 2009 By: /s/ Michael G. Livingston

Michael G. Livingston
President and Chief Executive Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Glen Burnie Bancorp and Subsidiaries
Glen Burnie, Maryland

We have audited the accompanying consolidated balance sheets of Glen Burnie Bancorp and subsidiaries as of December 31, 2008, 2007, and 2006, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended. Glen Burnie Bancorp and subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2008, 2007, and 2006, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Trice, Gary & Myers LLC
Salisbury, Maryland
March 9, 2009

Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,	2008	2007	2006
Assets			
Cash and due from banks	$ 6,960,377	$ 8,220,582	$ 9,005,691
Interest-bearing deposits in other financial institutions	7,883,816	5,847,562	342,309
Federal funds sold	6,393,710	726,916	3,971,978
Cash and cash equivalents	21,237,903	14,795,060	13,319,978
Investment securities available for sale, at fair value	57,948,645	77,182,181	95,811,296
Investment securities held to maturity (fair value 2007 $726,193; 2006 $729,960)	-	683,832	683,363
Federal Home Loan Bank stock, at cost	1,767,600	1,381,900	928,000
Maryland Financial Bank stock, at cost	100,000	100,000	100,000
Common stock in the Glen Burnie Statutory Trust I	155,000	155,000	155,000
Ground rents, at cost	184,900	202,900	219,100
Loans, less allowance for credit losses 2008 $2,021,690; 2007 $1,604,491; 2006 $1,839,094	235,132,621	199,753,132	193,336,604
Premises and equipment, at cost, less accumulated depreciation	3,099,448	3,087,908	3,406,014
Accrued interest receivable on loans and investment securities	1,680,392	1,508,640	1,627,433
Deferred income tax benefits	2,286,483	453,512	292,131
Other real estate owned	550,000	50,000	50,000
Cash value of life insurance	7,434,573	7,161,403	6,892,455
Other assets	924,650	758,400	924,227
Total assets	$ 332,502,215	$ 307,273,868	$ 317,745,601
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Noninterest-bearing	$ 63,538,759	$ 68,760,373	$ 74,729,298
Interest-bearing	206,228,839	184,156,393	200,104,159
Total deposits	269,767,598	252,916,766	274,833,457
Short-term borrowings	629,855	502,529	545,349
Long-term borrowings	27,071,712	17,107,135	7,140,170
Junior subordinated debentures owed to unconsolidated subsidiary trust	5,155,000	5,155,000	5,155,000
Dividends payable	385,794	385,010	366,580
Accrued interest payable on deposits	139,579	134,274	145,642

Accrued interest payable on junior subordinated debentures	171,518	171,518	171,518
Other liabilities	1,272,907	1,165,482	1,187,372
Total liabilities	304,593,963	277,537,714	289,545,088
Commitments and contingencies			
Stockholders' equity:			
Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding 2008 2,967,727 shares; 2007 2,498,465 shares; 2006 2,484,633 shares;	2,967,727	2,498,465	2,484,633
Surplus	11,568,241	11,921,129	11,719,907
Retained earnings	14,129,637	15,750,156	14,312,496
Accumulated other comprehensive loss, net of tax	(757,353)	(433,596)	(316,523)
Total stockholders' equity	27,908,252	29,736,154	28,200,513
Total liabilities and stockholders' equity	$ 332,502,215	$ 307,273,868	$ 317,745,601

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2008	2007	2006
Interest income on:			
Loans, including fees	$ 14,456,017	$ 13,326,693	$ 11,830,676
U.S. Government agency securities	1,962,553	2,553,527	3,347,090
State and municipal securities	1,410,676	1,451,540	1,653,109
Corporate trust preferred securities	192,749	250,526	374,588
Federal funds sold	5,034	139,075	200,418
Other	149,007	115,895	249,315
Total interest income	18,176,036	17,837,256	17,655,196
Interest expense on:			
Deposits	4,780,185	4,824,425	4,780,871
Short-term borrowings	50,567	119,101	80,994
Long-term borrowings	877,101	481,092	425,470
Junior subordinated debentures	546,180	546,430	546,430
Total interest expense	6,254,033	5,971,048	5,833,765
Net interest income	11,922,003	11,866,208	11,821,431
Provision for credit losses	1,145,649	50,000	62,000
Net interest income after provision for credit losses	10,776,354	11,816,208	11,759,431
Other income:			
Service charges on deposit accounts	737,070	814,392	831,140
Other fees and commissions	849,417	953,873	1,026,144
Gains on investment securities, net	190,930	120,079	176,453
Income on life insurance	273,170	268,948	210,653
Total other income	2,050,587	2,157,292	2,244,390
Other expenses:			
Salaries and wages	4,694,461	4,623,067	4,769,495
Employee benefits	1,525,023	1,702,535	1,748,294
Occupancy	903,976	886,345	850,843
Furniture and equipment	754,191	844,147	864,151
Impairment loss on investment securities	2,816,000	-	-
Other expenses	2,408,690	2,376,925	2,363,878
Total other expenses	13,102,341	10,433,019	10,596,661
(Loss) income before income taxes (benefits)	(275,400)	3,540,481	3,407,160
Federal and state income taxes (benefits)	(679,362)	758,340	687,115

Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Basic and diluted earnings per share of common stock	$ 0.14	$ 0.93	$ 0.92

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31,	2008	2007	2006
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Other comprehensive loss, net of tax			
Unrealized holding losses arising during the period (net of deferred tax benefits 2008 $1,264,081; 2007 $23,422; 2006 $6,826)	(1,913,998)	(37,231)	(10,849)
Reclassification adjustment for impairment loss included in net income (net of deferred tax benefits 2008 $1,110,771)	1,705,229	-	-
Reclassification adjustment for gains included in net income (net of deferred taxes 2008 $75,942; 2007 $50,237; 2006 $47,522)	(114,988)	(79,842)	(75,529)
Total other comprehensive loss	(323,757)	(117,073)	(86,378)
Comprehensive income	$ 80,205	$ 2,665,068	$ 2,633,667

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2008, 2007, and 2006

	Common Stock Shares	Common Stock Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, December 31, 2005	2,056,024	$ 2,056,024	$ 11,458,465	$ 13,341,097	$ (230,145)	$ 26,625,441
Net income	-	-	-	2,720,045	-	2,720,045
Cash dividends, $.45 per share	-	-	-	(1,337,545)	-	(1,337,545)
Dividends reinvested under dividend reinvestment plan	15,113	15,113	229,946	-	-	245,059
Shares issued under employee stock purchase plan	2,395	2,395	31,496	-	-	33,891
Stock split effected in form of 20% stock dividend	411,101	411,101		(411,101)		-
Other comprehensive loss, net of tax	-	-	-	-	(86,378)	(86,378)
Balances, December 31, 2006	2,484,633	2,484,633	11,719,907	14,312,496	(316,523)	28,200,513
Net income	-	-	-	2,782,141	-	2,782,141
Cash dividends, $.45 per share	-	-	-	(1,344,481)	-	(1,344,481)
Dividends reinvested under dividend reinvestment plan	12,791	12,791	187,668	-	-	200,459
Shares issued under employee stock purchase plan	1,041	1,041	13,554	-	-	14,595
Other comprehensive loss, net of tax	-	-	-	-	(117,073)	(117,073)
Balances, December 31, 2007	2,498,465	2,498,465	11,921,129	15,750,156	(433,596)	29,736,154
Net income	-	-	-	403,962	-	403,962
Cummulative effect of adoption of EITF 06-04	-	-	-	(179,794)	-	(179,794)
Shares repurchased and retired	(50,300)	(50,300)	(526,939)	-	-	(577,239)
	-	-	-	(1,345,128)	-	(1,345,128)

Cash dividends, $.45 per share						
Dividends reinvested under dividend reinvestment plan	20,003	20,003	174,051	-	-	194,054
Stock split effected in form of 20% stock dividend	499,559	499,559	-	(499,559)	-	-
Other comprehensive loss, net of tax	-	-	-	-	(323,757)	(323,757)
Balances, December 31, 2008	2,967,727	$ 2,967,727	$ 11,568,241	$ 14,129,637	$ (757,353)	$ 27,908,252

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	421,229	496,172	571,741
Provision for credit losses	1,145,649	50,000	62,000
Deferred income (benefits) taxes, net	(1,605,603)	(87,720)	26,357
Gains on disposals of assets, net	(173,393)	(119,652)	(175,634)
Impairment losses on investment securities	2,816,000	-	-
Income on investment in life insurance	(273,170)	(268,948)	(210,653)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	(171,752)	118,793	(175,627)
(Increase) decrease in other assets	(118,962)	106,163	38,161
Increase (decrease) in accrued interest payable	5,305	(11,368)	62,531
(Decrease) increase in other liabilities	(72,369)	(21,890)	41,751
Net cash provided by operating activities	2,376,896	3,043,691	2,960,672
Cash flows from investing activities:			
Maturities of held to maturity mortgage-backed securities	-	-	468,199
Maturities of available for sale mortgage-backed securities	4,402,208	7,301,634	9,331,430
Maturities of other available for sale investment securities	-	300,000	4,330,544
Sales of held to maturity debt securities	684,100	-	-
Sales of available for sale debt securities	25,977,280	17,889,342	22,431,078
Purchases of available for sale mortgage-backed securities	(981,811)	-	(25,365,231)
Purchases of other available for sale investment securities	(13,318,481)	(6,907,162)	(20,398,575)
Purchase of FHLB stock	(385,700)	(453,900)	(9,100)
Purchase of life insurance contracts	-	-	(1,000,000)
Increase in loans, net	(36,525,138)	(6,466,528)	(3,193,606)
Purchases of premises and equipment	(501,717)	(128,452)	(131,821)
Net cash (used) provided by investing activities	(20,649,259)	11,534,934	(13,537,082)
Cash flows from financing activities:			
Decrease in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	(5,221,614)	(5,968,925)	(4,584,623)
Increase (decrease) in time deposits, net	22,072,446	(15,947,766)	14,169,812
Increase (decrease) in short-term borrowings	127,326	(42,820)	(76,701)
Proceeds from long-term borrowings	10,000,000	10,000,000	-
Repayments of long-term borrowings	(35,423)	(33,035)	(30,807)
Cash dividends paid	(1,344,344)	(1,326,051)	(1,309,970)
Common stock dividends reinvested	194,054	200,459	245,059
Repurchase and retirement of common stock	(577,239)	-	-

Issuance of common stock	-	14,595	33,891
Net cash provided (used) by financing activities	25,215,206	(13,103,543)	8,446,661
Increase (decrease) in cash and cash equivalents	6,942,843	1,475,082	(2,129,749)
Cash and cash equivalents, beginning of year	14,795,060	13,319,978	15,449,727
Cash and cash equivalents, end of year	$ 21,737,903	$ 14,795,060	$ 13,319,978

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows
(Continued)

Years Ended December 31,	2008	2007	2006
Supplementary Cash Flow Information:			
Interest paid	$ 6,248,728	$ 5,982,416	$ 5,771,234
Income taxes paid	600,000	886,156	626,374
Total increase in unrealized depreciation on available for sale securities	(551,125)	(190,732)	(140,725)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Bank of Glen Burnie (the "Bank") provides financial services to individuals and corporate customers located in Anne Arundel County and surrounding areas of Central Maryland, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and State of Maryland (the "State") agencies and undergoes periodic examinations by those regulatory authorities. The accounting and financial reporting policies of the Bank conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the banking industry.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

Principles of Consolidation:

The consolidated financial statements include the accounts of Glen Burnie Bancorp ("Bancorp" or the "Company") and its subsidiaries, The Bank of Glen Burnie and GBB Properties, Inc., a company engaged in the acquisition and disposition of other real estate. Intercompany balances and transactions have been eliminated. The Parent Only financial statements (see Note 21) of the Company account for the subsidiaries using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities, in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIE's) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interest, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiary, Glen Burnie Statutory Trust I, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

Use of Estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Securities Held to Maturity:

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the effective interest rate method over the period to maturity. Securities transferred into held to maturity from the available for sale portfolio are recorded at fair value at time of transfer with unrealized gains or losses reflected in equity and amortized over the remaining life of the security.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Securities Available for Sale:

Marketable debt securities not classified as held to maturity are classified as available for sale. Securities available for sale may be sold in response to changes in interest rates, loan demand, changes in prepayment risk, and other factors. Changes in unrealized appreciation (depreciation) on securities available for sale are reported in other comprehensive income, net of tax. Realized gains (losses) on securities available for sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The gains and losses on securities sold are determined by the specific identification method. Premiums and discounts are recognized in interest income using the effective interest rate method over the period to maturity. Additionally, declines in the fair value of individual investment securities below their cost that are other than temporary are reflected as realized losses in the consolidated statements of income.

Other Securities:

Federal Home Loan Bank ("FHLB") and Maryland Financial Bank ("MFB") stocks are equity interests that do not necessarily have readily determinable fair values for purposes of Statement of Financial Accounting Standards ("SFAS") No 115, Accounting for Certain Investments in Debt and Equity Securities, because their ownership is restricted and they lack a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLB or another member institution.

Loans and Allowance for Credit Losses:

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

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary.

The allowance for loan losses typically consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either SFAS No 5, Accounting for Contingencies, or SFAS No 114, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio. At December 31, 2008, there was approximately a $33,000 unallocated component of the allowance reflected in the allowance for credit losses.

Reserve for Unfunded Commitments:

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

Other Real Estate Owned ("OREO"):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or expenses. Loans converted to OREO through foreclosure proceedings totaled $550,000 for the year ended December 31, 2008. No loans were converted to OREO in 2007 or 2006. The Bank financed no sales of OREO for 2008, 2007, or 2006.

Bank Premises and Equipment:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Asset. As of December 31, 2008, 2007, and 2006, certain loans existed which management considered impaired (See Note 4). During the year ended December 31, 2008, management deemed certain investment securities were impaired and recorded an impairment loss on these securities (See Note 3).

Income Taxes:

The provision for Federal and state income taxes is based upon the results of operations, adjusted for tax-exempt income. Deferred income taxes are provided by applying enacted statutory tax rates to temporary differences between financial and taxable bases.

Temporary differences which give rise to deferred tax benefits relate principally to accrued deferred compensation, accumulated impairment losses on investment securities, allowance for credit losses, unused alternative minimum tax credits, net unrealized depreciation on investment securities available for sale, and reserve for unfunded commitments.

Temporary differences which give rise to deferred tax liabilities relate principally to accumulated depreciation, and accumulated securities discount accretion.

Credit Risk:

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

Cash and Cash Equivalents:

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

Accounting for Stock Options:

The Company follows SFAS No. 123R, Share-Based Payments, for accounting and reporting for stock-based compensation plans. SFAS No. 123R defines a fair value at grant date based method of accounting for measuring compensation expense for stock-based plans to be recognized in the statement of income.

Earnings per share:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation:

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

Note 2. Restrictions on Cash and Due from Banks

The Federal Reserve requires the Bank to maintain noninterest-bearing cash reserves against certain categories of average deposit liabilities. Such reserves averaged approximately $4,781,000, $5,368,000, and $5,530,000 during the years ended December 31, 2008, 2007, and 2006, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 8,686,877	$ 191,455	$ 140,280	$ 8,738,052
State and municipal	31,466,012	235,128	979,935	30,721,205
Corporate trust preferred	2,168,928	-	971,426	1,197,502
Mortgage-backed	16,884,368	413,682	6,164	17,291,886
	$ 59,206,185	$ 840,265	$ 2,097,805	$ 57,948,645

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 8,489,126	$ 44,593	$ 761,906	$ 7,771,813
State and municipal	31,627,159	272,449	164,764	31,734,844
Corporate trust preferred	2,167,271	253,283	-	2,420,554
Mortgage-backed	35,605,038	110,145	460,213	35,254,970
	$ 77,888,594	$ 680,470	$ 1,386,883	$ 77,182,181
Held to maturity:				
State and municipal	$ 683,832	$ 42,361	$ -	$ 726,193
	$ 683,832	$ 42,361	$ -	$ 726,193

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 11,484,102	$ 6,250	$ 299,634	$ 11,190,718
State and municipal	36,127,782	429,062	179,207	36,377,637
Corporate trust preferred	3,079,958	372,316	-	3,452,274
Mortgage-backed	45,635,133	39,152	883,618	44,790,667
	$ 96,326,975	$ 846,780	$ 1,362,459	$ 95,811,296
Held to maturity:				
State and municipal	$ 683,363	$ 46,597	$ -	$ 729,960
	$ 683,363	$ 46,597	$ -	$ 729,960

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 are as follows:

Securities available for sale:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S.						
Government agencies	$ 1,026,580	$ 45,420	$ 13,500	$ 94,860	$ 1,040,080	$ 140,280
State and Municipal	14,504,594	670,225	3,436,150	309,710	17,940,744	979,935
Corporate trust preferred	1,197,502	971,426	-	-	1,197,502	971,426
Mortgaged-backed	1,001,761	6,164	-	-	1,001,761	6,164
	$ 17,730,437	$ 1,693,235	$ 3,449,650	$ 404,570	$ 21,180,087	$ 2,097,805

In September 2008, Freddie Mac and Fannie Mae government sponsored entities entered into conservatorship agreements with the U.S. Treasury Department. This conservatorship precludes these entities from paying preferred stock dividends. As a result, the market values declined significantly and the Company recorded an impairment loss of $2,816,000 during the year ended December 31, 2008. The write down represented 94% of the initial investment in these securities.

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

As of December 31, 2008, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On December 31, 2008, the Bank held 14 investment securities having continuous unrealized loss positions for more than 12

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgaged-backed securities. The Bank has no mortgaged-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2008, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

Contractual maturities of investment securities at December 31, 2008, 2007, and 2006 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
December 31, 2008	Cost	Value	Cost	Value
Due within one year	$ -	$ -		
Due over one to five years	4,577,077	4,560,487		
Due over five to ten years	5,563,224	5,685,637		
Due over ten years	32,181,516	30,410,635		
Mortgage-backed, due in monthly installments	16,884,368	17,291,886		
	$ 59,206,185	$ 57,948,645		
December 31, 2007				
Due within one year	$ 1,000,000	$ 996,094	$ -	$ -
Due over one to five years	9,638,992	9,635,177	-	-
Due over five to ten years	4,089,402	4,068,131	-	-
Due over ten years	27,555,162	27,227,809	683,832	726,193
Mortgage-backed, due in monthly installments	35,605,038	35,254,970	-	-
	$ 77,888,594	$ 77,182,181	$ 683,832	$ 726,193
December 31, 2006				
Due within one year	$ 300,989	$ 298,897	$ -	$ -
Due over one to five years	10,355,087	10,221,909	-	-
Due over five to ten years	9,938,119	9,826,970	-	-
Due over ten years	30,097,647	30,672,853	683,363	729,960

Mortgage-backed, due in monthly installments	45,635,133	44,790,667	-	-
	$ 96,326,975	$ 95,811,296	$ 683,363	$ 729,960

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

Proceeds from sales of available for sale securities prior to maturity totaled $25,977,280, $17,889,342, and $22,431,078 for the years ended December 31, 2008, 2007, and 2006, respectively. The Bank realized gains of $195,780 and losses of $4,850 on those sales for 2008. The Bank realized gains of $230,038 and losses of $109,959 on those sales for 2007. The Bank realized gains of $225,438 and losses of $48,985 on those sales for 2006. Realized gains and losses were calculated based on the amortized cost of the securities at the date of trade. Income tax expense relating to net gains on sales of investment securities totaled $75,942, $47,761, and $68,146 for the years ended December 31, 2008, 2007, and 2006, respectively.

In July 2008, the Company sold its remaining two positions in securities classified as held to maturity. Inasmuch as these positions were liquidated prior to maturity in a manner which did not meet the prescribed requirements of SFAS 115, the Company may be precluded for a period of time from classifying any securities positions as held to maturity.

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

Note 4. Loans

Major categories of loans are as follows:

	2008	2007	2006
Mortgage:			
Residential	$ 87,707,878	$ 76,780,857	$ 68,340,050
Commercial	76,152,837	47,842,942	53,164,479
Construction and land development	6,589,673	5,876,285	1,609,132
Demand and time	6,974,607	5,184,349	5,077,680
Installment	60,593,752	66,490,020	67,726,942
	238,018,747	202,174,453	195,918,283
Unearned income on loans	(864,436)	(816,830)	(742,585)
	237,154,311	201,357,623	195,175,698
Allowance for credit losses	(2,021,690)	(1,604,491)	(1,839,094)
	$ 235,132,621	$ 199,753,132	$ 193,336,604

The Bank has an automotive indirect lending program where vehicle collateralized loans made by dealers to consumers are acquired by the Bank. The Bank’s installment loan portfolio included approximately $43,970,000, $49,260,000, and $52,539,000 of such loans at December 31, 2008, 2007, and 2006, respectively.

The Bank makes loans to customers located primarily in Anne Arundel County and surrounding areas of Central Maryland. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Executive officers, directors, and their affiliated interests enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. They do not involve more than normal risk of collectibility or present other unfavorable terms. At December 31, 2008, 2007, and 2006, the amounts of such loans outstanding totaled $4,344,974, $4,009,224, and $3,293,148, respectively. During 2008, loan additions and repayments totaled $653,500 and $317,750, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

The allowance for credit losses is as follows:

	2008	2007	2006
Balance, beginning of year	$ 1,604,491	$ 1,839,094	$ 2,201,350
Provision for credit losses	1,145,649	50,000	62,000
Recoveries	352,933	305,841	357,803
Loans charged off	(1,081,383)	(590,444)	(782,059)
Balance, end of year	$ 2,021,690	$ 1,604,491	$ 1,839,094

Loans on which the accrual of interest has been discontinued totaled $866,912, $212,416, and $57,429 at December 31, 2008, 2007, and 2006, respectively. Interest that would have been accrued under the terms of these loans totaled $29,807, $20,037, and $10,658 for the years ended December 31, 2008, 2007, and 2006, respectively. Loans past due 90 days or more and still accruing interest totaled $22,551, $639,982 and $1,751 at December 31, 2008, 2007 and 2006, respectively.

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

	2008	2007	2006
Loans classified as impaired with a valuation allowance	$ 1,387,043	$ 212,416	$ 57,429
Allowance for credit losses on impaired loans	629,036	159,312	35,423
Average balance of impaired loans	1,458,245	95,605	6,846

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

Cash receipts applied to reduce principal balance	$ 131,730	$ -	$ 9,723
Cash receipts recognized as interest income	41,062	-	-
Total cash receipts	$ 172,792	$ -	$ 9,723

No troubled debt restructurings transpired in 2008. All prior investments in troubled debt were performing under the terms of the modified agreement.

At December 31, 2007, the recorded investment in new troubled debt restructurings totaled $578,345. The allowance for credit losses relating to troubled debt restructurings totaled $0 at December 31, 2007. The average recorded investment in troubled debt restructurings totaled $611,379 for the year ended December 31, 2007. The Bank recognized $51,742 in interest income on troubled debt restructurings for cash payments received in 2007. All prior investments in troubled debt were performing under the terms of the modified agreement.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	2008	2007	2006
Land		$ 684,977	$ 684,977	$ 684,977
Buildings	5-50 years	4,796,309	4,738,733	4,710,503
Equipment and fixtures	5-30 years	5,056,015	5,450,210	5,456,049
Construction in progress		121,973	60,226	26,088
		10,659,274	10,934,146	10,877,617
Accumulated depreciation		(7,559,826)	(7,846,238)	(7,471,603)
		$ 3,099,448	$ 3,087,908	$ 3,406,014

Construction in progress at December 31, 2008 relates primarily to a future branch site.

Depreciation expense totaled $347,040, $412,198, and $450,278 for the years ended December 31, 2008, 2007, and 2006, respectively. Amortization of software and intangible assets totaled $96,312, $109,797, and $97,954 for the years ended December 31, 2008, 2007, and 2006, respectively.

The Bank leases its South Crain Highway, Severna Park, and Linthicum branches. Minimum lease obligations under the South Crain Highway branch are $115,400 per year through September 2009, adjusted annually by the CPI. Minimum lease obligations under the Severna Park branch were $30,000 per year through September 2012. Minimum lease obligations under the Linthicum branch are $92,700 per year through December 2014, adjusted annually on a pre-determined basis, with one ten year extension option. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled $257,467, $252,087, and $236,166 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 6. Short-term borrowings

Short-term borrowings are as follows:

	2008	2007	2006
Notes payable - U.S. Treasury	$ 629,855	$ 502,529	$ 545,349

Notes payable to the U.S. Treasury represents Federal treasury tax and loan deposits accepted by the Bank from its customers to be remitted on demand to the Federal Reserve Bank. The Bank pays interest on these balances at a slight discount to the Federal funds rate. This arrangement is secured by investment securities with an amortized cost of approximately $1,000,000, $500,000 and $1,000,000 at December 31, 2008, 2007, and 2006, respectively.

The Bank owned 17,676 shares of common stock of the FHLB at December 31, 2008. The Bank is required to maintain an investment of .2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 20% of the Bank’s total assets, or approximately $66,010,000 at December 31, 2008. Long-term advances totaled $27,000,000 under this credit arrangement at December 31, 2008 (see Note 7). This credit facility is secured by a floating lien on the Bank's residential mortgage loan portfolio. Average short-term borrowings under this facility approximated $1,924,000, $1,616,000 and $1,047,000 for 2008, 2007, and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-term borrowings (continued)

The Bank also has available $9,000,000 in a short-term credit facility, an unsecured line of credit, from another bank for short-term liquidity needs, if necessary. No outstanding borrowings existed under this credit arrangement at December 31, 2008, 2007, and 2006.

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2008	2007	2006
Federal Home Loan Bank of Atlanta, convertible advances	$ 27,000,000	$ 17,000,000	$ 7,000,000
Mortgage payable-individual, interest at 7%, payments of $3,483, including principal and interest, due monthly through October 2010, secured by real estate	71,712	107,135	140,170
	$ 27,071,712	$ 17,107,135	$ 7,140,170

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

A $7,000,000 convertible advance issued in 2000, which matures in September 2010, with interest at 5.84%, payable quarterly. The Federal Home Loan Bank of Atlanta has the option of converting the rate to a three-month LIBOR; however, if converted, the borrowing can be repaid without penalty. The proceeds of the convertible advance were used to purchase higher yielding investment securities.

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

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

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

At December 31, 2008, the scheduled maturities of long-term borrowings are approximately as follows:

	2008
2009	$ 38,000
2010	7,034,000
2014 and thereafter	20,000,000

	$ 27,072,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust

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

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

Note 9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2008	2007	2006
NOW and SuperNOW	$ 21,079,314	$ 23,154,540	$ 22,274,015
Money Market	12,764,167	12,948,342	15,341,221
Savings	45,801,719	47,381,613	50,234,238
Certificates of Deposit, $100,000 or more	27,882,777	20,654,230	22,380,391
Other time deposits	98,700,862	80,017,668	89,874,294
	$ 206,228,839	$ 184,156,393	$ 200,104,159

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Deposits (continued)

Interest expense on deposits is as follows:

	2008	2007	2006
NOW and SuperNOW	$ 30,618	$ 47,885	$ 52,047
Money Market	62,475	103,472	106,264
Savings	153,301	214,998	222,018
Certificates of Deposit, $100,000 or more	976,446	915,889	859,707
Other time deposits	3,557,345	3,542,181	3,540,835
	$ 4,780,185	$ 4,824,425	$ 4,780,871

At December 31, 2008, the scheduled maturities of time deposits are approximately as follows:

	2008
2009	$ 68,385,000
2010	34,732,000
2011	5,444,000
2012	3,146,000
2013	13,626,000
2014 and thereafter	1,251,000
	$ 126,584,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately $2,611,000, $2,213,000, and $2,308,000 at December 31, 2008, 2007, and 2006, respectively.

The Bank had no brokered deposits at December 31, 2008, 2007, and 2006.

Note 10. Income Taxes

The components of income tax expense for the years ended December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Current:			
Federal	$ 655,129	$ 646,449	$ 493,052
State	271,112	199,611	167,706
Total current	926,241	846,060	660,758
Deferred income taxes (benefits):			
Federal	(1,275,873)	(80,277)	25,655
State	(329,730)	(7,443)	702
Total deferred	(1,605,603)	(87,720)	26,357

Income tax (benefit) expense	$ (679,362)	$ 758,340	$ 687,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

A reconciliation of income tax expense computed at the statutory rate of 34% to the actual income tax expense for the years ended December 31, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
(Loss) income before income taxes (benefit)	$ (275,400)	$ 3,540,481	$ 3,407,160
Taxes computed at Federal income tax rate	$ (93,636)	$ 1,203,764	$ 1,158,434
Increase (decrease) resulting from:			
Tax-exempt income	(547,038)	(581,208)	(610,541)
State income taxes, net of Federal income tax benefit	(38,688)	126,832	110,686
Other	-	8,952	28,536
Income tax (benefit) expense	$ (679,362)	$ 758,340	$ 687,115

The relationship between pre-tax loss and income tax benefits for 2008 is affected by increased deferred tax benefits attributable to tax methodologies utilized for loan loss provisions.

The components of the net deferred income tax benefits as of December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Deferred income tax benefits:			
Accrued deferred compensation	$ 82,049	$ -	$ -
Impairment loss on investment securities	1,110,771	-	-
Allowance for credit losses	563,737	80,300	90,186
Alternative minimum tax credits	66,371	94,642	37,678
Net unrealized depreciation on investment securities available for sale	500,186	272,816	199,155
Reserve for unfunded commitments	78,890	78,890	77,240
Total deferred income tax benefits	2,402,004	526,648	404,259
Deferred income tax liabilities:			
Accumulated depreciation	41,113	15,769	42,991
Accumulated securities discount accretion	74,408	57,367	69,137
Total deferred income tax liabilities	115,521	73,136	112,128
Net deferred income tax benefits	$ 2,286,483	$ 453,512	$ 292,131

Note 11. Pension and Profit Sharing Plans

The Bank has a money purchase pension plan, which provides for annual employer contributions based on employee compensation, and covers substantially all employees. Annual contributions, included in employee benefit expense, totaled $220,000, $201,321 and $200,005 for the years ended December 31, 2008, 2007 and 2006, respectively. The Bank is also making additional contributions under this plan for the benefit of certain employees, whose retirement funds were negatively affected by the termination of a prior defined benefit pension plan. These additional contributions, also included in employee benefit expense, totaled $33,452, $37,105, and $47,495 for the years ended December 31, 2008, 2007, and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Pension and Profit Sharing Plans (continued)

The Bank also has a defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code that is funded through a profit sharing agreement and voluntary employee contributions.

The plan provides for discretionary employer matching contributions to be determined annually by the Board of Directors. The plan covers substantially all employees. The Bank's contributions to the plan, included in employee benefit expense, totaled $116,027, $340,254, and $335,724 for the years ended December 31, 2008, 2007, and 2006, respectively.

Note 12. Post-Retirement Health Care Benefits

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

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

Net post-retirement benefit income for the year ended December 31, 2006 includes the following:

		2006
Interest cost	$	3,081
Amortization of net gain		(37,723)
Net post-retirement benefit income	$	(34,642)

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

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

If the assumed health cost trend rate were increased to 6% for 2006, the total of the service and interest cost components of net periodic post-retirement health care income cost would increase by $0 to ($34,642) as of for the year ended December 31, 2006.

Note 13. Other Benefit Plans

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled $7,434,573, $7,161,403, and $6,892,455 at December 31, 2008, 2007, and 2006, respectively. Income on their insurance investment totaled $273,170, $268,948, and $210,653 for 2008, 2007, and 2006, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Other Operating Expenses

Other operating expenses include the following:

	2008	2007	2006
Professional services	$ 485,685	$ 479,877	$ 434,465
Stationery, printing and supplies	214,815	225,709	209,385
Postage and delivery	187,017	222,642	224,856
FDIC assessment	35,544	31,605	33,847
Directors fees and expenses	198,939	210,097	207,796
Marketing	255,921	236,917	232,258
Data processing	100,562	109,797	104,976
Correspondent bank services	60,706	95,407	89,924
Telephone	160,242	157,811	165,529
Liability insurance	71,497	67,959	81,508
Losses and expenses on real estate owned (OREO)	8,343	2,905	922
Other ATM expense	232,670	242,429	235,116
Other	396,749	293,770	343,296
	$ 2,408,690	$ 2,376,925	$ 2,363,878

Note 15. Commitments and Contingencies

Financial instruments:

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

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

	2008	2007	2006
Loan commitments:			
Construction and land development	$ 400,000	$ -	$ 482,000
Other mortgage loans	2,590,000	685,000	528,000
	$ 2,990,000	$ 685,000	$ 1,010,000
Unused lines of credit:			
Home-equity lines	$ 6,395,182	$ 7,507,778	$ 6,410,947
Commercial lines	13,380,292	18,335,771	10,805,449
Unsecured consumer lines	785,487	815,960	809,802
	$ 20,560,961	$ 26,659,509	$ 18,026,198
Letters of credit:	$ 196,530	$ 197,000	$ 296,136

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Commitments and Contingencies (continued)

represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

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

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2008, the Bank has accrued $200,000 as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Note 16. Stockholders' Equity

Restrictions on dividends:

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. Retained earnings from which dividends may not be paid without prior approval totaled approximately $12,430,000, $11,363,000, and $9,367,000 at December 31, 2008, 2007, and 2006, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Stock repurchase program:

In February 2008, the Company instituted a Stock Repurchase Program. Under the program, the Company may spend up to $1,000,000 to repurchase its outstanding stock. The repurchases may be made from time to time at a price not to exceed $12.50 per share. During 2008, the Company repurchased 50,300 shares at an average price of $11.48. In December 2008, the Company extended the program until December 31, 2009 and replenished the repurchase funds to $1,000,000.

Employee stock purchase benefit plans:

The Company has a stock-based compensation plan, which is described below. As determined under SFAS No. 123R utilizing the Black-Scholes option pricing model, management of the Company has not recorded any compensation expense for options issued during the years ended December 31, 2007 and 2006, as there would be no material impact in the reported net income. There were no options issued during the year ended December 31, 2008.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

	Shares		Grant Price
Outstanding December 31, 2005	-		
Granted on June 8, 2006, expiring December 11, 2006	4,755	$	14.15
Exercised	(2,395)		
Expired	(2,360)	$	14.15
Outstanding December 31, 2006	-		
Granted on August 9, 2007, expiring December 10, 2007	3,126	$	14.02
Exercised	(1,041)		
Expired	(2,085)	$	14.02
Outstanding December 31, 2007	-		

At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 48,011.

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

Dividend reinvestment and stock purchase plan:

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

During 2008, 2007, and 2006, shares of common stock purchased under the plan totaled 20,003, 12,791, and 15,113, respectively. At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 145,844.

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

Stockholder purchase plan:

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

There was no activity under this plan for the years ended December 31, 2008, 2007, and 2006.

At December 31, 2008, shares of common stock reserved for issuance under the plan totaled 313,919.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

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

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

Regulatory capital requirements:

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2008, 2007, and 2006, that both the Company and Bank meet all capital adequacy requirements to which they are subject.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

A comparison of capital as of December 31, 2008, 2007, and 2006 with minimum requirements is approximately as follows:

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2008						
Total Capital (to Risk Weighted Assets)						
Company	$ 35,687,000	14.9%	$ 19,122,000	8.0%	N/A	
Bank	35,707,000	15.0%	19,107,000	8.0%	$ 23,884,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	33,665,000	14.1%	9,564,000	4.0%	N/A	
Bank	33,485,000	14.0%	9,553,000	4.0%	14,330,000	6.0%
Tier I Capital (to Average Assets)						
Company	33,665,000	10.5%	12,825,000	4.0%	N/A	
Bank	33,485,000	10.2%	13,196,000	4.0%	16,495,000	5.0%
As of December 31, 2007						
Total Capital (to Risk Weighted Assets)						
Company	$ 36,774,000	17.6%	$ 16,744,000	8.0%	N/A	
Bank	36,592,000	17.5%	16,728,000	8.0%	$ 20,910,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	35,170,000	16.8%	8,374,000	4.0%	N/A	
Bank	34,788,000	16.6%	8,363,000	4.0%	12,544,000	6.0%
Tier I Capital						

(to Average Assets)						
Company	35,170,000	11.3%	12,494,000	4.0%	N/A	
Bank	34,788,000	11.3%	12,271,000	4.0%	15,339,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Stockholders' Equity (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk Weighted Assets)						
Company	$ 35,357,000	17.1%	$ 16,570,000	8.0%	N/A	
Bank	35,240,000	17.0%	16,564,000	8.0%	$ 20,705,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	33,518,000	16.2%	8,281,000	4.0%	N/A	
Bank	33,201,000	16.0%	8,285,000	4.0%	12,427,000	6.0%
Tier I Capital (to Average Assets)						
Company	33,518,000	10.3%	13,017,000	4.0%	N/A	
Bank	33,201,000	10.2%	13,046,000	4.0%	16,307,000	5.0%

Note 17. Earnings Per Common Share

Earnings per common share are calculated as follows:

	2008	2007	2006
Basic:			
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Weighted average common shares outstanding	2,981,124	2,988,796	2,972,362
Basic net income per share	$ 0.14	$ 0.93	$ 0.92

Diluted earnings per share calculations were not required for 2008, 2007, and 2006 as there were no options outstanding at December 31, 2008, 2007, and 2006.

In January 2008, the Company declared a six for five stock split effected in the form of a 20% stock dividend.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Values of Financial Instruments

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

	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	$ 6,960,377	$ 6,960,377	$ 8,220,582	$ 8,220,582	$ 9,005,691	$ 9,005,691
Interest-bearing deposits in other financial institutions	7,883,816	7,883,816	5,847,562	5,847,562	342,309	342,309
Federal funds sold	6,393,710	6,393,710	726,916	726,916	3,971,978	3,971,978
Investment securities available for sale	57,948,645	57,948,645	77,182,181	77,182,181	95,811,296	95,811,296
Investment securities held to maturity	-	-	683,832	726,193	683,363	729,960
Federal Home Loan Bank Stock	1,767,600	1,767,600	1,381,900	1,381,900	928,000	928,000
Maryland Financial Bank Stock	100,000	100,000	100,000	100,000	100,000	100,000
Common stock-Statutory Trust I	155,000	155,000	155,000	155,000	155,000	155,000
Ground rents	184,900	184,900	202,900	202,900	219,100	219,100
Loans, less allowance for credit losses	235,132,621	239,446,000	199,753,132	203,326,000	193,336,604	192,492,000
Accrued interest receivable	1,680,392	1,680,392	1,508,640	1,508,640	1,627,433	1,627,433
Financial liabilities:						
Deposits	269,767,598	272,091,000	252,916,766	251,088,000	274,833,457	273,033,000
Short-term borrowings	629,855	629,855	502,529	502,529	545,349	545,349

Long-term borrowings	27,071,712	27,162,000	17,107,135	16,982,135	7,140,170	7,151,651
Dividends payable	385,794	385,794	385,010	385,010	366,580	366,580
Accrued interest payable	139,579	139,579	134,274	134,274	145,642	145,642
Accrued interest payable on junior subordinated debentures	171,518	171,518	171,518	171,518	171,518	171,518
Junior subordinated debentures owed to unconsolidated subsidiary trust	5,155,000	5,281,827	5,155,000	6,031,097	5,155,000	5,155,000
Unrecognized financial instruments:						
Commitments to extend credit	23,550,961	23,550,961	27,344,509	27,344,509	19,036,198	19,036,198
Standby letters of credit	196,530	196,530	197,000	197,000	296,136	296,136

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

Loans:

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

Investment securities:

Estimated fair values are based on quoted market prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Values of Financial Instruments (continued)

Deposits:

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

Other assets and liabilities:

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

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

Note 19. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS No. 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or on a nonrecurring basis.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy
Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)
Level 3 – Significant unobservable inputs (including the Bank's own assumptions in determining the fair value of assets or liabilities)

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to SFAS No. 157.

Fair value measurements on a recurring basis at December 31, 2008 are as follows:

Fair

	Level 1	Level 2	Level 3	Value
Securities available for sale	$ -	$ 57,948,645	$ -	$ 57,948,645

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Fair Value Measurements (continued)

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

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. Fair value measurements on a non-recurring basis at December 31, 2008 are as follows:

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 758,007	$ 758,007
OREO	-	550,000	-	550,000
	$ -	$ 550,000	$ 758,007	$ 1,308,007

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. If the independent appraisals are current (within approximately six months), management deems them level 2 inputs. Non-current appraisals from which management derives fair values are considered level 3 inputs.

Note 20. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 Revised 2007 (SFAS 141R), Business Combinations. SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. On January 1, 2008, the Company adopted SFAS No. 141R. The Company has determined that the adoption of this pronouncement did not have a significant impact on the financial statements.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115 which is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Management has not elected to adopt this SFAS but will continue to evaluate the impact of adopting this Statement on the Company's financial statements for future periods.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Recently Issued Accounting Pronouncements (continued)

In September 2006, the FASB ratified the consensus reached by the Emerging Issued Task Force (EITF) on Issue No. 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The scope of this Issue is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. Therefore, this Issue would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer.

The consensus in this Issue is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the consensus in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. On January 1, 2008, the Company adopted EITF No. 06-04 and under option (a) recorded a cumulative accrued expense and reduction in stockholder’s equity totaling $179,794 statements.

On January 12, 2009, the FASB issued FASB Staff Position EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP). FASB FSP 99-20-1 amends the impairment guidance in FASB EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be held by a Transferor in Securitized Financial Assets. The intent of the FSP is to reduce complexity and achieve more consistent determinations as to whether other-than-temporary impairments of available for sale or held to maturity debt securities have occurred. The FSP is effective for interim and annual reporting periods ending after December 15, 2008. The adoption of this FSP did not have an impact on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133.” This Statement amends and expands the disclosure requirements of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Principles.” This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (“GAAP”) in the United States. The Statement is directed to entities rather than auditors because entities are responsible for the selection of accounting principles for financial statements that are presented in conformity with GAAP. This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not expect the implementation of SFAS 162 to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information

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

Balance Sheets

December 31,	2008	2007	2006
Assets			
Cash	$ 338,902	$ 532,222	$ 441,919
Investment in The Bank of Glen Burnie	32,727,244	34,354,422	32,884,293
Investment in GBB Properties, Inc.	261,999	263,787	265,579
Investment in the Glen Burnie Statutory Trust I	155,000	155,000	155,000
Due from subsidiaries	22,878	22,709	26,820
Other assets	114,541	119,542	120,000
Total assets	$ 33,620,564	$ 35,447,682	$ 33,893,611
Liabilities and Stockholders' Equity			
Dividends payable	$ 385,794	$ 385,010	$ 366,580
Accrued interest payable on borrowed funds	171,518	171,518	171,518
Other liabilities	-	-	-
Borrowed funds from subsidiary	5,155,000	5,155,000	5,155,000
Total liabilities	5,712,312	5,711,528	5,693,098
Stockholders' equity:			
Common stock	2,967,727	2,498,465	2,484,633
Surplus	11,568,241	11,921,129	11,719,907
Retained earnings	14,129,637	15,750,156	14,312,496
Accumulated other comprehensive loss, net of benefits	(757,353)	(433,596)	(316,523)
Total stockholders' equity	27,908,252	29,736,154	28,200,513
Total liabilities and stockholders' equity	$ 33,620,564	$ 35,447,682	$ 33,893,611

The borrowed funds from subsidiary balance represents the junior subordinated debt securities payable to the wholly-owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled $5,000,000 at December 31, 2008 (See Note 8).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information (continued)

Statements of Income

Years Ended December 31,	2008	2007	2006
Dividends and distributions from subsidiaries	$ 1,902,239	$ 1,565,000	$ 1,350,000
Other income	16,430	16,430	16,430
Interest expense on junior subordinated debentures	(546,180)	(546,430)	(546,430)
Other expenses	(69,468)	(62,271)	(59,453)
Income before income tax benefit and equity in undistributed net income of subsidiaries	1,303,021	972,729	760,547
Income tax benefit	226,356	224,002	227,647
Change in undistributed equity of subsidiaries	(1,125,415)	1,585,410	1,731,851
Net income	$ 403,962	$ 2,782,141	$ 2,720,045

Statements of Cash Flows

Years Ended December 31,	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 403,962	$ 2,782,141	$ 2,720,045
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in other assets	5,001	458	7,250
(Increase) decrease in due from subsidiaries	(169)	4,111	(3,932)
Decrease in other liabilities	-	-	(2,032)
Change in undistributed equity of Subsidiaries	1,125,415	(1,585,410)	(1,731,851)
Net cash provided by operating activities	1,534,209	1,201,300	989,480
Cash flows from financing activities:			
Proceeds from dividend reinvestment plan	194,054	200,459	245,059
Proceeds from issuance of common stock	-	14,595	33,891
	(577,239)	-	-

Repurchase and retirement of common stock			
Dividends paid	(1,344,344)	(1,326,051)	(1,309,970)
Net cash used in financing activities	(1,727,529)	(1,110,997)	(1,031,020)
(Decrease) increase in cash	(193,320)	90,303	(41,540)
Cash, beginning of year	532,222	441,919	483,459
Cash, end of year	$ 338,902	$ 532,222	$ 441,919

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22. Quarterly Results of Operations (Unaudited)

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

2008				
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,604	$ 4,667	$ 4,492	$ 4,413
Interest expense	1,661	1,546	1,499	1,548
Net interest income	2,943	3,121	2,993	2,865
Provision for credit losses	700	239	152	55
Net securities gains	50	86	48	7
Income before income taxes	272	(1,915)	743	625
Net income	1,382	(2,118)	604	536
Net income per share (basic and diluted)	$ 0.47	$ (0.71)	$ 0.20	$ 0.18

2007				
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,487	$ 4,476	$ 4,465	$ 4,409
Interest expense	1,506	1,441	1,507	1,517
Net interest income	2,981	3,035	2,958	2,892
Provision for credit losses	-	-	20	30
Net securities gains	-	115	4	1
Income before income taxes	903	1,049	873	715
Net income	700	785	691	606
Net income per share (basic and diluted)	$ 0.23	$ 0.27	$ 0.23	$ 0.20

2006				
(Dollars in thousands,	Three months ended,			
except per share amounts)	December 31	September 30	June 30	March 31
Interest income	$ 4,542	$ 4,492	$ 4,447	$ 4,174
Interest expense	1,609	1,538	1,480	1,206
Net interest income	2,933	2,954	2,967	2,968
Provision for credit losses	62	-	-	-
Net securities gains	106	70	-	-
Income before income taxes	903	912	844	748
Net income	609	772	713	626
	$ 0.21	$ 0.26	$ 0.24	$ 0.21

Net income per share (basic and diluted)