GLEN BURNIE BANCORP
Form 10-K
March 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015 or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to______.

Commission file number: 0-24047

GLEN BURNIE BANCORP

(Exact name of registrant as specified in its charter)

MARYLAND	52-1782444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Title of Class
Common Stock, $1.00 par value

Common Stock Purchase Rights

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

Yes ¨ No x

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

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

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

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015 was $26,611,474.

The number of shares of common stock outstanding as of February 4, 2016 was 2,776,566.

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 2015 Annual Meeting of Shareholders (to be filed).

GLEN BURNIE BANCORP

2015 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. BUSINESS

General

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

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

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

Economic and Credit Turmoil from 2011 to 2015

As reported in the media, the recovery which followed the 2007 economic downturn appears to have been less robust than previous post recession recoveries. The Bank and, as a result, the Company, along with the rest of the financial

services industry, have been impacted by the downward pressure on net interest margins caused by the lower interest rates due to steps taken by the Federal Reserve in managing the recovery. As further reported in the media, the Federal Reserve, having ended their aggressive Quantitative Easing program, is monitoring the rates of growth, unemployment, and inflation to which they expect the economy to converge over time in the absence of further shocks and under appropriate monetary policy. Appropriate monetary policy, by definition, is aimed at achieving the Federal Reserve's dual mandate of maximum employment and price stability in the longer run. During December 2015, the Federal Reserve concluded the economy has shown considerable strength and decided to raise the Federal Funds rate, further stating that it anticipates the pace of tightening to be gradual. Despite these challenges, we realized net income of $1,352,616 for 2015. We have remained well capitalized through this difficult time without governmental assistance. We have continued to be actively engaged with the communities we serve, lending and meeting their needs. We believe that we are a sound, conservatively run financial institution that has remained profitable despite the deterioration in the economic environment and the outside forces that have affected us these past six years.

Market Area

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

Lending Activities

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

The Company's total loan portfolio decreased in 2015 and increased during the 2014, 2013, 2012, and 2011 fiscal years. In 2015, the decrease in the loan portfolio was primarily due to decreases in indirect loans, purchase money mortgages and refinance mortgage loans with lesser decreases in other areas. These decreases were partially offset by increases in home equity loans and commercial and industrial loans with lesser increases in other areas. In 2015, mortgage participations sold also increased. In 2014, the increase in the loan portfolio was primarily due to increases in indirect loans, purchase money mortgage, and commercial and industrial construction loans, partially offset by decreases in refinance mortgage loans and commercial and industrial mortgages. In 2013, the increase in the loan portfolio was primarily due to increases in indirect loans, refinance mortgage loans, non-home owner residential construction loans, home equity and purchase money mortgages, partially offset by decreases in secured business installment loans, home-owner residential construction, commercial and industrial mortgages, and demand secured business loans. In 2012, the increase in the loan portfolio was primarily due to increases in indirect loans, commercial and industrial mortgages, home equity and purchase money mortgages, partially offset by decreases in refinance mortgage loans, construction loans for commercial and industrial loans and demand secured business loans. In 2012, mortgage participations purchased also decreased. In 2011, the increase in the loan portfolio was primarily due to increases in indirect loans, residential mortgages, and installment loans, partially offset by a decrease in commercial mortgages. In 2011, mortgage participations purchased decreased but so did mortgage participations sold.

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

	At December 31, 2015		2014		2013		2012		2011
(Dollars in Thousands)	$	%	$	%	$	%	$	%	$
Mortgage:									
Residential	$116,027	43.97 %	$120,932	43.47 %	$123,646	44.98 %	$107,729	42.41 %	$107,664
Commercial	62,469	23.68	62,601	22.50	67,196	24.45	71,381	28.10	67,656
Construction and land development	5,519	2.09	7,074	2.54	6,582	2.40	3,915	1.54	5,092
Consumer:									

Installment	14,577	5.52	16,449	5.91	17,669	6.43	18,504	7.28	18,048
Personal unsecured lines	119	0.05	142	0.05	161	0.06	165	0.06	163
Indirect automobile	60,607	22.97	67,513	24.27	55,400	20.16	47,427	18.67	31,907
Commercial	4,540	1.72	3,519	1.26	4,173	1.52	4,901	1.94	7,193
Gross loan	263,858	100.00 %	278,230	100.00 %	274,827	100.00 %	254,022	100.00 %	237,723
Unearned income on loans	(1,071)		(1,126)		(1,171)		(1,083)		(1,058)
Gross loans net of unearned income	262,787		277,104		273,656		252,939		236,665
Allowance for credit losses	(3,150)		(3,118)		(2,972)		(3,308)		(3,931)
Loans, net	$ 259,637		$ 273,986		$ 270,684		$ 249,631		$ 232,734

The following table sets forth the maturities for various categories of the loan portfolio at December 31, 2015. Demand loans and loans which have no stated maturity, are treated as due in one year or less. At December 31, 2015, the Bank had $20,624,435 in loans due after one year with variable rates and $225,438,460 in such loans with fixed rates.

	Due Within One Year	Due Over One To Five Years	Due Over Five Years	Total
	(In Thousands)			
Real Estate - mortgage				
Residential	$11,611	$ 4,024	$ 100,392	$116,027
Commercial	903	22,572	38,994	62,469
Construction and land development	1,332	2,456	1,731	5,519
Installment	709	7,670	6,198	14,577
Personal unsecured lines	119	-	-	119
Indirect automobile	400	45,783	14,424	60,607
Commercial	2,608	-	1,932	4,540
	$17,682	$ 82,505	$ 163,671	$263,858

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. Because mortgage lending decisions are based on conservative lending policies, the Company has no exposure to the credit issues affecting the sub-prime residential mortgage market.

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

Installment Lending. The Bank makes consumer and commercial installment loans for the purchase of automobiles, boats, other consumer durable goods, capital goods and equipment. Such loans provide for repayment in regular installments and are secured by the goods financed. Also included in installment loans are other types of credit repayable in installments. As of December 31, 2015, approximately 60.60% of the installment loans in the Bank's portfolio (other than indirect automobile lending) had been originated for commercial purposes and 39.40% had been originated for consumer purposes.

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

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

Although the risk of non-payment for any reason exists with respect to all loans, certain other specific risks are associated with each type of loan. The primary risks associated with commercial loans, including commercial real estate loans, are the quality of the borrower's management and a number of economic and other factors which induce business failures and depreciate the value of business assets pledged to secure the loan, including competition, insufficient capital, product obsolescence, changes in the borrowers' cost, environmental hazards, weather, changes in laws and regulations and general changes in the marketplace. Primary risks associated with residential real estate loans include fluctuating land and property values and rising interest rates with respect to fixed-rate, long-term loans. Residential construction lending exposes the Company to risks related to builder performance. Consumer loans, including indirect automobile loans, are affected primarily by domestic economic instability and a variety of factors that may lead to the borrower's unemployment, including deteriorating economic conditions in one or more segments of a local or broader economy. Because the Bank deals with borrowers through an intermediary on indirect automobile loans, this form of lending potentially carries greater risks of defects in the application process for which claims may be made against the Bank. Indirect automobile lending may also involve the Bank in consumer disputes under state "lemon" or other laws. The Bank seeks to control these risks by following strict underwriting and documentation guidelines. In addition, dealerships are contractually obligated to indemnify the Bank for such losses for a limited period of time.

The Bank's lending activities are conducted pursuant to written policies approved by the Board of Directors intended to ensure proper management of credit risk. Loans are subject to a well defined credit process that includes credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances, as well as procedures for on-going identification and management of credit deterioration. Regular portfolio reviews are performed by the Bank's Senior Credit Officer to identify potential underperforming loans and other credit facilities, estimate loss exposure and to ascertain compliance with the Bank's policies. On a quarterly basis, the Bank's Internal Auditor performs, or causes to be performed, an independent loan review in accordance with the Bank's loan review policy. For significant problem loans, management review consists of evaluation of the financial strengths of the borrower and any guarantor, the related collateral, and the effects of economic conditions.

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

Under Maryland law, the maximum amount which the Bank is permitted to lend to any one borrower and their related interests may generally not exceed 10% of the Bank's unimpaired capital and surplus, which is defined to include the Bank's capital, surplus, retained earnings and 50% of its allowance for possible loan losses. Under this authority, the Bank would have been permitted to lend up to $3.58 million to any one borrower at December 31, 2015. By interpretive ruling of the Commissioner of Financial Regulation, Maryland banks have the option of lending up to the amount that would be permissible for a national bank which is generally 15% of unimpaired capital and surplus (defined to include a bank's total capital for regulatory capital purposes plus any loan loss allowances not included in regulatory capital). Under this formula, the Bank was permitted to lend up to $5.52 million to any one borrower from and after January 1, 2015. At December 31, 2015, the largest amount of exposure to any one borrower and its related

interests was $5,005,000. From and after January 1, 2016, the Bank is permitted to lend up to $5.60 million to any one borrower.

Non-Performing Loans

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

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

The Bank experienced an increase in the total of non-accrual and past due loans, as management has taken an aggressive approach to bring these assets to resolution. The increase in non-accrual loans is predominately attributed to one residential real estate investor, which consists of four borrowers and ten loans, with a carrying value of $1.7 million. The following table sets forth the amount of the Bank's restructured loans, non-accrual loans and accruing loans 90 days or more past due at the dates indicated:

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars In Thousands)				
Restructured Loans	$290	$253	$-	$2,202	$4,108
Non-accrual loans:					
Real estate - mortgage:					
Residential	$3,183	$1,164	$1,123	$1,109	$481
Commercial	-	1,097	-	1,370	3,192
Installment	597	516	338	237	75
Commercial	-	-	1,252	1,293	1,313
Total non-accrual loans	3,780	2,777	2,713	4,009	5,061
Accruing loans past due 90 days or more :					
Real estate - mortgage:					
Residential	39	197	431	259	19
Commercial	-	-	-	-	-
Installment	16	-	-	-	-
Commercial	-	-	1,177	1,354	-
Total accruing loans past due 90 days or more	55	197	1,608	1,613	19
Total non-accrual and past due loans	$3,835	$2,974	$4,321	$5,622	$5,080
Non-accrual and past due loans to gross loans	1.45 %	1.07 %	1.58 %	2.22 %	2.15 %
Allowance for credit losses to non-accrual and past due loans	82.14%	104.84%	68.78%	58.84%	77.38%

For the year ended December 31, 2015, interest of $239,038 would have been accrued on non-accrual loans if such loans had been current in accordance with their original terms. During that period, interest on non-accrual loans was not included in income. $3,243,954, or 85.82%, of the Bank's total $3,779,749 non-accrual loans at December 31, 2015 were attributable to 14 borrowers. Two of these borrowers were in bankruptcy at that date. Because of the legal protections afforded to borrowers in bankruptcy, collections on such loans are difficult and the Bank anticipates that such loans may remain delinquent for an extended period of time.

At December 31, 2015, there were loans outstanding, totaling $1,107,665, not reflected in the above table as to which known information about the borrower's possible credit problems caused management to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms. These loans consist of loans which were not 90 days or more past due but where the borrower is in bankruptcy or has a history of delinquency or the loan to value ratio is considered excessive due to deterioration of the collateral or other factors.

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At December 31, 2015, the Company had $74,400 in real estate acquired in partial or total satisfaction of debt, compared to $45,000 and $1,171,000 in such properties at each of December 31, 2014 and 2013. This increase for 2015 was the result of one property with a value of $45,000 being sold and two properties, with one owner, being added in 2015. This decrease for 2014 was the result of $91,000 being written off on three properties and four properties with a value of $1,154,000 being sold. One property was added to OREO in 2014. All such properties are recorded at the lower of cost or fair value at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and expense of operation are included in non-interest expense. Gains and losses realized from the sale of other real estate owned are included in non-interest income or expense. For a description of the properties comprising other real estate owned at December 31, 2015, see "Item 2. — Properties."

Allowance For Credit Losses

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

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

In 2015, the Bank increased its provision for credit losses primarily due to the increases in net charge-offs during the year. There were two residential real estate investors that contributed greatly towards the need for additional provision for credit losses. One of these projects was resolved during the fourth quarter of 2015 resulting in a charge-off of $645,000 and the remaining real estate investor has significant specific reserves allocated to their ten loans which are in non-accrual status. The Bank utilizes a model to calculate the required reserves for potential losses that is based on historical loss factors/ratios. Thus, when the Bank experiences an increase in net charge-offs the historical loss ratios increase causing additional provisions to be required.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars In Thousands)				
Beginning Balance	$3,118	$2,972	$3,308	$3,931	$3,400
Loans charged-off					
Real estate - mortgage:					
Residential	$848	$235	$179	$735	$4
Commercial	63	243	-	-	-
Installment	1,261	839	652	475	606
Commercial	3	29	202	55	6
Total	2,175	1,346	1,033	1,265	616
Recoveries:					
Real estate - mortgage:					
Residential	11	6	8	6	1
Commercial	13	128	89	89	70
Installment	487	331	313	287	409
Commercial	1	6	27	10	4
Total	512	471	437	392	484
Net charge offs	1,663	875	596	873	132
Provisions charged to operations	1,695	1,021	260	250	663
Ending balance	$3,150	$3,118	$2,972	$3,308	$3,931
Average Loans	$266,457	$278,350	$256,820	$244,905	$233,010
Net charge-offs to average loans	0.62 %	0.31 %	0.23 %	0.36 %	0.06 %

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The following table shows the allowance for credit losses broken down by loan category as of December 31, 2015, 2014, 2013, 2012, and 2011:

	At December 31, 2015		2014	
Portfolio	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans
Real estate - mortgage:				
Residential	1,622	43.97 %	1,156	43.47 %
Commercial	262	23.68	335	22.50
Real estate -construction	8	2.09	14	2.54
Installment	227	5.52	349	5.91
Personal unsecured lines	-	0.05	-	0.05
Indirect automobile	577	22.97	932	24.27
Commercial	305	1.72	386	1.26
Unallocated	149	-	(54)	-
Total	$3,150	100.00 %	$3,118	100.00 %

	At December 31, 2013		2012		2011	
Portfolio	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans	Allowance For Each Category	Percentage Of Loans In Each Category To Total Loans
Real estate - mortgage:						
Residential	578	44.98 %	382	42.41 %	584	45.29 %
Commercial	898	24.45	1,183	28.10	2,013	28.46
Real estate -construction	15	2.40	10	1.54	12	2.14
Installment	335	6.43	223	7.28	228	7.59
Personal unsecured lines	-	0.06	-	0.06	-	0.07
Indirect automobile	853	20.16	835	18.68	661	13.42
Commercial	413	1.52	542	1.93	557	3.03
Unallocated	(120)	-	133	-	(124)	-
Total	$2,972	100.00 %	$3,308	100.00 %	$3,931	100.00 %

Investment Securities

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

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

	2015	2014	2013
	(In Thousands)		
U.S. Treasury securities	$2,995	$7,947	$-
U.S. Government agencies and mortgage backed securities	66,660	46,859	43,541
Obligations of states and poltical subdivision	29,636	32,771	32,396
Corporate trust preferred	-	247	333
Total investment securities	$99,291	$87,824	$76,270

The following table sets forth the scheduled maturities, amortized costs and weighted average yields for the Company's investment securities portfolio at December 31, 2015:

	One Year Or Less		One To Five Years		Five To Ten Years		More Than Ten Years		Total	
		Weighted Average		Weighted Average		Weighted Average		Weighted Average		Weighted Average
	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield	Amort Cost	Yield
U.S. Treasury securities	$ -	%	$ 2,995	1.22 %	$ -	%	$ -	%	2,995	1.22 %
U.S. Government agencies and mortgage backed securities	-		-		1,335	1.98	65,325	1.69	66,660	1.70
Obligations of states and political subdivisions	-		-		-		29,636	3.16	29,636	3.16
Corporate trust preferred	-		-		-		-		-	-
Total investment securities	$ -	0 %	$ 2,995	1.22 %	$ 1,335	1.98 %	$ 94,961	2.15 %	$ 99,291	2.12 %

At December 31, 2015, the Bank had no investments in securities of a single issuer (other than the U.S. Government securities and securities of federal agencies and government-sponsored enterprises), which aggregated more than 10% of stockholders' equity.

Deposits And Other Sources of Funds

The funds needed by the Bank to make loans are primarily generated by deposit accounts solicited from the communities surrounding its branches in Anne Arundel County. Consolidated total deposits were $335,191,530 as of December 31, 2015. The Bank uses borrowings from the Federal Home Loan Bank ("FHLB") of Atlanta to supplement funding from deposits. The Bank was permitted to borrow up to $71.82 million under a line of credit from the FHLB of Atlanta as of December 31, 2015.

Deposits. The Bank's deposit products include regular savings accounts (statements), money market deposit accounts, demand deposit accounts, NOW checking accounts, IRA and SEP accounts, Christmas Club accounts and certificates of deposit. Variations in service charges, terms and interest rates are used to target specific markets. Ancillary products and services for deposit customers include safe deposit boxes, money orders, night depositories, automated

clearinghouse transactions, wire transfers, ATMs, telephone banking, and internet banking. The Bank is a member of the Cirrus(R), Star(R), Pulse(R) and MoneyPass(R) ATM networks.

As stated above, the Bank obtains deposits principally through its network of branch offices. The Bank does not solicit brokered deposits. At December 31, 2015, the Bank had approximately $51.53 million in certificates of deposit and other time deposits of $100,000 or more, including IRA accounts. The following table provides information as to the maturity of all time deposits of $100,000 or more at December 31, 2015:

	Amount (In Thousands)
Three months or less	$ 6,269
Over three through six months	3,870
Over six through 12 months	6,424
Over 12 months	34,965
Total	$ 51,528

Borrowings. In addition to deposits, the Bank from time to time obtains advances from the FHLB of Atlanta of which it is a member. FHLB of Atlanta advances may be used to provide funds for residential housing finance, for small business lending, and to meet specific and anticipated needs. The Bank may draw on a $71.82 million line of credit from the FHLB of Atlanta, which is secured by a floating lien on the Bank's residential first mortgage loans. There was also a $10 million convertible advance with a 3.28% rate of interest (callable monthly and with a final maturity of November 1, 2017.) There was a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and was callable quarterly, starting July 23, 2009. There was a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly, starting August 22, 2011. The Bank also has three federal funds lines of credit in the amounts of $3 million, $5 million and $8 million, of which nothing was outstanding at December 31, 2015.

Competition

The Bank faces competition for deposits and loans from other community banks, branches or affiliates of larger banks, savings and loan associations, savings banks and credit unions, which compete vigorously (currently, sixteen FDIC-insured depository institutions operate within two miles of the Bank's headquarters). With respect to indirect lending, the Bank faces competition from other banks and the financing arms of automobile manufacturers. The Bank competes in this area by offering competitive rates and responsive service to dealers.

The Bank's interest rates, loan and deposit terms, and offered products and services are impacted, to a large extent, by such competition. The Bank attempts to provide superior service within its community and to know, and facilitate services, to, its customers. It seeks commercial relationships with small to medium size businesses, which the Bank believes would welcome personal service and flexibility. The bank believes its greatest competition comes from larger intra- and inter-state financial institutions.

Other Activities

The Company also owns all outstanding shares of capital stock of GBB Properties, Inc. ("GBB"), another Maryland corporation which was organized in 1994 and which is engaged in the business of acquiring, holding and disposing of real property, typically acquired in connection with foreclosure proceedings (or deeds in lieu of foreclosure) instituted by the Bank or acquired in connection with branch expansions by the Bank.

Employees

At December 31, 2015, the Bank had 93 full-time equivalent employees. Neither the Company nor GBB currently has any employees.

Regulation of the Company

General. The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the "BHCA"). As such, the Company is registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and subject to Federal Reserve Board regulation, examination, supervision and reporting requirements. As a bank holding company, the Company is required to furnish to the Federal Reserve Board annual

and quarterly reports of its operations at the end of each period and to furnish such additional information as the Federal Reserve Board may require pursuant to the BHCA. The Company is also subject to regular inspection by Federal Reserve Board examiners.

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

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

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

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

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

The Maryland Financial Institutions Code prohibits a bank holding company from acquiring more than 5% of any class of voting stock of a bank or bank holding company without the approval of the Commissioner of Financial Regulation except as otherwise expressly permitted by federal law or in certain other limited situations. The Maryland Financial Institutions Code additionally prohibits any person from acquiring voting stock in a bank or bank holding company without 60 days' prior notice to the Commissioner if such acquisition will give the person control of 25% or more of the voting stock of the bank or bank holding company or will affect the power to direct or to cause the

direction of the policy or management of the bank or bank holding company. Any doubt whether the stock acquisition will affect the power to direct or cause the direction of policy or management shall be resolved in favor of reporting to the Commissioner. The Commissioner may deny approval of the acquisition if the Commissioner determines it to be anti-competitive or to threaten the safety or soundness of a banking institution. Voting stock acquired in violation of this statute may not be voted for five years.

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

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

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

Regulation of the Bank

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

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

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

Section 313(a) of the Patriot Act prohibits any insured financial institution such as the Bank, from providing correspondent accounts to foreign banks which do not have a physical presence in any country (designated as "shell

banks"), subject to certain exceptions for regulated affiliates of foreign banks. Section 313(a) also requires financial institutions to take reasonable steps to ensure that foreign bank correspondent accounts are not being used to indirectly provide banking services to foreign shell banks, and Section 319(b) requires financial institutions to maintain records of the owners and agent for service of process of any such foreign banks with whom correspondent accounts have been established.

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

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

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

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

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

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

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

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

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

The FDIC has issued regulations which classify state non-member banks by capital levels and which authorize the FDIC to take various prompt corrective actions to resolve the problems of any bank that fails to satisfy the capital standards. Under such regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a leverage ratio of 5%. An adequately capitalized bank is one that does not qualify as well-capitalized but meets or exceeds the following capital requirements: a total risk-based capital ratio of 8%, a Tier 1 risk-based capital ratio of 4%, and a leverage ratio of either (i) 4% or (ii) 3% if the bank has the highest composite examination rating. A bank not meeting these criteria is treated as undercapitalized, significantly undercapitalized, or critically undercapitalized depending on the extent to which the bank's capital levels are below these standards. A state non-member bank that falls within any of the three undercapitalized categories established by the prompt corrective action regulation will be subject to severe regulatory sanctions. As of December 31, 2015, the Bank was well capitalized as defined by the FDIC's regulations.

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

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

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

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

Transactions with Affiliates. A state non-member bank or its subsidiaries may not engage in “covered transactions” with any one affiliate in an amount greater than 10% of such bank’s capital stock and surplus, and for all such transactions with all affiliates a state non-member bank is limited to an amount equal to 20% of capital stock and surplus. All such transactions must also be on terms substantially the same, or at least as favorable, to the bank or subsidiary as those provided to a non-affiliate. The term “covered transaction” includes the making of loans, purchase of

assets, issuance of a guarantee and similar other types of transactions. An affiliate of a state non-member bank is any company or entity which controls or is under common control with the state non-member bank and, for purposes of the aggregate limit on transactions with affiliates, any subsidiary that would be deemed a financial subsidiary of a national bank. In a holding company context, the parent holding company of a state non-member bank (such as the Company) and any companies which are controlled by such parent holding company are affiliates of the state non-member bank. The BHCA further prohibits a depository institution from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain limited exceptions.

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

ITEM 2. PROPERTIES

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

	Year Opened	Owned/ Leased	Book Value	**Approximate Square Footage**	Deposits
Main Office: 101 Crain Highway, S.E. Glen Burnie, MD 21061	1953	Owned	$406,519	10,000	$104,055,419
Branches:					
Odenton 1405 Annapolis Road Odenton, MD 21113	1969	Owned	150,932	6,000	34,615,655
Riviera Beach 8707 Ft. Smallwood Road Pasadena, MD 21122	1973	Owned	183,658	2,500	32,023,280
Crownsville 1221 Generals Highway Crownsville, MD 21032	1979	Owned	357,108	3,000	62,084,206
Severn 811 Reece Road Severn, MD 21144	1984	Owned	68,733	2,500	32,361,330

New Cut Road 740 Stevenson Road Severn, MD 21144	1995	Owned	1,153,847	2,600	31,534,274
Linthicum Burwood Village Shopping Center Glen Burnie, MD 21060	2005	Leased	75,906	2,500	20,237,054
Severna Park 534 Ritchie Highway Severna Park, MD 21146	2002	Leased	30,122	2,184	18,280,312
Operations Centers: 106 Padfield Blvd. Glen Burnie, MD 21061	1991	Owned	666,896	16,200	N/A
103 Crain Highway, S.E. Glen Burnie, MD 21061	2000	Owned	275,144	3,727	N/A

At December 31, 2015, the Bank owned two foreclosed real estate properties with a total book value of $74,400.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and the Bank are involved in various legal actions relating to their business activities. At December 31, 2015, there were no actions to which the Company or the Bank was a party which involved claims for money damages exceeding 10% of the Company's consolidated current assets in any one case or in any group of proceedings presenting in large degree the same legal and factual issues.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company's executive officers as of December 31, 2015.

NAME	**AGE**	**POSITIONS**
Michael G. Livingston	62	President and Chief Executive Officer
Edward B. Connelly	49	Senior Vice President and Chief Operating Officer
John M. Wright	49	Senior Vice President and Chief Financial Officer
Andrew J. Hines	54	Senior Vice President and Chief Lending Officer

MICHAEL G. LIVINGSTON was appointed President and Chief Executive Officer of the Company and the Bank effective January 1, 2008. Prior to that date, Mr. Livingston was Deputy Chief Executive Officer and Executive Vice President since August 2004, Chief Operating Officer since January 2004, Deputy Chief Operating Officer from February 2003 through December 2003, Senior Vice President from January 1998 until August 2004, and Chief Lending Officer of the Bank from 1996 until August 2004. Mr. Livingston was elected as a director of the Company and the Bank on January 1, 2005. As previously disclosed in the Company's SEC filings, Mr. Livingston has announced his retirement from the Company and the Bank effective March 31, 2016, and the Board of Directors has appointed John D. Long as his successor.

EDWARD B. CONNELLY was appointed Chief Operating Officer and Senior Vice President of the Bank effective August 2012.

JOHN M. WRIGHT has been Chief Financial Officer of the Company and Senior Vice President, Treasurer and Chief Financial Officer of the Bank since September 28, 2015. Effective February 11, 2016, Mr. Wright was appointed Executive Vice President of the Company and the Bank.

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.

PART II

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

The Common Stock is traded on the Nasdaq Capital Market under the symbol "GLBZ". As of February 17, 2016, there were 379 record holders of the Common Stock. The closing price for the Common Stock on that date was $11.73.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2015 and 2014 as reported by Nasdaq. The quotations represent prices between dealers and do not reflect the retailer markups, markdowns or commissions, and may not represent actual transactions. Also shown are dividends declared per share for these periods.

	2015			2014		
Quarter Ended	High	Low	Dividends	High	Low	Dividends
March 31,	$13.16	$11.95	$ 0.10	$12.20	$11.89	$ 0.10
June 30,	13.25	11.75	0.10	13.50	11.90	0.10
September 30	15.34	11.01	0.07	13.50	11.00	0.10
December 31	13.97	11.43	0.00	12.97	11.35	0.10

A regular dividend of $0.10 was declared for stockholders' of record on January 18, 2016, payable on January 29, 2016.

The Company recognizes the importance of dividends to its shareholders and intend 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

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars In Thousand Except Per Share Data)				
Operations Data:					
Net Interest Income	$11,215	$11,986	$12,620	$12,562	$13,449
Provision for Credit Losses	1,695	1,021	260	250	663
Other Income	3,008	2,670	2,001	1,822	2,090
Other Expense	10,930	11,412	11,113	10,795	11,115
Net Income	1,353	1,915	2,614	2,665	2,993
Share Data:					
Basic Net Income Per Share	$0.49	$0.69	$0.95	$0.98	$1.10
Diluted Net Income Per Share	0.49	0.69	0.95	0.98	1.10
Cash Dividends Declared Per Common Share	0.27	0.40	0.40	0.40	0.40
Weighted Average Common Shares Outstanding:					
Basic	2,768,966	2,755,671	2,742,003	2,728,072	2,710,455
Diluted	2,768,966	2,755,671	2,742,003	2,728,072	2,710,455
Financial Condition Data:					
Total Assets	$390,580	$394,630	$377,194	$387,438	$365,260
Loans Receivable, Net	259,637	273,986	270,684	249,631	232,734
Total Deposits	335,192	338,877	323,803	332,289	311,945
Long Term Borrowings	20,000	20,000	20,000	20,000	20,000
Total Stockholder' Equity	34,176	33,830	31,583	33,588	31,211
Performance Ratios:					
Return on Average Assets	0.34 %	0.48 %	0.68 %	0.71 %	0.84 %
Return on Average Equity	3.98	5.64	8.07	8.12	10.11
Net Interest Margin (1)	3.16	3.50	3.72	3.98	4.39
Dividend payout Ratio	55.24	57.58	41.96	40.95	36.22
Capital Ratios:					
Average Equity to Average Assets	8.52 %	8.57 %	8.45 %	8.71 %	8.26 %
Leverage Ratio	8.77	8.52	8.69	8.26	8.20
Total Risk-Based Capital Ratio	15.38	14.32	14.14	14.07	14.35
Asset Quality Ratios:					
Allowance for Credit Losses to Gross Loans	1.20 %	1.12 %	1.09 %	1.31 %	1.66 %

Non-accrual and Past Due Loans to Gross Loans	1.45	%	1.07	%	1.58	%	2.22	%	2.15	%
Allowance for Credit Losses to Non-Accrual and Past Due Loans	82.14	%	104.84	%	68.78	%	58.84	%	77.38	%
Net Loan Charge-offs (Recoveries) to Average Loans	0.62	%	0.31	%	0.23	%	0.36	%	0.06	%

(1) Presented on a tax-equivalent basis

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

Forward-Looking Statements

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

Overview

During 2015, net interest income before provision for credit losses decreased to $11,214,964 from $11,985,815 in 2014, a 6.44% decrease. Total interest income decreased from $14,519,737 in 2014 to $13,605,649 in 2015, a 6.30% decrease. Interest expense for 2015 totaled $2,390,685, a 5.66% decrease from $2,533,922 in 2014. In spite of the impact the low interest rate environment had on net interest margin, the Company realized consolidated net income of $1,352,616 for 2015 by increasing non-interest income by $337,572 and decreasing other expenses by $481,762.

The Federal Reserve ended their aggressive Quantitative Easing program and is monitoring the rates of growth, unemployment, and inflation to which they expect the national economy to converge over time in the absence of further shocks and under appropriate monetary policy. During December 2015, the Federal Reserve concluded the national economy has shown considerable strength and decided to raise the Federal Funds rate, further stating that it anticipates the pace of tightening to be gradual. Through this easing period, we experienced a decrease in outstanding loans and deposits while continuing to serve the needs of the communities we serve.

Comparison of Results of Operations for the Years Ended December 31, 2015, 2014 and 2013

General. For the year ended December 31, 2015, the Company reported consolidated net income of $1,352,616 ($0.49 basic and diluted earnings per share) compared to consolidated net income of $1,914,526 ($0.69 basic and

diluted earnings per share) for the year ended December 31, 2014 and consolidated net income of $2,614,177 ($0.95 basic and diluted earnings per share) for the year ended December 31, 2013. The decrease in the 2015 consolidated net income was mainly due to decreases in loan income, a decrease in state and municipal security income, a decrease in deposit expense, and an increase in provision for credit losses, partially offset by an increase in other fees and commission income (due to the gain on the sale of insurance policies), and a decrease in other expenses. The decrease in the 2014 consolidated net income was mainly due to decreases in loan income, decreases in state and municipal security income, an increase in other expenses, and an increase in provision for credit losses, which was partially offset by an increase in gains on investment securities and decreases in employee benefits and deposit expense.

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

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

Consolidated net interest income for the year ended December 31, 2015 was $11,214,964 compared to $11,985,815 for the year ended December 31, 2014 and $12,620,060 for the year ended December 31, 2013. The $770,851 decrease for the most recent year was primarily due to the decline in interest income on loans and securities being greater than the decline in interest expense on deposits. The $634,245 decrease for 2014 was primarily due to the decline in interest income on loans and securities being greater than the decline in interest expense on deposits. The net interest income, on a tax equivalent basis, for 2015 was $11,918,000, a $778,000 or 6.13% decrease from the tax equivalent basis net interest income for 2014, which was $12,696,000, a $785,000 or 5.82% increase from the after tax net interest income for 2013.

Interest expense decreased from $2,533,922 in 2014 to $2,390,685 in 2015, a $143,237 or a 5.66% decrease, primarily due to a decrease in average deposits as well as a decrease in our cost of deposits. Interest expense decreased from $2,661,805 in 2013 to $2,533,922 in 2014, a $127,883 or a 4.80% decrease, primarily due to a decrease in deposit rates. Net interest margin for the year ended December 31, 2015 was 3.16% compared to 3.50% and 3.72% for the years ended December 31, 2014 and 2013, respectively.

The following table allocates changes in income and expense attributable to the Company's interest-earning assets and interest-bearing liabilities for the periods indicated between changes due to changes in rate and changes in volume. Changes due to rate/volume are allocated to changes due to volume.

	Year Ended December 31,								
	2015	VS.	2014	2014	VS.	2013	2013	VS.	2012
	Change Due To:			Change Due To:			Change Due To:		
	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume	Increase/ Decrease	Rate	Volume
ASSETS:									
Interest-earning assets:									
Federal funds sold	$(1)	$-	$(1)	$8	$-	$8	$(1)	$-	$(1)
Interest-bearing deposits	14	34	(20)	17	2	15	12	14	(2)
Investment securities:									
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	74	(175)	249	(121)	27	(148)	(37)	1	(38)
Obligations of states and political subdivisions(1)	(283)	(121)	(162)	(451)	(113)	(338)	(73)	73	(146)
All other investment securities	17	34	(17)	(12)	(5)	(7)	(25)	(9)	(16)
Total investment securities	(192)	(262)	70	(584)	(91)	(493)	(135)	65	(200)
Loans, net of unearned income									
Demand, time and lease	(3)	(8)	5	(23)	12	(35)	(130)	(5)	(125)
Mortgage and construction	(348)	(30)	(318)	(627)	(738)	111	146	(406)	552
Installment and personal unsecured lines	(390)	(230)	(160)	295	(573)	868	(286)	(2)	(284)
Total gross loans(2)	(741)	(268)	(473)	(355)	(1,299)	944	(270)	(413)	143
Allowance for credit losses	-	-	-	-	-	-	-	-	-
Total net loans	(741)	(268)	(473)	(355)	(1,299)	944	(270)	(413)	143
Total interest-earning assets	$(920)	$(496)	$(424)	$(914)	$(1,388)	$474	$(394)	$(334)	$(60)
LIABILITIES:									
Interest-bearing deposits:									
Savings and NOW	$-	$-	$-	$(19)	$(21)	$2	$(68)	$(80)	$12
Money market	3	3	-	(1)	-	(1)	(15)	(17)	2
Other time deposits	(145)	(63)	(82)	(101)	(218)	117	(514)	(321)	(193)
Total interest-bearing deposits	(142)	(60)	(82)	(121)	(239)	118	(597)	(418)	(179)
Borrowed funds	-	-	-	(8)	-	(8)	4	(3)	7
Total interest-bearing liabilities	$(142)	$(60)	$(82)	$(129)	$(239)	$110	$(593)	$(421)	$(172)

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,									
	2015			2014			2013			
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance
	(Dollars In Thousands)									
ASSETS:										
Interest-earning assets:										
Federal funds sold	$3,864	$10	0.26 %	$4,248	$11	0.25%	$1,197	$3	0.25%	$1,760
Interest-bearing deposits	8,880	75	0.84	11,316	61	0.54	8,433	44	0.52	8,945
Investment securities:										
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities	67,556	824	1.22	47,237	750	1.59	56,850	871	1.53	59,359
Obligations of states and political subdivisions(1)	30,685	1,785	5.82	33,440	2,068	6.18	38,644	2,519	6.52	40,959
All other investment securities	184	38	20.65	266	21	8.04	345	33	9.68	479
Total investment securities	98,425	2,647	2.69	80,943	2,839	3.51	95,839	3,423	3.57	100,797
Loans, net of unearned income										
Demand, time and lease	3,904	214	5.48	3,809	217	5.70	4,478	240	5.37	6,744
Mortgage and construction	187,248	8,659	4.62	194,312	9,007	4.64	191,969	9,634	5.02	181,311
Installment and personal unsecured lines	78,524	2,704	3.44	83,084	3,094	3.72	63,519	2,799	4.41	60,725
Total gross loans(2)	269,676	11,577	4.29	281,205	12,318	4.38	259,966	12,673	4.87	248,780
Allowance for credit losses	(3,219)			(2,855)			(3,146)			(3,875)
Total net loans	266,457	11,577	4.34	278,350	12,318	4.43	256,820	12,673	4.93	244,905

Total interest-earning assets	377,626	14,309	3.79	374,857	15,229	4.06	362,289	16,143	4.46	356,407
Cash and due from banks	3,276			3,105			2,936			2,920
Other assets	18,128			17,795			19,348			17,583
Total assets	$399,030			$395,757			$384,573			$376,910
LIABILITIES AND STOCKHOLDER'S EQUITY:										
Interest-bearing deposits:										
Savings and NOW	$106,856	50	0.05 %	$103,253	50	0.05%	$99,085	69	0.07%	$90,813
Money market	20,151	13	0.06	19,940	10	0.05	21,249	11	0.05	19,957
Other time deposits	122,267	1,688	1.38	128,016	1,833	1.43	120,574	1,934	1.60	131,047
Total interest-bearing deposits	249,274	1,751	0.70	251,209	1,893	0.75	240,908	2,014	0.84	241,817
Short-term borrowed funds	27	-	0.00	47	-	0.29	1,876	7	0.37	428
Long-term borrowed funds	20,000	640	3.20	20,000	640	3.20	20,000	641	3.20	20,000
Total interest-bearing liabilities	269,301	2,391	0.89	271,256	2,533	0.93	262,784	2,662	1.01	262,245
Non-interest-bearing deposits	94,546			89,279			86,542			80,373
Other liabilities	1,170			1,301			2,838			1,457
Stockholder's equity	34,013			33,921			32,409			32,835
Total liabilities and equity	$399,030			$395,757			$384,573			$376,910
Net interest income		$11,918			$12,696			$13,481		
Net interest spread			2.90 %			3.13%			3.45%	
Net interest margin			3.16 %			3.50%			3.72%	

1 Tax equivalent basis. The incremental tax rate applied was 39.44% for 2015 and 37.69% for 2014.

2 Non-accrual loans included in average balance.

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Provision for Credit Losses. During the year ended December 31, 2015, the Company made a provision of $1,695,000 for credit losses, compared to a provision of $1,021,000 and $260,000 for credit losses for the years ended December 31, 2014 and 2013, respectively. In 2015, the Bank increased its provision for credit losses primarily due to the increases in net charge-offs during the year, causing our historical loss ratios to increase thus needing to replace the reserves charged-off and increasing the expected reserves required for future periods. There were two residential real estate investors that contributed greatly towards the need for additional provision for credit losses. One of these projects was resolved during the fourth quarter of 2015 resulting in a charge-off of $645,000 and the remaining real estate investor has significant specific reserves allocated to their ten loans which are in non-accrual status. At December 31, 2015, the allowance for credit losses equaled 82.14% of non-accrual and past due loans compared to 104.84% and 68.78% at December 31, 2014 and 2013, respectively. During the year ended December 31, 2015, the Company recorded net charge-offs of $1,663,000 compared to $875,000 and $596,000 in net charge-offs during the years ended December 31, 2014 and 2013, respectively.

Other Income. Other income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities, and income on Bank owned life insurance (BOLI). Other income increased from $2,670,498 in 2014 to $3,008,070 in 2015, a $337,582, or 12.64% increase. The increase was primarily due to an increase in other fees and commissions due to the income of $421,067 on the sale of insurance policies during the third quarter of 2015. Other income increased from $2,001,216 in 2013 to $2,670,498 in 2014, a $669,282, or 33.45% increase. The increase was primarily due to a increase in gains on securities partially offset by a decrease in service charges on deposit accounts.

Other Expenses. Other expenses, which consist of non-interest operating expenses, decreased from $11,412,259 in 2014 to $10,930,497 in 2015, a $481,762 or 4.22% decrease. This decrease was primarily due to a decrease in other expenses because of a reduction in marketing expenses, in salaries and wages, employee benefits, occupancy expense, and the reversal of the reserve for unfunded commitments during the fourth quarter of 2015 of $188,233, offset by increases in the other categories. Other expenses, which consist of non-interest operating expenses, increased from $11,113,244 in 2013 to $11,412,259 in 2014, a $299,015 or 2.69% increase. This increase was primarily due to increases in other professional expenses and a write-down of loan fees receivable deemed to be uncollectable.

Income Taxes. During the year ended December 31, 2015, the Company recorded an income tax expense of $244,921, compared to an income tax expense of $308,652 for the year ended December 31, 2014. This decrease was primarily due to the decrease in net income before taxes. During the year ended December 31, 2014, the Company recorded an income tax expense of $308,652, compared to an income tax expense of $633,855 for the year ended December 31, 2013. This decrease was due to the decrease in net income before taxes.

Comparison of Financial Condition at December 31, 2015, 2014 and 2013

The Company's total assets decreased to $390,580,191 at December 31, 2015 from $394,629,508 at December 31, 2014. The Company's total assets increased to $394,629,508 at December 31, 2014 from $377,193,574 at December 31, 2013.

The Company's net loan portfolio decreased to $259,636,706 at December 31, 2015 compared to $273,986,237 at December 31, 2014 and $270,684,120 at December 31, 2013. In 2015, the decrease in the loan portfolio was primarily due to decreases in indirect loans, purchase money mortgage and refinance loans with lesser decreases in other areas. These decreases were partially offset by increases in home equity loans and commercial and industrial loans with lesser increases in other areas. In 2015, mortgage participations sold also increased. In 2014, the increase in the loan portfolio was primarily due to increases in indirect loans, purchase money mortgage, and commercial and industrial construction loans, partially offset by decreases in refinance mortgage loans and commercial and industrial mortgages.

During 2015, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $98,790,010, a $10,796,865 or 12.27%, increase from $87,993,145 at December 31, 2014. This increase was due to investing excess liquidity, which led to an increase in U. S. Government agencies and mortgage backed securities, offset by decreases in U. S. Treasury securities and state and municipal securities. During 2014, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled $87,993,145, a $13,679,463 or 18.41%, increase from $74,313,682 at December 31, 2013. This increase is due to an increase in U.S. Treasury Notes, mortgage backed securities and state and municipal securities. The market value of municipal securities also increased from 2013 to 2014 and contributed to this increase.

Deposits as of December 31, 2015 totaled $335,191,530, a decrease of $3,685,762, or 1.09%, from the $338,877,292 total as of December 31, 2014. Deposits as of December 31, 2014 totaled $338,877,292, an increase of $15,073,936, or 4.66%, from the $323,803,356 total as of December 31, 2013. Demand deposits as of December 31, 2015 totaled $93,584,864, a $5,021,940, or 5.67%, increase from $88,562,924 at December 31, 2014. NOW and Super NOW accounts, as of December 31, 2015, increased by $511,742, or 1.90% from their 2014 level to $27,502,016. Money market accounts decreased by $1,385,900, or 6.78%, from their 2014 level, to total $19,079,536 at December 31, 2015. Savings deposits increased by $3,134,875, or 4.19%, from their 2014 level, to $78,107,913 at December 31, 2015. Time deposits over $100,000 totaled $51,527,624 on December 31, 2015, a decrease of $3,576,360, or 6.49% from December 31, 2014. Other time deposits (made up of certificates of deposit less than $100,000 and individual retirement accounts) totaled $65,389,577 on December 31, 2015, a $7,392,059 or 10.16% decrease from December 31, 2014.

Total stockholders’ equity as of December 31, 2015 increased by $345,286, or 1.02%, from the 2014 period. The increase was attributed to the increase in retained earnings of $605,408, offset by the accumulated other comprehensive income in 2014 now being a loss (a $404,464 change) and by cash dividends paid, net of dividends reinvested. Total stockholders’ equity as of December 31, 2014 increased by $2,247,366, or 7.12%, from the 2013 period. The increase was attributed to the 2013 accumulated other comprehensive loss now being comprehensive income in 2014 (a $1,280,805 change) and an increase in retained earnings from current year net income, offset by cash dividends paid, net of dividends reinvested.

Off-Balance Sheet Arrangements

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

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

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

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

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

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

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

- Unfunded Commercial lines of credit and other – reduce reserve percentage to zero due to the Bank's ability of having sole discretion on future funding of any specific account (customer must request funding and the Bank does not have to fund the request if we deem the account is no longer worthy of continued funding; we freeze all funding of accounts that are past due and/or in non-accrual status; and based on historical loss ratios)

- Unfunded Home Equity LOC – reduce reserve percentage to zero because the Bank has the 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 and based on historical loss ratios.
- 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.

Based on the above changes in estimate, we made a negative provision of $188,233 for Allowance for Unfunded Commitments which is included as a contra-expense in “Other expenses”. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2015, the Bank has accrued $11,767, a decrease of $188,233 from 2014, for unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Market Risk Management

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

The following table sets forth the Bank’s interest-rate sensitivity at December 31, 2015.

	0-3 Months	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
	(Dollars in Thousands)				
Assets:					
Cash and due from banks	$-	$-	$-	$-	$9,802
Federal funds and overnight deposits	2,570	-	-	-	2,570
Securities	-	-	2,991	95,799	98,790
Loans	6,503	7,071	82,420	163,643	259,637
Fixed assets	-	-	-	-	3,369
Other assets	-	-	-	-	16,412
Total assets	$9,073	$7,071	$85,411	$259,442	$390,580
Liabilities:					
Demand deposit accounts	$-	$-	$-	$-	$93,585
NOW accounts	27,502	-	-	-	27,502
Money market deposit accounts	19,080	-	-	-	19,080
Savings accounts	78,013	95	-	-	78,108
IRA accounts	3,625	8,599	24,489	1,281	37,994
Certificates of deposit	11,171	21,443	46,205	104	78,923
Long-term borrowings	-	-	20,000	-	20,000
Other liabilities	-	-	-	-	1,212
Stockholders’ equity:	-	-	-	-	34,176
Total liabilities and stockholders' equity	$139,391	$30,137	$90,694	$1,385	$390,580
GAP	$(130,318)	$(23,066)	$(5,283)	$258,057	
Cumulative GAP	$(130,318)	$(153,384)	$(158,667)	$99,390	
Cumulative GAP as a % of total assets	-33.37 %	-39.27 %	-40.62 %	25.45 %	

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

In addition to gap analysis, the Bank utilizes a simulation model to quantify the effect a hypothetical immediate plus or minus 200 basis point change in rates would have on net interest income and the economic value of equity. The

model takes into consideration the effect of call features of investments as well as prepayments of loans in periods of declining rates. When actual changes in interest rates occur, the changes in interest earning assets and interest bearing liabilities may differ from the assumptions used in the model and, in the Bank's experience, the changes historically realized have been narrower than those projected by the model. However, the Bank believes that the model is a prudent forecasting tool. As of December 31, 2015, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates			
	-200 Basis Points	-100 Basis Points	+100 Basis Points	+200 Basis Points
% Change in Net Interest Income	-5.6%	-1.6%	-0.6%	-2.9%
% Change in Economic Value of Equity	-8.4%	-0.8%	-7.0%	-15.5%

Liquidity and Capital Resources

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

The Bank's principal sources of funds for investments and operations are net income, deposits from its primary market area, principal and interest payments on loans, interest received on investment securities and proceeds from maturing investment securities. Its principal funding commitments are for the origination or purchase of loans and the payment of maturing deposits. Deposits are considered the primary source of funds supporting the Bank's lending and investment activities. The Bank also uses borrowings from the FHLB of Atlanta to supplement deposits, residential and small business lending, and to meet specific and anticipated needs.

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold and money market mutual funds. The levels of such assets are dependent on the Bank's operating financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows.

Cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of December 31, 2015, totaled $12,371,408**,** a decrease of $908,826 or 6.85%, from the December 31, 2014 total of $13,280,234. This decrease was due to the outflow of deposits and the reduction in loans offset by the purchase of securities.

As of December 31, 2015, the Bank was permitted to draw on a $71.82 million line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential first mortgage loans. As of December 31, 2015, there was nothing outstanding under the daily rate credit. As of December 31, 2015, the Bank had a $10 million convertible advance (callable monthly and with a final maturity of November 1, 2017) from the FHLB of Atlanta. This advance has a 3.28% rate of interest. In addition, the Bank had a $5 million convertible advance settled July 21, 2008 with a final maturity of July 23, 2018. This advance has a 2.73% rate of interest and is callable

quarterly. Furthermore, the Bank had a $5 million convertible advance taken out August 22, 2008 which has a final maturity of August 22, 2018. This advance has a 3.34% rate of interest and is callable quarterly. In addition, the Bank has three unsecured lines of credit totaling $3 million, $5 million, and $8 million, on which there were no outstanding balances at December 31, 2015.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2015, the Company was in compliance with these requirements with a leverage ratio of 8.77%, a Tier 1 risk-based capital ratio of 14.23%, a total risk-based capital ratio of 15.48% and a common equity tier I capital of 14.23%. At December 31, 2015, the Bank met the criteria for designation as a well capitalized depository institution under FDIC regulations.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, nearly all of the Company’s assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on the Company’s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 of the Notes to the Consolidated Financial Statements, starting on page F-8 and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. As discussed there, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, the determination of estimates requires the exercise of judgment. Management has used the best information available to make the estimations necessary to value the related assets and liabilities based on historical experience and on various assumptions which are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the financial statements. The Company reevaluates these variables as facts and circumstances change. Historically, actual results have not differed significantly from the Company's estimates. The following is a summary of the more judgmental accounting estimates and principles involved in the preparation of the Company's financial statements, including the identification of the variables most important in the estimation process:

Allowance for Credit Losses. The Bank's allowance for credit losses is determined based upon estimates that can and do change when the actual events occur, including historical losses as an indicator of future losses, fair market value of collateral, and various general or industry or geographic specific economic events. The use of these estimates and values is inherently subjective and the actual losses could be greater or less than the estimates. For further information regarding our allowance for credit losses, see "Allowance for Credit Losses" under Item 1- "Business" of this Annual Report.

Accrued Taxes. Management estimates income tax expense based on the amount it expects to owe various tax authorities. Income taxes are discussed in more detail in Note 10 to the consolidated financial statements. Accrued taxes represent the net estimated amount due or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of the Company's tax position.

Recently Issued Accounting Pronouncements

The FASB has issued several exposure drafts which, if adopted, would significantly alter the Company's (and all other financial institutions') method of accounting for, and reporting, its financial assets and some liabilities from a historical cost method to a fair value method of accounting as well as the reported amount of net interest income. Also, the FASB has issued an exposure draft regarding a change in the accounting for leases. Under this exposure draft, the total amount of "lease rights" and total amount of future payments required under all leases would be reflected on the balance sheets of all entities as assets and debt. If the changes under discussion in either of these exposure drafts are adopted, the financial statements of the Company could be materially impacted as to the amounts of recorded assets, liabilities,

capital, net interest income, interest expense, depreciation expense, rent expense and net income. The Company has not determined the extent of the possible changes at this time. The exposure drafts are in different stages of review, approval and possible adoption.

ASU 2013-02, “Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 amends recent guidance related to the reporting of comprehensive income to enhance the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013 and did not have a significant impact on the Company’s financial statements.

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

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

ASU 2013-12, "Definition of a Public Business Entity - An Addition to the Master Glossary." ASU 2013-12 amends the Master Glossary of the FASB Accounting Standards Codification to include one definition of public business entity for future use in U.S. GAAP and identifies the types of business entities that are excluded from the scope of the Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies. ASU 2013-12 did not have a significant impact on the Company's financial statements.

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for the Corporation on January 1, 2017. The Corporation is still evaluating the potential impact on the Corporation's financial statements.

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

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

significant impact on the Corporation's financial statements.

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

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

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

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

In August 2015, the FASB issued *ASU 2015-14, "Revenue from Contracts with Customers—Deferral of the Effective Date"*. ASU 2015-14 defers the effective date of ASU 2014-09 "Revenue from Contracts with Customers which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition" by one year. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. Under ASU 2015-14, ASU 2014-09 is now effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures, if any.

In August 2015, the FASB issued *ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements"*. ASU 2015-15 expands guidance provided in ASU 2015-03 and states that presentation of costs associated with securing a revolving line of credit as an asset is permitted, regardless of whether or not the line of credit is funded. ASU 2015-15 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the effects of ASU 2015-15 on its financial statements and disclosures, if any.

In September 2015, the FASB issued *ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"*. ASU 2015-16 simplifies the accounting for measurement-period adjustments

in a business combination by requiring the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined, thereby eliminating the requirement to retrospectively account for those adjustments. The acquirer is also required to record in the reporting period in which the adjustments are determined the effect on earnings of changes in depreciation, amortization, and other items resulting from the change to the provisional amounts. ASU 2015-16 is effective for annual periods beginning after December 31, 2015, with early application permitted, and shall apply to adjustments to provisional amounts that occur after the effective date. ASU 2015-16 is not expected to have any significant impact on our financial statements.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

The Company's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the

company’s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management (with the participation of the Company’s Chief Executive Officer and Chief Financial Officer) conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2015.

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 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements.

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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.

3.1 Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)

3.2 Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047)

3.3 Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)

3.4

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

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SIGNATURES

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

GLEN BURNIE BANCORP

March 10, 2016 By: /s/ Michael G. Livingston
Michael G. Livingston
President and Chief Executive Officer

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

Signature	**Title**	**Date**
/s/ Michael G. Livingston Michael G. Livingston	President, Chief Executive Officer and Director	March 10, 2016
/s/ F. William Kuethe, Jr. F. William Kuethe, Jr.	President Emeritus and Director	March 10, 2016
/s/ John M. Wright John M. Wright	Senior Vice President and Chief Financial Officer	March 10, 2016
/s/ John E. Demyan John E. Demyan	Chairman of the Board and Director	March 10, 2016
/s/ Thomas Clocker Thomas Clocker	Director	March 10, 2016
/s/ Norman E. Harrison, Jr. Norman E. Harrison, Jr.	Director	March 10, 2016
/s/ F. W. Kuethe, III F. W. Kuethe, III	Director	March 10, 2016
/s/ Charles Lynch Charles Lynch	Director	March 10, 2016
/s/ Edward L. Maddox	Director	March 10, 2016

Edward L. Maddox		
/s/ Andrew Cooch Andrew Cooch	Director	March 10, 2016
/s/ Karen B. Thorwarth Karen B. Thorwarth	Director	March 10, 2016
/s/ Mary Lou Wilcox Mary Lou Wilcox	Director	March 10, 2016

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Glen Burnie Bancorp and Subsidiaries

Consolidated Financial Statements

December 31, 2015

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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, 2015, 2014, and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. Glen Burnie Bancorp and subsidiaries' management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2015, 2014, and 2013, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles general accepted in the United States of America.

Salisbury, Maryland

February 25, 2016

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Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,	2015	2014	2013
Assets			
Cash and due from banks	$7,493,524	$7,101,352	$9,214,503
Interest-bearing deposits in other financial institutions	2,308,117	2,154,817	1,636,194
Federal funds sold	2,569,767	4,024,065	102,772
Cash and cash equivalents	12,371,408	13,280,234	10,953,469
Investment securities available for sale, at fair value	98,790,010	87,993,145	74,313,682
Federal Home Loan Bank stock, at cost	1,203,100	1,327,800	1,452,900
Maryland Financial Bank stock	30,000	30,000	30,000
Ground rents, at cost	163,638	169,200	169,200
Loans, less allowance for credit losses **2015 $3,150,251;** 2014 $3,117,870**;** 2013 $2,972,019;	259,636,706	273,986,237	270,684,120
Premises and equipment, at cost, less accumulated depreciation	3,368,865	3,671,295	3,696,772
Accrued interest receivable on loans and investment securities	1,121,405	1,274,137	1,509,238
Deferred income tax benefits	2,684,611	3,045,235	3,604,461
Other real estate owned	74,400	45,175	1,170,773
Cash value of life insurance	9,357,712	9,138,658	8,914,817
Other assets	1,778,336	668,392	694,142
Total assets	$390,580,191	$394,629,508	$377,193,574
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Noninterest-bearing	$93,584,864	$88,562,924	$86,747,525
Interest-bearing	241,606,666	250,314,368	237,055,831
Total deposits	335,191,530	338,877,292	323,803,356
Long-term borrowings	20,000,000	20,000,000	20,000,000
Dividends payable	-	276,096	274,737
Accrued interest payable on deposits	39,855	39,823	28,523
Other liabilities	1,172,993	1,605,770	1,503,797
Total liabilities	356,404,378	360,798,981	345,610,413
Commitments and contingencies			
Stockholders' equity:			
	2,773,361	2,760,964	2,747,370

Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding **2015 2,773,361** shares; 2014 2,760,964; 2013 2,747,370 shares;			
Surplus	9,986,064	9,854,119	9,713,335
Retained earnings	21,718,122	21,112,714	20,300,531
Accumulated other comprehensive (loss) income, net of tax	(301,734)	102,730	(1,178,075)
Total stockholders' equity	34,175,813	33,830,527	31,583,161
Total liabilities and stockholders' equity	$390,580,191	$394,629,508	$377,193,574

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

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Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2015	2014	2013
Interest income on:			
Loans, including fees	$11,577,254	$12,318,461	$12,673,230
U.S. Treasury securities	79,623	27,763	-
U.S. Government agency securities	744,813	722,587	871,287
State and municipal securities	1,080,824	1,357,355	1,656,670
Corporate trust preferred securities	37,906	21,414	33,428
Federal funds sold	10,132	10,714	3,027
Other	75,097	61,443	44,223
Total interest income	13,605,649	14,519,737	15,281,865
Interest expense on:			
Deposits	1,750,074	1,893,314	2,014,327
Short-term borrowings	138	134	7,004
Long-term borrowings	640,473	640,474	640,474
Total interest expense	2,390,685	2,533,922	2,661,805
Net interest income	11,214,964	11,985,815	12,620,060
Provision for credit losses	1,695,000	1,020,876	260,000
Net interest income after provision for credit losses	9,519,964	10,964,939	12,360,060
Other income:			
Service charges on deposit accounts	443,247	463,734	595,729
Other fees and commissions	1,308,106	826,945	825,859
Gains on investment securities, net	1,037,663	1,155,978	345,331
Income on life insurance	219,054	223,841	234,297
Total other income	3,008,070	2,670,498	2,001,216
Other expenses:			
Salaries and wages	4,926,255	4,998,402	4,963,600
Employee benefits	1,565,384	1,633,443	1,788,995
Occupancy	778,275	806,916	785,850
Furniture and equipment	932,281	925,207	842,099
Other expenses	2,728,302	3,048,291	2,717,119
Total impairment losses on investment securities	-	-	124,984

Portion of impairment losses recognized in other comprehensive income (before taxes)	-	-	(109,403)
Net impairment loss on investment securities	-	-	15,581
Total other expenses	10,930,497	11,412,259	11,113,244
Income before income taxes	1,597,537	2,223,178	3,248,032
Federal and state income taxes	244,921	308,652	633,855
Net income	$1,352,616	$1,914,526	$2,614,177
Basic and diluted earnings per share of common stock	$0.49	$0.69	$0.95

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31,	2015	2014	2013
Net income	$1,352,616	$1,914,526	$2,614,177
Other comprehensive income (loss), net of tax			
Unrealized holding gains (losses) arising during the period (net of deferred taxes (benefits) **2015 $145,606**; 2014 $1,305,107; 2013 ($2,167,273));	220,469	1,976,117	(3,281,559)
Reclassification adjustment for impairment loss included in net income (net of deferred tax benefits **2015 $0;** 2014 $0; 2013 $6,197);	-	-	9,384
Reclassification adjustment for gains included in net income (net of deferred taxes **2015 $412,730**; 2014 $459,212; 2013 $243,383);	(624,933)	(695,312)	(368,517)
Total other comprehensive (loss) income	(404,464)	1,280,805	(3,640,692)
Comprehensive income (loss)	$948,152	$3,195,331	$(1,026,515)

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, 2015, 2014, and 2013

	Common Stock				Accumulated Other Comprehensive (Loss)	Total Stockholders'
	Shares	Par Value	Surplus	Retained Earnings	Income	Equity
Balances, December 31, 2012	2,736,978	$2,736,978	$9,604,906	$18,783,164	$ 2,462,617	$33,587,665
Net income	-	-	-	2,614,177	-	2,614,177
Cash dividends, $.40 per share	-	-	-	(1,096,810)	-	(1,096,810)
Dividends reinvested under dividend reinvestment plan	10,392	10,392	108,429	-	-	118,821
Other comprehensive loss, net of tax	-	-	-	-	(3,640,692)	(3,640,692)
Balances, December 31, 2013	2,747,370	2,747,370	9,713,335	20,300,531	(1,178,075)	31,583,161
Net income	-	-	-	1,914,526	-	1,914,526
Cash dividends, $.40 per share	-	-	-	(1,102,343)	-	(1,102,343)
Dividends reinvested under dividend reinvestment plan	13,594	13,594	140,784	-	-	154,378
Other comprehensive income net of tax	-	-	-	-	1,280,805	1,280,805
Balances, December 31, 2014	2,760,964	$2,760,964	$9,854,119	$21,112,714	$ 102,730	$33,830,527
Net income	-	-	-	1,352,616	-	1,352,616
Cash dividends, $.27 per share	-	-	-	(747,208)	-	(747,208)
Dividends reinvested under dividend reinvestment plan	12,397	12,397	131,945	-	-	144,342
Other comprehensive loss, net of tax	-	-	-	-	(404,464)	(404,464)
Balances, December 31, 2015	2,773,361	$2,773,361	$9,986,064	$21,718,122	$ (301,734)	$34,175,813

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,	2015	2014	2013
Cash flows from operating activities:			
Net income	$1,352,616	$1,914,526	$2,614,177
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	1,139,547	812,331	1,187,689
Provision for credit losses	1,695,000	1,020,876	260,000
Deferred income tax benefits, net	627,749	(286,670)	35,252
Gains on disposals of assets, net	(1,073,286)	(1,213,844)	(321,443)
Provision on losses of other real estate owned	-	91,448	5,695
Impairment losses on investment securities	-	-	15,581
Income on investment in life insurance	(219,054)	(223,841)	(234,298)
Changes in assets and liabilities:			
Decrease in ground rents	5,562	-	-
Decrease (increase) in accrued interest receivable	152,732	235,101	(58,917)
(Increase) decrease in other assets	(1,109,944)	56,011	637,425
Increase (decrease) in accrued interest payable	32	11,300	158
(Decrease) increase in other liabilities	(432,777)	101,973	(29,556)
Net cash provided by operating activities	2,138,177	2,519,211	4,111,763
Cash flows from investing activities:			
Maturities and principal paydowns of available for sale mortgage-backed securities	15,088,957	9,109,664	15,171,085
Proceeds from sales of available for sale debt securities	27,030,183	30,269,965	25,626,845
Purchases of available for sale mortgage-backed securities	(38,206,832)	(28,703,606)	(16,920,333)
Purchases of other available for sale investment securities	(15,089,446)	(21,464,085)	(4,185,719)
Purchase (redemption) of FHLB stock	124,700	125,100	(4,900)
Decrease (increase) in loans, net	12,580,131	(4,368,168)	(22,295,595)
Proceeds from sales of other real estate	80,420	1,153,883	273,121
Purchases of premises and equipment	(90,392)	(442,529)	(262,598)
Net cash provided (used) by investing activities	1,517,721	(14,319,776)	(2,598,094)
Cash flows from financing activities:			
Increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	5,021,940	1,815,399	2,459,040

(Decrease) increase in time deposits, net	(8,707,702)	13,258,537	(10,944,570)
Cash dividends paid	(1,023,304)	(1,100,984)	(822,073)
Common stock dividends reinvested	144,342	154,378	118,821
Net cash (used) provided by financing activities	(4,564,724)	14,127,330	(9,188,782)
(Decrease) increase in cash and cash equivalents	(908,826)	2,326,765	(7,675,113)
Cash and cash equivalents, beginning of year	13,280,234	10,953,469	18,628,582
Cash and cash equivalents, end of year	$12,371,408	$13,280,234	$10,953,469

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,	2015	2014	2013
Supplementary Cash Flow Information:			
Interest paid	$2,390,653	$2,522,622	$2,661,647
Income taxes paid	625,000	300,000	525,000
Total decrease (increase) in unrealized depreciation on available for sale securities	(670,016)	2,126,700	(6,045,150)
Supplementary Noncash Investing Activities:			
Loans converted to other real estate	74,400	45,175	983,000

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

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

Accounting Standards Codification:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

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.

Securities Available for Sale:

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

Other Securities:

Federal Home Loan Bank ("FHLB") and Maryland Financial Bank ("MFB") stocks are equity interests that do not necessarily have readily determinable fair values for purposes of the ASC Topic 320, *Accounting for Certain Investments in Debt and Equity Securities*, because their ownership is restricted and they lack a market. FHLB stock can be sold back only at its par value of $100 per share and only to the FHLB or another member institution.

Loans and Allowance for Credit Losses:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

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 ASC Topic 450, Accounting for Contingencies, or ASC Topic 310, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience over a current four year period 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.

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.

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.

Troubled Debt Restructurings:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Other Real Estate Owned ("OREO"):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value less the estimated cost to sell) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or expenses. Loans converted to OREO through foreclosure proceedings totaled **$74,400,** $45,175, and $983,000 for the years ended December 31, 2015, 2014, and 2013, respectively. The Bank financed no sales of OREO for 2015, 2014, or 2013, respectively.

Bank Premises and Equipment:

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

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Asset*. As of December 31, 2015, 2014, and 2013, certain loans existed which management considered impaired (See Note 4). During the year ended December 31, 2013, 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, non-accrual interest, unused alternative minimum tax credits, net unrealized depreciation on investment securities available for sale, accumulated depreciation, OREO, and reserve for unfunded commitments.

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

Credit Risk:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents:

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

Accounting for Stock Options:

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

Earnings per share:

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

Financial Statement Presentation:

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

Note 2. Restrictions on Cash and Due from Banks

The Federal Reserve requires the Bank to maintain noninterest-bearing cash reserves against certain categories of average deposit liabilities. Such reserves averaged approximately **$4,469,000**, $4,985,000, and $5,387,000 during the years ended December 31, 2015, 2014, and 2013, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

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

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$28,360	$575,000	$-	$603,360
State and municipal	32,395,630	360,384	1,746,943	31,009,071
Corporate trust preferred	333,395	-	109,403	223,992
Mortgage-backed	43,512,419	688,095	1,723,255	42,477,259
	$76,269,804	$1,623,479	$3,579,601	$74,313,682

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, 2015 are as follows:

Securities available for sale:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

U.S. Treasury	$ 2,492,190	$ 4,162	$ -	$ -	$ 2,492,190	$ 4,162
State and Municipal	3,616,349	25,197	810,953	11,844	4,427,302	37,041
Mortgaged-backed	39,761,158	376,176	16,961,097	502,504	56,722,255	878,680
	$ 45,869,697	$ 405,535	$ 17,772,050	$ 514,348	$ 63,641,747	$ 919,883

At December 31, 2015, the Company did not have any securities that had impairment charges. During the year ending December 31, 2015, the Company sold the Regional Diversified Funding, Senior notes and the FNMA/FHLMC Preferred stocks, which had previous impairment charges. As a result of this testing, no write-downs were required in 2015 and 2014. A write-down of $15,581 was taken on this security during 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

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

As of December 31, 2015, management had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a recovery of cost. On December 31, 2015, the Bank held 27 investment securities having continuous unrealized loss positions for more than 12 months. Except as noted above, management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgaged-backed securities. The Bank has no mortgaged-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the remaining securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2015, management believes the impairments detailed in the table above are temporary and no additional impairment loss is required to be realized in the Company’s consolidated income statement.

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

	2015	2014	2013
Estimated credit losses, beginning of year	$3,262,496	$3,262,496	$3,246,915
Sales of securities with previous OTTI recognized	(3,262,496)	-	-
Credit losses - no previous OTTI recognized	-	-	-
Credit losses - previous OTTI recognized	-	-	15,581
Estimated credit losses, end of year	$-	$3,262,496	$3,262,496

Contractual maturities of investment securities at December 31, 2015, 2014, and 2013 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	
December 31, 2015	Amortized Cost	Fair Value
Due within one year	$-	$-
Due over one to five years	2,995,525	2,991,485
Due over five to ten years	-	-
Due over ten years	29,635,572	29,996,099
Mortgage-backed, due in monthly installments	66,659,924	65,802,426
	$99,291,021	$98,790,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

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

	Available for Sale	
December 31, 2013	Amortized Cost	Fair Value
Due within one year	$-	$-
Due over one to five years	-	-
Due over five to ten years	-	-
Due over ten years	32,729,025	31,233,063
Mortgage-backed, due in monthly installments	43,540,779	43,080,619
	$76,269,804	$74,313,682

Proceeds from sales of available for sale securities prior to maturity totaled **$27,030,183,** $30,269,965, and $25,626,845 for the years ended December 31, 2015, 2014, and 2013, respectively. The Bank realized gains of **$1,038,084** and losses of **$421** on those sales for 2015. The Bank realized gains of $1,210,332 and losses of $54,354 on those sales for 2014. The Bank realized gains of $664,269 and losses of $318,938 on those sales for 2013. 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 **$409,306,** $455,976, and $136,216 for the years ended December 31, 2015, 2014, and 2013, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance

Major categories of loans are as follows:

	2015	2014	2013
Mortgage:			
Residential	$116,027,206	$120,933,420	$123,645,939
Commercial	62,469,425	62,601,469	67,195,806
Construction and land development	5,518,588	7,073,720	6,582,553
Demand and time	4,539,701	3,518,752	4,172,747
Installment	75,302,771	84,103,142	73,230,433
	263,857,691	278,230,503	274,827,478
Unearned income on loans	(1,070,734)	(1,126,396)	(1,171,339)
	262,786,957	277,104,107	273,656,139
Allowance for credit losses	(3,150,251)	(3,117,870)	(2,972,019)
	$259,636,706	$273,986,237	$270,684,120

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 **$60,607,000**, $67,551,000, and $55,400,000 of such loans at December 31, 2015, 2014, and 2013, 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, 2015, 2014, and 2013, the amounts of such loans outstanding totaled **$787,894,** $556,188, and $1,078,577 respectively. During 2015, loan additions and repayments/transfers totaled $**569,000** and **$337,294**, respectively.

Allowance for Loan Losses

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

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

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

All credit exposures graded above a rating of “4” with outstanding balances (see ratings on page 21) are to be reviewed no less than quarterly for the purpose of determining if a specific allocation is needed for that credit. The determination for a specific reserve is evaluated relative to the general reserve factor for assets of the same type and grade. If a specific reserve is appropriate and exceeds the general reserve factor, a specific reserve is to be established. Otherwise, the asset is included in the portfolio of assets that comprise the base upon which the general reserve is calculated. The establishment of a specific reserve does not necessarily mean that the credit with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total allowance reflects management’s estimate of loan losses inherent in the loan portfolio as of December 31, 2015.

The following table presents the total allowance by loan segment:

2015	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$ 385,631	$ 335,009	$ 1,281,222	$ 1,169,627	$ (53,619)	$ 3,117,870
Provision for credit losses	(78,901)	(23,814)	296,437	1,299,194	202,084	1,695,000
Recoveries	1,400	13,468	486,776	10,473	-	512,117
Loans charged off	(2,807)	(63,000)	(1,260,533)	(848,396)	-	(2,174,736)
Balance, end of year	$ 305,323	$ 261,663	$ 803,902	$ 1,630,898	$ 148,465	$ 3,150,251

Individually evaluated for impairment:						
Balance in allowance	$240,500	$100,745	$65,353	$697,088	$ -	$1,103,686
Related loan balance	240,500	1,143,317	950,722	2,792,239	-	5,126,778
Collectively evaluated for impairment:						
Balance in allowance	$64,823	$160,918	$738,549	$933,810	$ 148,465	$2,046,565
Related loan balance	4,299,201	63,128,304	74,352,049	116,951,359	-	258,730,913

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2014	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$412,909	$898,362	$1,187,604	$593,463	$(120,319)	$2,972,019
Provision for credit losses	(4,580)	(448,027)	601,522	805,261	66,700	1,020,876
Recoveries	6,440	128,068	331,108	5,714	-	471,330
Loans charged off	(29,138)	(243,394)	(839,012)	(234,811)	-	(1,346,355)
Balance, end of year	$385,631	$335,009	$1,281,222	$1,169,627	$(53,619)	$3,117,870
Individually evaluated for impairment:						
Balance in allowance	$252,500	$148,791	$186,226	$682,642	$-	$1,270,159
Related loan balance	252,500	2,155,816	1,106,217	2,931,143	-	6,445,676
Collectively evaluated for impairment:						
Balance in allowance	$133,131	$186,218	$1,094,996	$486,985	$(53,619)	$1,847,711
Related loan balance	3,266,252	63,486,816	82,996,925	122,034,834	-	271,784,827

2013	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Unallocated	Total
Balance, beginning of year	$541,916	$1,183,240	$1,057,531	$392,506	$132,727	$3,307,920
Provision for credit losses	46,303	(374,067)	468,559	372,251	(253,046)	260,000
Recoveries	26,804	89,189	313,795	7,714	-	437,502
Loans charged off	(202,114)	-	(652,281)	(179,008)	-	(1,033,403)
Balance, end of year	$412,909	$898,362	$1,187,604	$593,463	$(120,319)	$2,972,019
Individually evaluated for impairment:						
Balance in allowance	$278,786	$550,794	$178,657	$155,330	$-	$1,163,567
Related loan balance	278,786	3,364,193	636,174	1,629,643	-	5,908,796

Collectively evaluated for impairment:						
Balance in allowance	$ 134,123	$ 347,568	$ 1,008,947	$ 438,133	$ (120,319)	$ 1,808,452
Related loan balance	3,893,961	65,414,415	72,594,259	127,016,047	-	268,918,682

As of December 31, 2015, the allowance for loan losses included an overage of **$148,465**. As of December 31, 2014 and 2013, the allowance for loan losses included an unallocated shortfall of $53,619 and $120,319, respectively. The 2014 and 2013 shortfall is well within the internal Bank policy of 5% tolerance for actual to required reserves. Management is comfortable with the 2015 overage as they feel the amount is adequate to absorb inherent potential losses in the loan portfolio.

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the year ending December 31, 2015. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

The Bank's internal risk ratings are as follows:

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

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

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

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

2015	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$3,878,588	$58,706,189	$72,975,858	$116,596,449	$252,157,084

Special mention	168,113	4,422,115	1,652,579	539,483	6,782,290
Substandard	493,000	1,143,317	509,211	2,075,950	4,221,478
Doubtful	-	-	165,123	531,716	696,839
Loss	-	-	-	-	-
	$4,539,701	$64,271,621	$75,302,771	$119,743,598	$263,857,691
Non-accrual	-	-	596,329	3,183,420	3,779,749
Troubled debt restructures	240,500	-	-	49,868	290,368
Number of TDRs accounts	1	-	-	1	2
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

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

2013	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	$3,594,809	$59,914,422	$71,554,400	$126,774,441	$261,838,072
Special mention	299,152	5,499,993	1,102,091	1,312,103	8,213,339
Substandard	278,786	3,364,193	508,243	559,146	4,710,368
Doubtful	-	-	65,699	-	65,699
Loss	-	-	-	-	-
	$4,172,747	$68,778,608	$73,230,433	$128,645,690	$274,827,478
Non-accrual	14,286	1,237,647	338,212	1,123,248	2,713,393
Troubled debt restructures	-	-	-	-	-
Number of TDRs contracts	-	-	-	-	-
Non-performing TDRs	-	-	-	-	-
Number of TDR accounts	-	-	-	-	-

At December 31, 2015, the recorded investment in TDR's reflected one loan in the amount of **$240,500** which is performing under the terms of the modified agreement and one loan in the amount of **$49,868** which is on nonaccrual. At December 31, 2014, the recorded investment in TDR's reflected one loan in the amount of $252,500 which is performing under the terms of the modified agreement. The TDR from 2012 that had a balance of $832,500 was brought into OREO in 2013 and later sold in 2014. The remaining TDR from 2012 in the amount of $1,369,768 was paid off in 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

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

2015	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,539,701	$-	$ -	$-	$4,539,701
Commercial real estate	64,270,345	1,276	-	-	64,271,621
Consumer and indirect	73,568,010	1,122,155	16,277	596,329	75,302,771
Residential real estate	115,715,127	806,566	38,485	3,183,420	119,743,598
	$258,093,183	$1,929,997	$ 54,762	$3,779,749	$263,857,691

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

2013	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	$4,158,461	$-	$ -	$14,286	$4,172,747
Commercial real estate	66,191,062	173,000	1,176,899	1,237,647	68,778,608
Consumer and indirect	71,755,109	1,137,112	-	338,212	73,230,433
Residential real estate	126,934,475	157,123	430,844	1,123,248	128,645,690
	$269,039,107	$1,467,235	$ 1,607,743	$2,713,393	$274,827,478

Loans on which the accrual of interest has been discontinued totaled **$3,779,749,** $2,777,904, and $2,713,393 at December 31, 2015, 2014, and 2013, respectively. Interest that would have been accrued under the terms of these loans totaled **$239,038,** $255,682, and $180,770 for the years ended December 31, 2015, 2014, and 2013, respectively. Loans past due 90 days or more and still accruing interest totaled **$54,762,** $196,772, and $1,607,743 at December 31, 2015, 2014, and 2013, respectively. Management believes these particular loans are well secured and in the process of full collection of all amounts owed.

Non-accrual loans with specific reserves at December 31, 2015 are comprised of:

Commercial Real Estate – One loan to one borrower in the amount of $300,112 secured by commercial and/or residential properties with specific reserves of $100,745 established for the loans.

Residential Real Estate – Eleven loans to five borrowers in the amount of $1,714,716 secured by residential properties with specific reserves of $668,721 established for the loans. Four of the five borrowers, consisting of ten loans, have a related interest and are considered to be one entity for loans-to-one borrower purposes. These are investor residential real estate properties with a carrying value of $1,664,848 and specific reserves of $656,947.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

Consumer and Indirect Loans – Two loans to two borrowers in the amount of $145,874 with $65,353 of specific reserves established for the loans.

Impaired Loans

When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management used the current fair value of the collateral, less selling cost when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance (continued)

2014	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$2,726,247	$2,726,247	$ 177,707	$682,642	$2,747,299
Commercial	1,094,708	1,094,708	783	148,791	1,162,367
Consumer	611,728	611,728	30,903	186,226	622,854
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	252,500	252,500	11,027	252,500	258,577
Total impaired loans with specific reserves	$4,685,183	$4,685,183	$ 220,420	$1,270,159	$4,791,097
Impaired loans with no specific reserve:					
Real-estate - mortgage:					
Residential	$204,896	$266,091	$ 2,641	n/a	$340,435
Commercial	1,061,108	1,061,108	48,548	n/a	1,089,641
Consumer	60,656	60,656	-	n/a	-
Installment	433,833	433,833	-	n/a	-
Home Equity	-	-	-	n/a	-
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$1,760,493	$1,821,688	$ 51,189	-	$1,430,076

2013	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Real-estate - mortgage:					
Residential	$559,146	$559,146	$ 15,768	$155,330	$563,961
Commercial	2,187,294	2,187,294	55,535	550,794	2,271,949
Consumer	393,740	393,740	20,767	178,657	394,356
Installment	-	-	-	-	-
Home Equity	-	-	-	-	-
Commercial	278,786	278,786	11,541	278,786	286,433
Total impaired loans with specific reserves	$3,418,966	$3,418,966	$ 103,611	$1,163,567	$3,516,699
Impaired loans with no specific reserve:					
Real-estate - mortgage:					

Residential	$1,070,497	$1,070,497	$ 39,257	n/a	$1,071,479
Commercial	1,176,899	1,176,899	46,583	n/a	1,231,505
Consumer	10,602	10,602	-	n/a	-
Installment	180,204	180,204	-	n/a	-
Home Equity	51,628	51,628	-	n/a	50,999
Commercial	-	-	-	n/a	-
Total impaired loans with no specific reserve	$2,489,830	$2,489,830	$ 85,840	-	$2,353,983

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	2015	2014	2013
Land		$684,977	$684,977	$684,977
Buildings	5-50 years	6,283,741	6,221,980	6,142,509
Equipment and fixtures	5-30 years	5,365,211	5,400,514	5,187,984
Construction in progress		500	53,197	61,155
		12,334,429	12,360,668	12,076,625
Accumulated depreciation		(8,965,564)	(8,689,373)	(8,379,853)
		$3,368,865	$3,671,295	$3,696,772

Depreciation expense totaled **$393,200,** $399,083, and $392,146 for the years ended December 31, 2015, 2014, and 2013, respectively. Amortization of software totaled **$59,506,** $21,970, and $26,236 for the years ended December 31, 2015, 2014, and 2013, respectively.

The Bank leases its Severna Park and Linthicum branches**.** Minimum lease obligations under the Severna Park branch are $33,000 per year through September 2016. Minimum lease obligations under the Linthicum branch are $120,952 per year through December 2024, adjusted annually on a pre-determined basis. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled **$153,659,** $150,145, and $137,232 for the years ended December 31, 2015, 2014, and 2013, respectively.

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

The Bank owned 12,031 shares of common stock of the FHLB at December 31, 2015. The Bank is required to maintain an investment of 0.2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 20% of the Bank's total assets, or approximately $71,817,000 at December 31, 2015. Long-term advances totaled **$20,000,000** under this credit

arrangement at December 31, 2015 (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 **$21,918,** $24,658, and $1,838,000 for 2015, 2014, and 2013, respectively.

The Bank also had available unsecured federal funds lines of credit from three financial institutions for $3,000,000, $5,000,000, and $8,000,000. No balances were outstanding on these lines of credit on December 31, 2015

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2015	2014	2013
Federal Home Loan Bank of Atlanta, convertible advances	$20,000,000	$20,000,000	$20,000,000

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-term Borrowings (continued)

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, 2015, the scheduled maturities of long-term borrowings are as follows:

	2015
2017	$10,000,000
2018	10,000,000
	$20,000,000

Note 8. Deposits

Major classifications of interest-bearing deposits are as follows:

	2015	2014	2013
NOW and SuperNOW	$27,502,016	$26,990,274	$27,991,553
Money Market	19,079,536	20,465,436	19,219,579
Savings	78,107,913	74,973,038	71,278,801
Certificates of Deposit, $100,000 or more	34,239,331	36,118,031	28,916,597
Other time deposits	82,677,870	91,767,589	89,649,301

	$241,606,666	$250,314,368	$237,055,831

Interest expense on deposits is as follows:

	2015	2014	2013
NOW and SuperNOW	$9,711	$11,608	$11,300
Money Market	12,763	9,965	10,618
Savings	39,936	37,537	55,591
Certificates of Deposit, $100,000 or more	522,637	523,472	373,880
Other time deposits	1,165,027	1,310,732	1,562,938
	$1,750,074	$1,893,314	$2,014,327

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Deposits (continued)

At December 31, 2015, the scheduled maturities of time deposits are approximately as follows:

	2015
2016	$44,839,000
2017	11,863,000
2018	17,966,000
2019	25,562,000
2020	15,303,000
2021 and thereafter	1,384,000
	$116,917,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately **$1,971,000,** $2,331,000, and $2,147,000 at December 31, 2015, 2014, and 2013, respectively.

The Bank had no brokered deposits at December 31, 2015, 2014, and 2013.

Note 9. Income Taxes

The components of income tax expense for the years ended December 31, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Current:			
Federal	$(322,723)	$408,056	$400,931
State	(60,104)	187,266	197,671

Total current	(382,827)	595,322	598,602
Deferred income (benefits) taxes:			
Federal	352,543	(253,848)	(9,542)
State	275,205	(32,822)	44,795
Total deferred (benefits) taxes	627,748	(286,670)	35,252
Income tax expense	$244,921	$308,652	$633,855

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, 2015, 2014, and 2013 is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Income Taxes (continued)

	2015	2014	2013
Income before income tax expense (benefit)	$1,597,537	$2,223,178	$3,248,032
Taxes computed at Federal income tax rate	$543,163	$755,881	$1,104,331
Increase (decrease) resulting from:			
Tax-exempt income	(441,890)	(531,764)	(630,710)
State income taxes, net of Federal income tax benefit	141,966	101,933	160,027
Other	1,682	(17,398)	207
Income tax expense	$244,921	$308,652	$633,855

The components of the net deferred income tax benefits as of December 31, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Deferred income tax benefits:			
Accrued deferred compensation	$153,256	$142,308	$129,101
Impairment loss on investment securities	-	1,305,584	1,218,497
Allowance for credit losses	362,732	364,697	458,303
Nonaccrual interest	445,173	445,173	339,765
Alternative minimum tax credits	929,264	615,186	485,444
Net operating loss carryforward credits	373,986	-	-
Accumulated depreciation	61,019	72,354	60,627
Other real estate owned	14,940	14,940	14,940
Reserve for unfunded commitments	4,641	78,890	78,890
Other temporary differences	2,116	2,116	1,332
Accumulated securities premium accretion	138,207	71,834	39,514
Net unrealized depreciation on investment securities available for sale	199,277	-	778,048
Total deferred income tax benefits	2,684,611	3,113,082	3,604,461
Deferred income tax liabilities:			
Accumulated securities discount accretion	-	-	-
Net unrealized appreciation on investment securities available for sale	-	67,847	-
Total deferred income tax liabilities	-	67,847	-

Net deferred income tax benefits	**$2,684,611**	$3,045,235	$3,604,461

Management has determined that no valuation allowance is required as it believes it is more likely than not that all of the deferred tax assets will be fully realizable in the future. At December 31, 2015, 2014, and 2013, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes (formerly FIN 48, Accounting for Uncertainty in Income Taxes).

The Company's federal income tax returns for 2014, 2013, and 2012 are subject to examinations by the IRS generally for three years after they were filed. In addition, the Company's state tax returns for the same years are subject to examination by state tax authorities for similar time periods. The 2015 income tax return will be filed in 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. 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 **$225,179,** $229,500, and $260,400 for the years ended December 31, 2015, 2014, and 2013, 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 **$1,014,** $8,159, and $8,159 for the years ended December 31, 2015, 2014, and 2013, respectively.

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 **$191,391,** $228,516, and $304,558 for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 11. Other Benefit Plans

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled **$9,357,712,** $9,138,658, and $8,914,817 at December 31, 2015, 2014, and 2013, respectively. Income on their insurance investment totaled **$219,054,** $223,841, and $234,297 for 2015, 2014, and 2013, 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.

Note 12. Other Operating Expenses

Other operating expenses include the following:

	2015	2014	2013
Professional services	$712,851	$677,308	$635,502
Stationery, printing and supplies	172,709	185,963	201,883
Postage and delivery	138,691	164,814	139,096
FDIC assessment	305,972	279,584	234,203
Directors fees and expenses	223,542	239,769	226,881
Marketing	142,224	239,437	207,527
Data processing	76,895	25,404	34,909
Correspondent bank services	51,308	45,362	55,444
Telephone	229,257	223,071	255,955
Liability insurance	74,508	73,925	71,722
Losses (gains) and expenses on OREO	29,536	62,493	73,698
Other ATM expense	121,487	125,845	117,617
Other	449,322	705,316	462,682
	$2,728,302	$3,048,291	$2,717,119

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Commitments and Contingencies

Financial instruments:

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

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

	2015	2014	2013
Loan commitments:			
Construction and land development	$-	$-	$1,561,000
Other mortgage loans	970,000	1,666,000	2,817,000
	$970,000	$1,666,000	$4,378,000
Unused lines of credit:			
Home-equity lines	$2,558,091	$3,825,462	$11,067,236
Commercial lines	17,195,796	15,156,201	7,726,424
Secured consumer line	27,500	50,000	24,043
Unsecured consumer lines	634,122	674,429	673,123
	$20,415,509	$19,706,092	$19,490,826
Letters of credit:	$47,580	$57,580	$32,000

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. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2015, the Bank has accrued **$11,767** as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders' Equity

Restrictions on dividends:

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years.

Retained earnings from which dividends may not be paid without prior approval totaled approximately **$18,752,000**, $17,171,000, and $15,293,000 at December 31, 2015, 2014, and 2013, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Employee stock purchase benefit plans:

The Company has a stock-based compensation plan, which is described below. There were no options issued during the years ended December 31, 2015, 2014, and 2013.

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

At December 31, 2015, 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 2015, 2014, and 2013, shares of common stock purchased under the plan totaled **12,397,** 13,594, and 10,392 respectively. At December 31, 2014, shares of common stock reserved for issuance under the plan totaled **185,127**.

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, 2015, 2014, and 2013.

At December 31, 2015, shares of common stock reserved for issuance under the plan totaled **313,919.**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders' Equity (continued)

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

Regulatory capital requirements:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Stockholders' Equity (continued)

Management believes that as of December 31, 2015, the Bancorp and the Bank are "well capitalized" based on the ratios presented below.

Actual		Minimum Capital Required - Basel III Phased-In Schedule	Minimum Capital Required - Basel III Fully Phased-In	To Be Well Capitalized Under Prompt Corrective Action Provisions
Amount	Ratio	Amount		