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2010

The Year of Excellence

Glen Burnie Bancorp
Annual Report

Received SEC
APR 11 2011
Washington, DC 20549



Glen Burnie Bancorp

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Annual Meeting

The Annual Meeting of Stockholders will be conducted on Thursday, May 12, 2011 beginning at 2:00 p.m. at Michael's Eighth Avenue, 7220 Grayburn Drive, Glen Burnie, Maryland. Glen Burnie Bancorp's regular meeting of stockholders is held on the second Thursday in May of each year.

Dividend Reinvestment Plan

Common stockholders participating in the Dividend Reinvestment Plan receive a 5% discount from market price when they reinvest their Glen Burnie Bancorp dividends in additional shares. To obtain a prospectus and authorization forms, contact the Transfer Agent.

Direct Deposit of Dividends

The direct deposit program, which is offered at no charge, provides for automatic deposit of quarterly dividends directly into a checking or savings account. For information regarding this program, contact the Transfer Agent.

Annual Report on Form 10-K

To obtain a copy of the company's Annual Report on Form 10-K for the year ended December 31, 2010, please contact the Transfer Agent.

Independent Auditors

TGM Group LLC
955 Mount Hermon Road, Salisbury, Maryland 21804

Excellence in Banking



Selected Financial Data

The following table presents consolidated selected financial data for the Company and its subsidiaries for each of the periods indicated. Dividends and earnings per share have been adjusted to give retroactive effect to a 20% stock dividend paid on January 18, 2008 and one paid on January 23, 2006.

	Year Ended December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Dollars In Thousand Except Per Share Data)				
Operations Data:					
Net Interest Income.....	\$ 12,880	\$ 12,102	\$ 11,922	\$ 11,866	\$ 11,821
Provision for Credit Losses.....	1,050	2,443	1,146	50	62
Other Income	1,899	2,365	2,051	2,157	2,244
Other Expense.....	11,178	10,995	13,102	10,433	10,682
Net Income	2,065	1,262	404	2,782	2,720
Share Data:					
Basic Net Income Per Share	\$ 0.76	\$ 0.46	\$ 0.14	\$ 0.93	\$ 0.92
Diluted Net Income Per Share	0.76	0.46	0.14	0.93	0.92
Cash Dividends Declared Per Common Share	0.40	0.40	0.45	0.45	0.45
Weighted Average Common Shares Outstanding:					
Basic.....	2,690,218	2,734,524	2,981,124	2,988,796	2,972,362
Diluted.....	2,690,218	2,734,524	2,981,124	2,988,796	2,972,362
Financial Condition Data:					
Total Assets	\$ 347,067	\$ 353,397	\$ 332,502	\$ 307,274	\$ 317,746
Loans Receivable, Net	229,851	235,883	235,133	199,753	193,337
Total Deposits	294,445	294,358	269,768	252,917	274,833
Long Term Borrowings.....	20,000	27,034	27,072	17,107	7,140
Junior Subordinated Debentures	-	5,155	5,155	5,155	5,155
Total Stockholders' Equity	26,333	25,149	27,908	29,736	28,201
Performance Ratios:					
Return on Average Assets	0.58%	0.36%	0.13%	0.89%	0.84%
Return on Average Equity	7.75	4.87	1.49	9.60	10.00
Net Interest Margin (1)	4.05	4.29	4.31	4.39	4.31
Dividend Payout Ratio	52.11	85.59	332.98	48.33	49.18
Capital Ratios:					
Average Equity to Average Assets	7.45%	7.37%	8.99%	9.28%	8.36%
Leverage Ratio	7.64	8.86	10.50	11.34	10.30
Total Risk-Based Capital Ratio.....	12.58	14.40	14.93	17.50	17.07
Asset Quality Ratios:					
Allowance for Credit Losses to Gross Loans	1.45%	1.18%	0.85%	0.80%	0.94%
Non-accrual and Past Due Loans to Gross Loans.....	2.99%	1.26%	0.38%	0.43%	0.03%
Allowance for Credit Losses to Non- Accrual and Past Due Loans	48.69%	117.61%	224.42%	188.27%	3,116.95%
<u>Net Loan Charge-offs (Recoveries) to Average Loans ...</u>	0.53%	0.37%	0.33%	0.14%	0.23%

(1) Presented on a tax-equivalent basis

Annual Letter to Stockholders

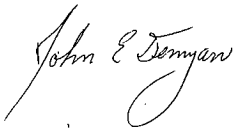
Dear Stockholder:

The 2010 year in banking saw a continuance of a difficult economy and the creation of the Dodd-Frank Act with increased banking regulations of enormous proportions. Despite the challenges, we are pleased to present the enclosed financials that reflected increased income, a reduction in debt, and dividend levels maintained.

The bank continued to lend money and meet the needs of the community during the year while continuing to be well capitalized. The bank did not participate in subprime lending, which has minimized the effect of the housing market on asset quality. The bank was able to accomplish last year's results, without the need of funding from the Treasury's Asset Relief Program, due to the sound management of capital.

The directors, management and employees remain committed to strive for excellence to meet the needs of our customers, community and stockholders.

Sincerely,



John E. Demyan
Chairman



F. William Kuethe, Jr.
President Emeritus



Michael G. Livingston
President & Chief
Executive Officer



John E. Demyan
Chairman



Michael G. Livingston
President &
Chief Executive Officer



2010 Performance Highlights:

- 63.5% increase in net income
- 22.5% increase in net interest income after provisions for credit losses
- 26.0% decrease in long-term borrowings

The Bank of Glen Burnie received the *2010 Business of the Year Award* from the Northern Anne Arundel County Chamber of Commerce because of the positive impact they have made in the banking industry and the many contributions they have made to our community. The bank has consistently demonstrated the highest standards in providing services to their customers and is recognized as a proactive leader in the business community.

Glen Burnie Bancorp

Executive Officers

John E. Demyan
Chairman

F. William Kuethe, Jr.
President Emeritus

Michael G. Livingston
President & Chief Executive Officer

Frederick W. Kuethe, III
Vice President

John E. Porter
Treasurer

Barbara J. Elswick
Secretary

Directors

John E. Demyan
Real Estate Investor

Shirley E. Boyer
Real Estate Investor

Thomas Clocker
Local Businessman

Norman E. Harrison, Jr., CPA
*Founding Partner
Harrison & Company, LLC*

F. William Kuethe, Jr.
*President Emeritus
The Bank of Glen Burnie®*

Frederick W. Kuethe, III
*Aerospace Software Engineer
Northrop Grumman, Inc.*

Michael G. Livingston
*President and Chief Executive Officer
The Bank of Glen Burnie®*

Charles F. (Derick) Lynch, Jr.
*President
The General Ship Repair Corporation*

Edward L. Maddox
Financial Service Consultant

William N. Scherer, Sr.
Attorney

Karen B. Thorwarth
Insurance Agent

Mary Lipin Wilcox
*Teacher
Anne Arundel County School*



Transfer Agent

*Registrar and Transfer Company
Stockholder Relations Department
10 Commerce Drive
Cranford, NJ 07016-3572
1-800-368-5948*

Brokers

*Robert D. Petty, Senior Vice President
Morgan Stanley Smith Barney
125 West Street, Suite 201
Annapolis, MD 21401-2800
410-268-4700 • 410-267-7236 (fax)
robert.d.petty@mssb.com*

*James S. Gibbons, Vice President
Financial Consultant
RBC Wealth Management
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Annapolis, MD 21401
410-972-2410 • 410-268-6729 (fax)
james.s.gibbons@rbc.com*

*Hammitt W. Hough, Vice President
Scott & Stringfellow, Inc.
201 North Union Street, Suite 240
Alexandria, VA 22314
888-250-7212 • 703-836-9759 (fax)
hhough@scottstringfellow.com*

*Excellence in
Management*

The Bank of Glen Burnie

Executive Management

John E. Demyan
Chairman

F. William Kuethe, Jr.
President Emeritus

Michael G. Livingston
President & CEO

John E. Porter
Senior Vice President & Chief
Financial Officer

Barbara J. Elswick
Senior Vice President & Chief
Lending Officer

Joyce A. Ohmer
Senior Vice President
of Branch Administration,
BSA Officer

Senior Officers

Michelle R. Stambaugh
Senior Vice President
(Human Resources)

Rudolph S. Brown, Jr.
Vice President (Consumer Lending)

Michael C. Schutt
Vice President (Commercial Lending)

Richard R. Sutton
Vice President (Commercial Lending)

Paul V. Trice, Jr.
Vice President (Audit)

Moses Williams, Jr.
Vice President (Collections)

Officers

Yvonne M. Atkinson
Assistant Vice President (Marketing)
(Community Reinvestment Act)

Darren S. Elswick
Assistant Vice President
(Information Systems)

Kristin C. Elswick
Assistant Vice President
(Deposit Processing)

Melissa Leonescu
Assistant Vice President (Credit)

Linda R. Loane
Assistant Vice President
(Riviera Beach)

Patricia A. Miller
Assistant Vice President (Odenton)

Linden B. Monaghan
Assistant Vice President (Severn)

Patricia S. Murchake
Assistant Vice President
(Glen Burnie)

Charles F. Pumphrey
Data Processing Officer

Roxanne Stroud
Assistant Vice President
(Loan Operations)

Denise M. Sutton
Assistant Vice President (Linthicum)

Pamela A. Thompson
Assistant Treasurer (Finance)

Donna K. Walsh
Assistant Vice President (Crownsville)

Joanne L. Walter
Assistant Vice President (Mortgages)

Deborah J. Youngbar
Assistant Vice President (New Cut)

February 28, 2011



Excellence in Customer Service



The Maryland Gazette polled its readers to find their choice of the best of the best in the area. Thousands of votes were cast, and the 2010 Maryland Gazette Readers Choice Best Bank was The Bank of Glen Burnie.

Mission

Statement

The Bank of Glen Burnie® is a safe, sound, community-oriented bank committed to excellence in satisfying the needs of our customers, shareholders and employees.

2010

Financials

*Excellence in
Accountability*



*Glen Burnie Bancorp
and Subsidiaries
Consolidated
Financial Statements
December 31, 2010*

Financials

Glen Burnie Bancorp and Subsidiaries

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 22, 2011, there were 424 record holders of the Common Stock. The closing price for the Common Stock on that date was \$8.62.

The following table sets forth the high and low sales prices for the Common Stock for each full quarterly period during 2010 and 2009 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.

Quarter Ended	2010			2009		
	High	Low	Dividends	High	Low	Dividends
March 31,	\$11.70	\$8.50	\$0.10	\$10.96	\$8.41	\$0.10
June 30,	10.95	9.00	0.10	9.40	7.80	0.10
September 30	10.10	7.74	0.10	9.25	7.70	0.10
December 31	9.60	7.75	0.10	9.76	8.09	0.10

A regular dividend of \$0.10 was declared for stockholders' of record on December 27, 2010, payable on January 6, 2011.

The Company intends to pay dividends approximating forty percent (40%) of its profits for each quarter. 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.

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 to 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 2010, net interest income before provision for credit losses increased to \$12,880,012 from \$12,101,787 in 2009, a 6.43% increase. Total interest income decreased from \$18,644,297 in 2009 to \$18,178,967 in 2010, a 2.50% decrease. Interest expense for 2010 totaled \$5,298,955, a 19.01% decrease from \$6,542,510 in 2009. Net income in 2010 was \$2,064,785 compared to \$1,262,462 in 2009. The increase in net income was primarily due to the reduction in interest expense and in the provision for loan losses which declined from \$2,442,976 in 2009 to \$1,050,000 for 2010.

The Bank and, as a result, the Company, experienced improved performance in 2010. In spite of the continuing economic downturn, our long standing policy of conservative lending decisions and having no exposure to the sub-prime residential mortgage market resulted in minimal charge offs in residential real estate and a decrease in installment loan charge offs combined with an increase in recoveries on installment loans. Although we took a charge off in 2010 on commercial real estate that we had reserved for in 2009, the Bank's loan portfolio remained stable in 2010 with net charge offs of \$1,223,012 for the year.

In September 2010, the Company repaid \$5,155,000 plus accrued interest and prepayment penalties of \$546,690 on its 10.6% Junior Subordinated Deferrable Interest Debentures issued to Glen Burnie Statutory Trust I, a Connecticut statutory trust subsidiary of the Company, and the Bank repaid \$7 million plus accrued interest of \$104,471 on a 5.84% FHLB advance that had come due. The repayment of the Junior Subordinated Deferrable Interest Debentures will result in a \$546,430 reduction in annual interest expense for the Company. The Bank's repayment of the FHLB advance will result in an annual reduction of \$408,800 in interest expense on long-term borrowings.

All per share amounts throughout this report have been adjusted to give retroactive effect to a 20% stock dividend paid on January 23, 2006 and to a 20% stock dividend paid on January 18, 2008.

Comparison of Results of Operations for the Years Ended December 31, 2010, 2009 and 2008

General. For the year ended December 31, 2010, the Company reported consolidated net income of \$2,064,785 (\$0.76 basic and diluted earnings per share) compared to consolidated net income of \$1,262,462 (\$0.46 basic and diluted earnings per share) for the year ended December 31, 2009 and consolidated net income of \$403,962 (\$0.14 basic and diluted earnings per share) for the year ended December 31, 2008. The increase in the 2010 consolidated net income was mainly due to a decrease in interest expense on deposits and a decrease in provision for loan losses. This was partially offset by a decrease in gains on investment securities. The increase in 2009 consolidated net income was due to the write down on Fannie Mae and Freddie Mac preferred stock in 2008, offset by an increase in the provision for loan losses and the increased FDIC insurance premium assessment (discussed earlier in this Report, on page 3), and an increase in deposit and long term borrowings expense in 2009.

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.

In 2010, the Bank continued its strategy of reducing its portfolio of above market rate savings products and achieved a significant reduction in interest expense on deposits. The Bank also continued its efforts to increase the portfolio of higher yielding commercial loans and, while successful, was impacted by increased competition from large competitors. At the same time, we continued to reduce our exposure to lower yielding indirect automobile loans.

Consolidated net interest income for the year ended December 31, 2010 was \$12,880,012 compared to \$12,101,787 for the year ended December 31, 2009 and \$11,922,003 for the year ended December 31, 2008. The \$778,225 increase for the most recent year was primarily due to an increase in interest income on securities and decreases in interest expense on deposits and long-term borrowings, partially offset by a decrease in loan income. The \$179,784 increase for 2009 compared to 2008 was primarily due to an increase in loan income partially offset by a decrease in interest income on securities and increases in interest expense on deposits and long-term borrowings. The interest income, net of tax, for 2010 was \$13,618,449, a \$811,390 or 6.33% increase from the after tax net interest income for 2009, which was \$12,807,059, a \$212,720 or 1.69% increase from the \$12,594,339 after tax net interest income for 2008.

Interest expense decreased from \$6,542,510 in 2009 to \$5,298,955 in 2010, a \$1,243,555 or a 19.01% decrease, primarily due to a decrease in deposit expense and long-term borrowings (due to the repayment of the \$7 million Federal Home Loan Bank of Atlanta loan in September 2010), partially offset by a \$273,215 early repayment penalty on the Trust Preferred Securities. Interest expense increased from \$6,254,033 in 2008 to \$6,542,510 in 2009, a \$288,477 or a 4.62% increase, primarily due to a full year of interest expense on the long-term borrowings and an increase in deposit expense. Net interest margin for the year ended December 31, 2010 was 4.05% compared to 4.29% and 4.31% for the years ended December 31, 2009 and 2008, 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,					
	2010	VS.	2009	VS.	2008	
	Increase/ Decrease	Change Due To:	Increase/ Decrease	Change Due To:	Change Due To:	
Rate		Rate			Volume	
(In Thousands)						
ASSETS:						
Interest-earning assets:						
Federal funds sold	\$ (2)	\$ -	\$ (2)	\$ 7	\$ (44)	\$ 51
Interest-bearing deposits	1	2	(1)	(115)	(229)	114
Investment securities:						
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities						
	62	(461)	523	(109)	(404)	295
Obligations of states and political subdivisions(1)	121	-	121	(121)	68	(189)
All other investment securities	(23)	(10)	(13)	(4)	(1)	(3)
Total investment securities	160	(471)	631	(234)	(337)	103
Loans, net of unearned income:						
Demand, time and lease	76	36	40	9	(122)	131
Mortgage and construction	(177)	(307)	130	995	(436)	1,431
Installment and credit card	(501)	77	(578)	(212)	54	(266)
Total gross loans(2)	(602)	(194)	(408)	792	(504)	1,296
Allowance for credit losses	-	-	-	-	-	-
Total net loans	(602)	(194)	(408)	792	(504)	1,296
Total interest-earning assets	\$ (443)	\$ (663)	\$ 220	\$ 450	\$ (1,114)	\$ 1,564
LIABILITIES:						
Interest-bearing deposits:						
Savings and NOW	\$ 14	\$ -	\$ 14	\$ (22)	\$ (23)	\$ 1
Money market	10	-	10	(5)	(8)	3
Other time deposits	(1,264)	(1,225)	(39)	184	(958)	1,142
Total interest-bearing deposits	(1,240)	(1,225)	(15)	157	(989)	1,146
Non-interest-bearing deposits						
	-	-	-	-	-	-
Borrowed funds	(3)	169	(172)	130	(147)	277
Total interest-bearing liabilities	\$ (1,243)	\$ (1,056)	\$ (187)	\$ 287	\$ (1,136)	\$ 1,423

(1) Tax equivalent basis.

(2) Non-accrual loans included in average balances.

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,								
	2010			2009			2008		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
(Dollars In Thousands)									
ASSETS:									
Interest-earning assets:									
Federal funds sold.....	\$ 3,797	\$ 10	0.25%	\$ 4,843	\$ 12	0.26%	\$ 433	\$ 5	1.15%
Interest-bearing deposits.....	11,188	16	0.14	12,337	15	0.12	6,560	130	1.98
Investment securities:									
U.S. Treasury securities, obligations of U.S. government agencies and mortgage-backed securities.....	56,868	1,916	3.37	44,367	1,854	4.18	38,532	1,963	5.09
Obligations of states and political subdivisions(1).....	31,341	2,134	6.81	29,557	2,013	6.81	32,421	2,134	6.58
All other investment securities.....	1,995	166	8.32	2,138	189	8.84	2,168	193	8.90
Total investment securities.....	90,204	4,216	4.67	76,062	4,056	5.33	73,121	4,290	5.87
Loans, net of unearned income:									
Demand, time and lease.....	8,946	475	5.31	8,132	399	4.91	6,082	390	6.41
Mortgage and construction.....	175,812	10,593	6.03	173,741	10,770	6.20	151,656	9,775	6.45
Installment and credit card.....	49,737	3,578	7.19	57,915	4,079	7.04	61,747	4,291	6.95
Total gross loans(2).....	234,495	14,646	6.25	239,788	15,248	6.36	219,485	14,456	6.59
Allowance for credit losses.....	(3,874)			(2,037)			(1,479)		
Total net loans.....	230,621	14,646	6.35	237,751	15,248	6.41	218,006	14,456	6.63
Total interest-earning assets.....	335,810	18,888	5.62	330,993	19,331	5.84	298,120	18,881	6.33
Cash and due from banks.....	3,182			4,488			7,891		
Other assets.....	18,696			16,709			14,740		
Total assets.....	\$357,688			\$352,192			\$320,751		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest-bearing deposits:									
Savings and NOW.....	\$ 75,541	176	0.23%	\$ 71,124	162	0.23%	\$ 69,468	184	0.26%
Money market.....	16,756	67	0.40	14,363	57	0.40	13,751	62	0.45
Other time deposits.....	136,822	3,454	2.52	137,764	4,718	3.42	110,049	4,534	4.12
Total interest-bearing deposits.....	229,119	3,697	1.61	223,251	4,937	2.21	193,268	4,780	2.47
Short-term borrowed funds.....	522	1	0.29	262	0	0.02	2,209	51	2.31
Long-term borrowed funds.....	28,747	1,601	5.57	32,206	1,605	4.98	26,287	1,424	5.42
Total interest-bearing liabilities.....	258,389	5,299	2.05	255,719	6,542	2.56	221,764	6,255	2.82
Non-interest-bearing deposits.....	71,212			67,572			68,340		
Other liabilities.....	1,451			2,957			1,806		
Stockholders' equity.....	26,636			25,944			28,841		
Total liabilities and equity.....	\$357,688			\$352,192			\$320,751		
Net interest income.....		\$13,589			\$12,789			\$12,626	
Net interest spread.....			3.57%			3.28%			3.51%
Net interest margin.....			4.05%			4.29%			4.31%

1 Tax equivalent basis. The incremental tax rate applied was 14.88% for 2010 and (13.45%) for 2009.

2 Non-accrual loans included in average balance.

Provision for Credit Losses. During the year ended December 31, 2010, the Company made a provision of \$1,050,000 for credit losses, compared to a provision of \$2,442,976 and \$1,145,649 for credit losses for the years ended December 31, 2009 and 2008, respectively. The decrease in 2010 was primarily due to many of the delinquent commercial real estate loans already having specific provisions made in 2009. At December 31, 2010,

the allowance for credit losses equaled 48.69% of non-accrual and past due loans compared to 117.61% and 224.42% at December 31, 2009 and 2008, respectively. During the year ended December 31, 2010, the Company recorded net charge-offs of \$1,223,000 compared to \$892,000 and \$728,000 in net charge-offs during the years ended December 31, 2009 and 2008, respectively.

Other Income. Other income includes service charges on deposit accounts, other fees and commissions, net gains on investment securities, and income on Bank owned life insurance (BOLI). Other income decreased from \$2,365,249 in 2009 to \$1,898,607 in 2010, a \$466,642, or 19.73% decrease. The decrease was primarily due to a decrease in gains on securities, with a lesser decrease in service charges. Other income increased from \$2,050,587 in 2008 to \$2,365,249 in 2009, a \$314,662, or 15.34% increase. The increase was primarily due to an increase in gains on securities, partially offset by decreases in service charges and other fees and commissions.

Other Expenses. Other expenses, which consist of non-interest operating expenses, increased from \$10,994,851 in 2009 to \$11,178,323 in 2010, an \$183,470 or 1.67% increase. This increase was primarily due to an increase in employee benefits and a lesser increase in salaries and an additional write-down of one Fannie Mae, two Freddie Macs and two Regional Diversified Funding (Reg. Div.) securities during 2010. This was primarily offset by a decrease in other expenses and a lesser decrease in occupancy expense. Other expenses decreased from \$13,102,341 in 2008 to \$10,994,851 in 2009, a \$2,107,490 or 16.08% decrease. This decrease was primarily due to the write-down of one Fannie Mae and two Freddie Mac securities in the amount of \$2,816,000 in 2008, offset by increases in salary and employee benefits and FDIC assessments in 2009.

Income Taxes. During the year ended December 31, 2010, the Company recorded an income tax expense of \$485,511, compared to an income tax benefit of \$233,253 for the year ended December 31, 2009. This increase was due to a lesser amount contributed to provision for credit losses in 2010 and less interest expense paid on deposits. During the year ended December 31, 2009, the Company recorded an income tax benefit of \$233,253, compared to an income tax benefit of \$679,362 for the year ended December 31, 2008. This decrease was primarily due to a tax benefit of \$1,110,770 from the write-down of \$2,816,000 for the Fannie Mae and Freddie Mac securities in 2008. In addition to this, the amount of tax exempt income on municipal securities decreased and there was a larger amount contributed to provision for credit losses in 2009.

Comparison of Financial Condition at December 31, 2010, 2009 and 2008

The Company's total assets decreased to \$347,067,276 at December 31, 2010 from \$353,396,697 at December 31, 2009. The Company's total assets increased to \$353,396,697 at December 31, 2009 from \$332,502,215 at December 31, 2008.

The Company's net loan portfolio decreased to \$229,850,888 at December 31, 2010 compared to \$235,882,862 at December 31, 2009 and \$235,132,621 at December 31, 2008. The decrease in the loan portfolio during the 2010 period is primarily due to a decrease in indirect automobile loans, commercial mortgages, demand secured commercial loans and participation loans, both those purchased and sold. They were partially offset by refinance mortgages, purchase money mortgages, land development loans and home equity loans. The increase in the loan portfolio during the 2009 period is primarily due to an increase in commercial mortgages, purchase money mortgages, refinances, home equity and demand commercial secured loans. They were partially offset by a decline in indirect automobile loans and mortgage participations purchased besides a larger provision for credit losses.

During 2010, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$87,268,359, a \$2,805,754 or 3.33% increase from \$84,462,605 at December 31, 2009. This increase is primarily attributable to an increase in municipal securities. During 2009, the Company's total investment securities portfolio (including both investment securities available for sale and investment securities held to maturity) totaled \$84,462,605, a \$26,513,960 or 45.75% increase from \$57,948,645 at December 31, 2008. This increase is primarily attributable to an increase in mortgage backed securities and Government Agency collateralized mortgage obligations (CMO) partially offset by a decrease in U.S. Government Agencies and non-Maryland municipal securities.

Deposits as of December 31, 2010 totaled \$294,444,828, an increase of \$86,991, or 0.03%, from the \$294,357,837 total as of December 31, 2009. Deposits as of December 31, 2009 totaled \$294,357,837, an increase

of \$24,590,239, or 9.12%, from the \$269,767,598 total as of December 31, 2008. Demand deposits as of December 31, 2010 totaled \$68,056,610, a \$248,911, or 0.37%, increase from \$67,807,699 at December 31, 2009. NOW and Super NOW accounts, as of December 31, 2010, increased by \$1,330,322, or 5.96% from their 2009 level to \$23,683,375. Money market accounts increased by \$1,426,388, or 9.34%, from their 2009 level, to total \$16,710,611 at December 31, 2010. Savings deposits increased by \$4,628,974, or 9.57%, from their 2009 level, to \$53,007,293 at December 31, 2010. Time deposits over \$100,000 totaled \$44,193,229 on December 31, 2010, a decrease of \$1,052,857, or 2.33% from December 31, 2009. Other time deposits (made up of certificates of deposit less than \$100,000 and individual retirement accounts) totaled \$88,793,710 on December 31, 2010, a \$6,494,747 or 6.82% decrease from December 31, 2009.

Total stockholders' equity as of December 31, 2010 increased by \$1,183,524, or 4.71%, from the 2009 period. The increase was attributed to an increase in earnings less the cash dividends paid, net of dividends reinvested. Total stockholders' equity as of December 31, 2009 decreased by \$2,759,130, or 9.89%, from the 2008 period. The decrease was attributed to an increase in accumulated other comprehensive loss, net of tax, and the excess of the cash dividends paid and common stock shares repurchased and retired over the net income for 2009.

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. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2010, the Bank has accrued \$200,000 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, 2010.

	<u>0-3 Months</u>	<u>Over 3 To 12 Months</u>	<u>Over 1 Through 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	(Dollars In Thousands)				
Assets:					
Cash and due from banks	\$ -	\$ -	\$ -	\$ -	\$ 8,060
Federal funds and overnight deposits	940	-	-	-	940
Securities	-	555	1,054	85,659	87,268
Loans	13,697	18,282	72,455	125,417	229,851
Fixed Assets	-	-	-	-	4,124
Other Assets	-	-	-	-	16,824
Total assets	\$ 14,637	\$ 18,837	\$ 73,509	\$ 211,076	\$ 347,067
Liabilities:					
Demand deposit accounts	\$ -	\$ -	\$ -	\$ -	\$ 68,056
NOW accounts	23,683	-	-	-	23,683
Money market deposit accounts	16,711	-	-	-	16,711
Savings accounts	53,007	244	-	-	53,251
IRA accounts	3,818	9,624	23,904	1,114	38,460
Certificates of deposit	21,968	36,594	35,252	469	94,283
Short-term borrowings	4,274	-	-	-	4,274
Long-term borrowings	-	-	-	-	20,000
Other liabilities	-	-	-	-	2,016
Stockholders' equity	-	-	-	-	26,333
Total liabilities and Stockholders' equity	\$ 123,461	\$ 46,462	\$ 59,156	\$ 1,583	\$ 347,067
GAP	\$ (110,407)	\$ (27,625)	\$ 14,353	\$ 209,493	
Cumulative GAP	(110,407)	(138,032)	(123,679)	85,814	
Cumulative GAP as a % of total assets	(31.81%)	(39.77%)	(35.64%)	24.73%	

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, 2010, the model produced the following sensitivity profile for net interest income and the economic value of equity.

	Immediate Change in Rates			
	-200	-100	+100	+200
	Basis Points	Basis Points	Basis Points	Basis Points
% Change in Net Interest Income	-3.5%	-1.9%	0.4%	-1.8%
% Change in Economic Value of Equity	-19.8%	-11.2%	0.4%	-11.7%

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, 2010, totaled \$9,000,303, a decrease of \$2,433,519 or 21.29%, from the December 31, 2009 total of \$11,433,822. This decrease comes from the payoff of a \$7 million advance at FHLB and the payoff of over \$5 million in junior subordinated debentures during the month of September 2010.

As of December 31, 2010, the Bank was permitted to draw on a \$55.47 million line of credit from the FHLB of Atlanta. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans and its portfolio of U.S. Government and agency securities. As of December 31, 2010, there was a \$4 million daily rate credit borrowing advance outstanding under this line. This was a short term borrowing due in November 2011 and had a rate of 0.49% at December 31, 2010 but this is a daily variable rate borrowing. There was also a \$10 million convertible advance (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 3.344% rate of interest and is callable quarterly, starting August 22, 2011. In addition the Bank has unsecured lines of credit totaling \$3 million from a commercial bank on which there is no outstanding balances at December 31, 2010.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. At December 31, 2010, the Company was in compliance with these requirements with a leverage ratio of 7.64%, a Tier 1 risk-based capital ratio of 11.33% and total risk-based capital ratio of 12.58%. At December 31, 2010, 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

In January 2010, the FASB issued ASU No. 2010-06 - *Fair Value Measurements and Disclosures* amending Topic 820. The ASU provides for additional disclosures of transfers between assets and liabilities valued under Level 1 and 2 inputs as well as additional disclosures regarding those assets and liabilities valued under Level 3 inputs. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for those provisions addressing Level 3 fair value measurements which provisions are effective for fiscal years, and interim periods therein, beginning after December 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 amending FASB ASC Topic 855 to exclude SEC reporting entities from the requirement to disclose the date on which subsequent events have been evaluated. It further modifies the requirement to disclose the date on which subsequent events have been evaluated in reissued financial statements to apply only to such statements that have been restated to correct an error or to apply U.S. GAAP retrospectively. The Company has complied with ASU No. 2010-09.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The main objective of this ASU is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The ASU requires that entities provide additional information to assist financial statement users in assessing their credit risk exposures and evaluating the adequacy of its allowance for credit losses. For the Company, the disclosures as of the end of a reporting period are required for the annual reporting periods ending on December 31, 2010. Required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning January 1, 2011. The adoption of this ASU will result in additional disclosures in the Company's financial statements regarding its loan portfolio and related allowance for loan losses but does not change the accounting for loans or the allowance. The Company has complied with this ASU for the annual reporting period ending December 31, 2010 and will comply for interim and annual reporting periods thereafter.

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.

2010

*Glen Burnie Bancorp and Subsidiaries
Consolidated Financial Report*

December 31, 2010



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, 2010, 2009, and 2008, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years then ended. Glen Burnie Bancorp and subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2010, 2009, and 2008, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Salisbury, Maryland
March 10, 2011

Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,	2010	2009	2008
Assets			
Cash and due from banks	\$ 6,492,313	\$ 6,993,811	\$ 6,960,377
Interest-bearing deposits in other financial institutions	1,567,673	3,748,387	7,883,816
Federal funds sold	940,317	691,624	6,393,710
Cash and cash equivalents	9,000,303	11,433,822	21,237,903
Investment securities available for sale, at fair value	87,268,359	84,462,605	57,948,645
Federal Home Loan Bank stock, at cost	1,745,100	1,858,300	1,767,600
Maryland Financial Bank stock, at cost	100,000	100,000	100,000
Common stock in the Glen Burnie Statutory Trust I	-	155,000	155,000
Ground rents, at cost	178,200	184,900	184,900
Loans, less allowance for credit losses			
2010 \$3,399,516; 2009 \$3,572,528; 2008 \$2,021,690;	229,850,888	235,882,862	235,132,621
Premises and equipment, at cost, less accumulated depreciation	4,123,616	4,120,597	3,099,448
Accrued interest receivable on loans and investment securities	1,538,883	1,626,792	1,680,392
Deferred income tax benefits	3,348,974	3,129,435	2,286,483
Other real estate owned	215,000	25,000	550,000
Cash value of life insurance	7,954,062	7,702,656	7,434,573
Other assets	1,743,891	2,714,728	924,650
Total assets	\$ 347,067,276	\$ 353,396,697	\$ 332,502,215
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Noninterest-bearing	\$ 68,056,159	\$ 67,807,699	\$ 63,538,759
Interest-bearing	226,388,669	226,550,138	206,228,839
Total deposits	294,444,828	294,357,837	269,767,598
Short-term borrowings	4,273,948	81,290	629,855
Long-term borrowings	20,000,000	27,033,711	27,071,712
Junior subordinated debentures owed to unconsolidated subsidiary trust	-	5,155,000	5,155,000
Dividends payable	231,579	230,285	385,794
Accrued interest payable on deposits	55,131	112,599	139,579
Accrued interest payable on junior subordinated debentures	-	171,518	171,518
Other liabilities	1,729,144	1,105,335	1,272,907
Total liabilities	320,734,630	328,247,575	304,593,963
Commitments and contingencies			
Stockholders' equity:			
Common stock, par value \$1, authorized 15,000,000 shares; issued and outstanding 2010 2,702,091 shares; 2009 2,683,015 shares; 2008 2,967,727 shares;	2,702,091	2,683,015	2,967,727
Surplus	9,334,810	9,190,911	11,568,241
Retained earnings	15,300,344	14,311,508	14,129,637
Accumulated other comprehensive loss, net of tax benefits	(1,004,599)	(1,036,312)	(757,353)
Total stockholders' equity	26,332,646	25,149,122	27,908,252
Total liabilities and stockholders' equity	\$ 347,067,276	\$ 353,396,697	\$ 332,502,215

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2010	2009	2008
Interest income on:			
Loans, including fees	\$ 14,646,011	\$ 15,248,717	\$ 14,456,017
U.S. Government agency securities	1,915,845	1,854,201	1,962,553
State and municipal securities	1,400,651	1,308,116	1,410,676
Corporate trust preferred securities	166,085	189,012	192,749
Federal funds sold	9,632	12,428	5,034
Other	40,743	31,823	149,007
Total interest income	<u>18,178,967</u>	<u>18,644,297</u>	<u>18,176,036</u>
Interest expense on:			
Deposits	3,696,631	4,937,282	4,780,185
Short-term borrowings	1,492	49	50,567
Long-term borrowings	952,705	1,058,749	877,101
Junior subordinated debentures	648,127	546,430	546,180
Total interest expense	<u>5,298,955</u>	<u>6,542,510</u>	<u>6,254,033</u>
Net interest income	12,880,012	12,101,787	11,922,003
Provision for credit losses	<u>1,050,000</u>	<u>2,442,976</u>	<u>1,145,649</u>
Net interest income after provision for credit losses	<u>11,830,012</u>	<u>9,658,811</u>	<u>10,776,354</u>
Other income:			
Service charges on deposit accounts	648,183	693,725	737,070
Other fees and commissions	823,854	817,559	849,417
Gains on investment securities, net	175,164	585,882	190,930
Income on life insurance	251,406	268,083	273,170
Total other income	<u>1,898,607</u>	<u>2,365,249</u>	<u>2,050,587</u>
Other expenses:			
Salaries and wages	4,856,835	4,792,480	4,694,461
Employee benefits	1,823,669	1,503,848	1,525,023
Occupancy	830,105	871,081	903,976
Furniture and equipment	761,997	761,462	754,191
Other expenses	2,643,509	2,989,201	2,408,690
Total impairment losses on investment securities	979,322	1,179,652	3,640,644
Portion of impairment losses recognized in other comprehensive income (before taxes)	(717,114)	(1,102,873)	(824,644)
Net impairment loss on investment securities	<u>262,208</u>	<u>76,779</u>	<u>2,816,000</u>
Total other expenses	<u>11,178,323</u>	<u>10,994,851</u>	<u>13,102,341</u>
Income (loss) before income taxes (benefits)	2,550,296	1,029,209	(275,400)
Federal and state income taxes (benefits)	<u>485,511</u>	<u>(233,253)</u>	<u>(679,362)</u>
Net income	<u>\$ 2,064,785</u>	<u>\$ 1,262,462</u>	<u>\$ 403,962</u>
Basic and diluted earnings per share of common stock	<u>\$ 0.76</u>	<u>\$ 0.46</u>	<u>\$ 0.14</u>

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31,	2010	2009	2008
Net income	<u>\$ 2,064,785</u>	<u>\$ 1,262,462</u>	<u>\$ 403,962</u>
Other comprehensive income (loss), net of tax			
Unrealized holding gains (losses) arising during the period (net of deferred taxes (benefits) 2010 (\$13,677) ; 2009 \$18,260; 2008 (\$1,264,081));	(20,709)	27,648	(1,913,998)
Reclassification adjustment for impairment loss included in net income (net of deferred tax benefits 2010 \$104,293 ; 2009 \$30,539; 2008 \$1,110,771)	157,915	46,240	1,705,229
Reclassification adjustment for gains included in net income (net of deferred taxes 2010 \$69,671 ; 2009 \$233,034; 2008 \$75,942;)	<u>(105,493)</u>	<u>(352,847)</u>	<u>(114,988)</u>
Total other comprehensive income (loss)	<u>31,713</u>	<u>(278,959)</u>	<u>(323,757)</u>
Comprehensive income	<u>\$ 2,096,498</u>	<u>\$ 983,503</u>	<u>\$ 80,205</u>

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, 2010, 2009, and 2008

	Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Par Value				
Balances, December 31, 2007	2,498,465	\$ 2,498,465	\$ 11,921,129	\$ 15,750,156	\$ (433,596)	\$ 29,736,154
Net income	-	-	-	403,962	-	403,962
Cummulative effect of adoption of EITF 06-04	-	-	-	(179,794)	-	(179,794)
Shares repurchased and retired	(50,300)	(50,300)	(526,939)	-	-	(577,239)
Cash dividends, \$.45 per share	-	-	-	(1,345,128)	-	(1,345,128)
Dividends reinvested under dividend reinvestment plan	20,003	20,003	174,051	-	-	194,054
Stock split effected in form of 20% stock dividend	499,559	499,559	-	(499,559)	-	-
Other comprehensive loss, net of tax	-	-	-	-	(323,757)	(323,757)
Balances, December 31, 2008	2,967,727	2,967,727	11,568,241	14,129,637	(757,353)	27,908,252
Net income	-	-	-	1,262,462	-	1,262,462
Shares repurchased and retired	(305,083)	(305,083)	(2,530,626)	-	-	(2,835,709)
Cash dividends, \$.40 per share	-	-	-	(1,080,591)	-	(1,080,591)
Dividends reinvested under dividend reinvestment plan	20,371	20,371	153,296	-	-	173,667
Other comprehensive loss, net of tax	-	-	-	-	(278,959)	(278,959)
Balances, December 31, 2009	2,683,015	2,683,015	9,190,911	14,311,508	(1,036,312)	25,149,122
Net income	-	-	-	2,064,785	-	2,064,785
Cash dividends, \$.40 per share	-	-	-	(1,075,949)	-	(1,075,949)
Dividends reinvested under dividend reinvestment plan	19,076	19,076	143,899	-	-	162,975
Other comprehensive income, net of tax	-	-	-	-	31,713	31,713
Balances, December 31, 2010	2,702,091	\$ 2,702,091	\$ 9,334,810	\$ 15,300,344	\$ (1,004,599)	\$ 26,332,646

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,	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 2,064,785	\$ 1,262,462	\$ 403,962
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	1,001,488	652,780	421,229
Provision for credit losses	1,050,000	2,442,976	1,145,649
Deferred income tax benefits, net	(240,485)	(658,719)	(1,605,603)
Gains on disposals of assets, net	(248,221)	(569,428)	(173,393)
Impairment losses on investment securities	262,208	76,779	2,816,000
Income on investment in life insurance	(251,406)	(268,083)	(273,170)
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	87,909	53,600	(171,752)
Decrease (increase) in other assets	869,991	(1,838,514)	(118,962)
(Decrease) increase in accrued interest payable	(228,986)	(26,980)	5,305
Increase (decrease) in other liabilities	623,809	(167,572)	(72,369)
Net cash provided by operating activities	<u>4,991,092</u>	<u>959,301</u>	<u>2,376,896</u>
Cash flows from investing activities:			
Maturities of available for sale mortgage-backed securities	13,219,687	7,612,135	4,402,208
Sales of available for sale debt securities	9,073,406	24,920,635	25,977,280
Purchases of available for sale mortgage-backed securities	(18,958,955)	(54,787,147)	(981,811)
Purchases of other available for sale investment securities	(6,748,849)	(4,456,293)	(13,318,481)
Purchase of FHLB stock	113,200	(90,700)	(385,700)
Redemption of common stock in the Glen Burnie Statutory Trust I	155,000	-	-
(Decrease) increase in loans, net	4,469,727	(3,218,217)	(37,075,138)
Proceeds from sales of other real estate	450,827	548,994	50,000
Purchases of premises and equipment	(377,912)	(1,398,320)	(501,717)
Net cash provided (used) by investing activities	<u>1,396,131</u>	<u>(30,868,913)</u>	<u>(21,149,259)</u>
Cash flows from financing activities:			
Increase (decrease) in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	248,460	4,268,940	(5,221,614)
(Decrease) increase in time deposits, net	(161,469)	20,321,299	22,072,446
Increase (decrease) in short-term borrowings	4,192,658	(548,565)	127,326
Proceeds from long-term borrowings	-	-	10,000,000
Repayments of long-term borrowings	(7,033,711)	(38,001)	(35,423)
Cash dividends paid	(1,074,655)	(1,236,100)	(1,344,344)
Common stock dividends reinvested	162,975	173,667	194,054
Redemption of guaranteed preferred beneficial interests in Glen Burnie Bancorp junior subordinated debentures	(5,155,000)	-	-
Repurchase and retirement of common stock	-	(2,835,709)	(577,239)
Net cash (used) provided by financing activities	<u>(8,820,742)</u>	<u>20,105,531</u>	<u>25,215,206</u>
(Decrease) increase in cash and cash equivalents	(2,433,519)	(9,804,081)	6,442,843
Cash and cash equivalents, beginning of year	11,433,822	21,237,903	14,795,060
Cash and cash equivalents, end of year	<u>\$ 9,000,303</u>	<u>\$ 11,433,822</u>	<u>\$ 21,237,903</u>

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,	2010	2009	2008
Supplementary Cash Flow Information:			
Interest paid	\$ 5,527,941	\$ 6,569,490	\$ 6,248,728
Income taxes paid	275,000	1,125,000	600,000
Total decrease (increase) in unrealized depreciation on available for sale securities	52,659	(463,192)	(551,125)
Supplementary Noncash Investing Activities:			
Loans converted to other real estate	512,247	25,000	550,000

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 20) of the Company account for the subsidiaries using the equity method of accounting.

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

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, formerly, Statement of Financial Accounting Standards ("SFAS") No 115, *Accounting for Certain Investments in Debt and Equity Securities*, because their ownership is restricted and they lack a market. FHLB stock can be sold back only at its par value of \$100 per share and only to the FHLB or another member institution.

Loans and Allowance for Credit Losses:

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

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, formerly SFAS No 5, Accounting for Contingencies, or ASC Topic 310, formerly SFAS No 114, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio. At December 31, 2010, there was no unallocated component of the allowance reflected in the allowance for credit losses.

Reserve for Unfunded Commitments:

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

Other Real Estate Owned ("OREO"):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

expenses. Loans converted to OREO through foreclosure proceedings totaled \$512,247 and \$25,000 for the years ended December 31, 2010 and 2009, respectively. The Bank financed no sales of OREO for 2010, 2009, or 2008.

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, formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. As of December 31, 2010, 2009, and 2008, certain loans existed which management considered impaired (See Note 4). During the years ended December 31, 2010 and 2009, management deemed certain investment securities were impaired and recorded an impairment loss on these securities (See Note 3).

Income Taxes:

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

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

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

Credit Risk:

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

Cash and Cash Equivalents:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Accounting for Stock Options:

The Company follows ASC Topic 718, formerly SFAS No. 123R, *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 \$4,700,000, \$5,026,000, and \$4,781,000 during the years ended December 31, 2010, 2009, and 2008, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

<u>December 31, 2010</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<i>Available for sale:</i>				
U.S. Government agencies	\$ 1,028,360	\$ 51,640	\$ 200	\$ 1,079,800
State and municipal	34,775,927	54,285	1,960,277	32,869,935
Corporate trust preferred	1,793,287	64,898	717,115	1,141,070
Mortgage-backed	51,337,038	984,851	144,335	52,177,554
	<u>\$ 88,934,612</u>	<u>\$ 1,155,674</u>	<u>\$ 2,821,927</u>	<u>\$ 87,268,359</u>
		Gross	Gross	
<u>December 31, 2009</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<i>Available for sale:</i>				
U.S. Government agencies	\$ 3,180,360	\$ 14,060	\$ 135,330	\$ 3,059,090
State and municipal	30,073,170	335,146	664,647	29,743,669
Corporate trust preferred	2,080,282	33,521	1,102,874	1,010,929
Mortgage-backed	50,849,527	368,642	569,252	50,648,917
	<u>\$ 86,183,339</u>	<u>\$ 751,369</u>	<u>\$ 2,472,103</u>	<u>\$ 84,462,605</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

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

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, 2010 are as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S.						
Government agencies	\$ 9,000	\$ 200	\$ -	\$ -	\$ 9,000	\$ 200
State and Municipal	24,187,563	1,489,402	3,045,857	470,875	27,233,420	1,960,277
Corporate trust preferred	-	-	121,070	717,115	121,070	717,115
Mortgaged-backed	7,309,166	85,522	3,244,475	58,813	10,553,641	144,335
	<u>\$ 31,505,729</u>	<u>\$ 1,575,124</u>	<u>\$ 6,411,402</u>	<u>\$ 1,246,803</u>	<u>\$ 37,917,131</u>	<u>\$ 2,821,927</u>

At December 31, 2010, the Company owned one pooled trust preferred security issued by Regional Diversified Funding, Senior notes with a Fitch credit rating of B, which is included in the securities described above. The market for these securities at December 31, 2010 was not active and markets for similar securities were also not active.

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.

During 2010, the Company took a write down of \$110,208 on these trust preferred securities to bring the book value into alignment with the present value of \$838,136 which was arrived at as the result of cash flow testing performed by an unrelated third party in order to measure the extent of other-than-temporary-impairment ("OTTI"). This testing assumed defaults of 75 basis points applied annually with a 15% recovery with a two year lag.

During 2010, the Company also took an additional write down of \$152,000 on the Freddie Mac and Fannie Mae securities already written down in 2008. In management's judgment the decline in the market value of these securities are permanent in nature and therefore were written down to the current market value as provided by third party repricing provider.

During 2009, the Company took a write down of \$76,779 on these trust preferred securities to bring the book value into alignment with the current and performing principal balance outstanding, which we considered to be a prudent action to take in the current environment based on defaults by three of the twenty-nine financial institutions in the pool. In addition, cash flow testing was performed by an

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

unrelated third party in order to measure the extent of other-than-temporary-impairment ("OTTI"). This testing, assumed a 15% recovery with a two year lag on two of the previously defaulting financial institutions, with future defaults on the currently performing financial institutions of 150 basis points applied annually with no future recovery. This testing resulted in a net present value of \$1,142,047, compared to the book value of \$1,127,965 at December 31, 2009.

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

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

As of December 31, 2010, 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, 2010, the Bank held 15 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are either due to increases in market interest rates over the yields available at the time the underlying securities were purchased, current call features that are nearing, and the effect the sub-prime market has had on all mortgaged-backed securities. The Bank has no mortgaged-backed securities collateralized by sub-prime mortgages. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2010, 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 securities for which a portion of an other-than-temporary loss is recognized in accumulated other comprehensive loss is as follows:

	2010	2009	2008
Estimated credit losses, beginning of year	\$ 2,892,779	\$ 2,816,000	\$ -
Credit losses - no previous OTTI recognized	-	76,779	2,816,000
Credit losses - previous OTTI recognized	262,208	-	-
Estimated credit losses, end of year	\$ 3,154,987	\$ 2,892,779	\$ 2,816,000

Contractual maturities of investment securities at December 31, 2010, 2009, and 2008 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

	<i>Available for Sale</i>	
<u>December 31, 2010</u>	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Due over one to five years	1,589,004	1,609,925
Due over five to ten years	304,997	312,135
Due over ten years	35,703,573	33,168,745
Mortgage-backed, due in monthly installments	51,337,038	52,177,554
	\$ 88,934,612	\$ 87,268,359
<u>December 31, 2009</u>		
Due within one year	\$ 649,998	\$ 650,982
Due over one to five years	1,825,146	1,850,726
Due over five to ten years	565,946	571,123
Due over ten years	32,292,722	30,740,857
Mortgage-backed, due in monthly installments	50,849,527	50,648,917
	\$ 86,183,339	\$ 84,462,605
<u>December 31, 2008</u>		
Due within one year	\$ -	\$ -
Due over one to five years	4,577,077	4,560,487
Due over five to ten years	5,563,224	5,685,637
Due over ten years	32,181,516	30,410,635
Mortgage-backed, due in monthly installments	16,884,368	17,291,886
	\$ 59,206,185	\$ 57,948,645

Proceeds from sales of available for sale securities prior to maturity totaled **\$9,073,406**, \$24,920,635, and \$25,977,280 for the years ended December 31, 2010, 2009, and 2008, respectively. The Bank realized gains of **\$176,046** and losses of **\$882** on those sales for 2010. The Bank realized gains of \$600,696 and losses of \$14,815 on those sales for 2009. The Bank realized gains of \$195,780 and losses of \$4,850 on those sales for 2008. 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 **\$69,674**, \$233,034, and \$75,942 for the years ended December 31, 2010, 2009, and 2008, respectively.

In July 2008, the Company sold its remaining two positions in securities classified as held to maturity. Inasmuch as these positions were liquidated prior to maturity in a manner which did not meet the prescribed requirements of ASC Topic 320, the Company may be precluded for a period of time from classifying any securities positions as held to maturity.

The Bank has no derivative financial instruments required to be disclosed under ASC Topic 815, formerly SFAS No. 149, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans

Major categories of loans are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Mortgage:			
Residential	\$ 102,199,134	\$ 95,683,441	\$ 87,707,878
Commercial	72,669,909	79,845,030	76,152,837
Construction and land development	5,363,232	1,742,515	6,589,673
Demand and time	7,193,070	9,800,625	6,974,607
Installment	46,860,351	53,222,692	60,593,752
	<u>234,285,696</u>	<u>240,294,303</u>	<u>238,018,747</u>
Unearned income on loans	(1,035,292)	(838,913)	(864,436)
	<u>233,250,404</u>	<u>239,455,390</u>	<u>237,154,311</u>
Allowance for credit losses	(3,399,516)	(3,572,528)	(2,021,690)
	<u>\$ 229,850,888</u>	<u>\$ 235,882,862</u>	<u>\$ 235,132,621</u>

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 \$30,286,000, \$37,092,000, and \$43,970,000 of such loans at December 31, 2010, 2009, and 2008, 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, 2010, 2009, and 2008, the amounts of such loans outstanding totaled \$5,109,539, \$5,137,397, and \$4,344,974, respectively. During 2010, loan additions and repayments totaled \$1,184,500 and \$1,212,358, respectively.

The allowance for credit losses is as follows:

<u>2010</u>	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>Consumer and Indirect</u>	<u>Residential Real Estate</u>	<u>Unallocated</u>	<u>Total</u>
Balance, beginning of year	\$ 237,461	\$ 2,380,024	\$ 842,901	\$ 162,142	\$ (50,000)	\$ 3,572,528
Provision for credit losses	(7,822)	542,416	448,197	14,959	52,250	1,050,000
Recoveries	45,731	10,593	497,479	85,195	-	638,998
Loans charged off	(12,119)	(824,810)	(959,060)	(66,021)	-	(1,862,010)
Balance, end of year	<u>\$ 263,251</u>	<u>\$ 2,108,223</u>	<u>\$ 829,517</u>	<u>\$ 196,275</u>	<u>\$ 2,250</u>	<u>\$ 3,399,516</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

	2009	2008
Balance, beginning of year	\$ 2,021,690	\$ 1,604,491
Provision for credit losses	2,442,976	1,145,649
Recoveries	395,584	352,933
Loans charged off	(1,287,722)	(1,081,383)
Balance, end of year	\$ 3,572,528	\$ 2,021,690

Loans classified by the Bank as impaired by categories of loans at December 31, 2010 are as follows:

	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Individually evaluated impaired balance:					
Balance, beginning of year	\$ 757,553	\$ 7,870,847	\$ 5,969	\$ 189,260	\$ 8,823,629
Originations	-	125,117	-	-	125,117
Sales/repayments	(101,676)	(2,765,713)	(4,823)	(2,566)	(2,874,778)
Charge-offs	-	(824,810)	-	(59,000)	(883,810)
Transfers to/from collectively impaired	137,776	4,593,949	77,358	1,035,279	5,844,362
Balance, end of year	\$ 793,653	\$ 8,999,390	\$ 78,504	\$ 1,162,973	\$ 11,034,520
Fair value of ending Balance	\$ 610,821	\$ 7,298,090	\$ 57,124	\$ 1,129,114	\$ 9,095,149
Collectively evaluated impaired balance:					
Balance, beginning of year	\$ -	\$ -	\$ 475,008	\$ 215,000	\$ 690,008
Originations	-	-	-	-	-
Sales/repayments	-	-	(16,550)	-	(16,550)
Charge-offs	(12,119)	-	(959,060)	(7,021)	(978,200)
Transfers to/from collectively impaired	12,119	-	889,819	(207,979)	693,959
Balance, end of year	\$ -	\$ -	\$ 389,217	\$ -	\$ 389,217
Fair value of ending Balance	\$ -	\$ -	\$ 381,298	\$ -	\$ 381,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

The allowance for credit losses on loans classified by the Bank as impaired by categories of loans at December 31, 2010 is as follows:

	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Allowance for individually evaluated impaired:					
Balance, beginning of year	\$ 47,290	\$ 2,122,715	\$ 3,588	\$ 5,387	\$ 2,178,980
Provision for credit losses	101,930	392,802	17,792	9,298	521,822
Recoveries	45,731	10,593	-	85,195	141,519
Loans charged off	(12,119)	(824,810)	-	(66,021)	(902,950)
Balance, end of year	\$ 182,832	\$ 1,701,300	\$ 21,380	\$ 33,859	\$ 1,939,371
Allowance for collectively evaluated impaired:					
Balance, beginning of year	\$ -	\$ -	\$ 8,719	\$ -	\$ 8,719
Provision for credit losses	-	-	460,781	-	460,781
Recoveries	-	-	497,479	-	497,479
Loans charged off	-	-	(959,060)	-	(959,060)
Balance, end of year	\$ -	\$ -	\$ 7,919	\$ -	\$ 7,919

Risk ratings of loans by categories of loans at December 31, 2010 are as follows:

	Commercial and Industrial	Commercial Real Estate	Consumer and Indirect	Residential Real Estate	Total
Pass	\$ 5,852,779	\$ 66,763,903	\$ 44,931,931	\$ 102,281,090	\$ 219,829,703
Special mention	642,248	686,338	1,543,756	809,127	3,681,469
Substandard	698,043	8,999,390	259,939	692,427	10,649,799
Doubtful	-	-	124,725	-	124,725
Loss	-	-	-	-	-
	\$ 7,193,070	\$ 76,449,631	\$ 46,860,351	\$ 103,782,644	\$ 234,285,696

Current, past due, and nonaccrual loans by categories of loans at December 31, 2010 are as follows:

	Current	30-89 Days Past Due	90 Days or More and Still Accruing	Nonaccrual	Total
Commercial and industrial	\$ 5,735,517	\$ 97,999	\$ -	\$ 1,359,554	\$ 7,193,070
Commercial real estate	70,675,983	1,251,402	-	4,522,246	76,449,631
Consumer and indirect	45,155,344	1,580,082	-	124,925	46,860,351
Residential real estate	102,706,757	99,608	-	976,279	103,782,644
	\$ 224,273,601	\$ 3,029,091	\$ -	\$ 6,983,004	\$ 234,285,696

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

Loans on which the accrual of interest has been discontinued totaled **\$6,983,004**, \$3,016,727, and \$866,912 at December 31, 2010, 2009, and 2008, respectively. Interest that would have been accrued under the terms of these loans totaled **\$145,148**, \$105,365, and \$29,807 for the years ended December 31, 2010, 2009, and 2008, respectively. Loans past due 90 days or more and still accruing interest totaled **\$0**, \$0 and \$22,551 at December 31, 2010, 2009 and 2008, respectively.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loans classified as impaired with a valuation allowance	\$ 11,423,737	\$ 9,513,637	\$ 1,387,043
Allowance for credit losses on impaired loans	1,947,290	2,187,699	629,036
Average balance of impaired loans	12,466,887	10,111,516	1,458,245

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

Cash receipts applied to reduce principal balance	\$ 498,629	\$ 2,604,832	\$ 131,730
Cash receipts recognized as interest income	589,625	380,190	41,062
 Total cash receipts	 <u>\$ 1,088,254</u>	 <u>\$ 2,985,022</u>	 <u>\$ 172,792</u>

At December 31, 2010, the recorded investment in new troubled debt restructurings totaled **\$0**. During 2010, one troubled debt restructuring transpired totaling **\$2,808,466**, however did not perform under the terms of the modified agreement and is included in impaired and nonaccrual loans above. All prior investments in troubled debt were performing under the terms of the modified agreement and are no longer considered to be troubled debt restructurings.

At December 31, 2009, the recorded investment in new troubled debt restructurings totaled \$86,707. The allowance for credit losses relating to troubled debt restructurings totaled \$954 at December 31, 2009. The average recorded investment in troubled debt restructurings totaled \$100,747 for the year ended December 31, 2009. The Bank recognized \$7,552 in interest income on troubled debt restructurings for cash payments received in 2009. All prior investments in troubled debt were performing under the terms of the modified agreement and are no longer considered to be troubled debt restructurings.

No troubled debt restructurings transpired in 2008. All prior investments in troubled debt were performing under the terms of the modified agreement and are no longer considered to be troubled debt restructurings.

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 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	2010	2009	2008
Land		\$ 684,977	\$ 684,977	\$ 684,977
Buildings	5-50 years	5,937,856	5,864,145	4,796,309
Equipment and fixtures	5-30 years	5,200,693	5,093,759	5,056,015
Construction in progress		39,704	322	121,973
		<u>11,863,230</u>	<u>11,643,203</u>	<u>10,659,274</u>
Accumulated depreciation		<u>(7,739,614)</u>	<u>(7,522,606)</u>	<u>(7,559,826)</u>
		<u>\$ 4,123,616</u>	<u>\$ 4,120,597</u>	<u>\$ 3,099,448</u>

Depreciation expense totaled **\$368,248**, \$334,465, and \$347,040 for the years ended December 31, 2010, 2009, and 2008, respectively. Amortization of software and intangible assets totaled **\$58,668**, \$75,694, and \$96,312 for the years ended December 31, 2010, 2009, and 2008, respectively.

The Bank leases its Severna Park and Linthicum branches. Minimum lease obligations under the Severna Park branch are \$30,000 per year through September 2012. Minimum lease obligations under the Linthicum branch are \$104,335 per year through December 2014, adjusted annually on a pre-determined basis, with one ten year extension option. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled **\$134,081**, \$227,479, and \$257,467 for the years ended December 31, 2010, 2009, and 2008, respectively.

Note 6. Short-term Borrowings

Short-term borrowings are as follows:

	2010	2009	2008
Notes payable - U.S. Treasury	\$ 273,948	\$ 81,290	\$ 629,855
FHLB	<u>4,000,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,273,948</u>	<u>\$ 81,290</u>	<u>\$ 629,855</u>

Notes payable to the U.S. Treasury represents Federal treasury tax and loan deposits accepted by the Bank from its customers to be remitted on demand to the Federal Reserve Bank. The Bank pays interest on these balances at or below the Federal funds rate. This arrangement is secured by investment securities with an amortized cost of approximately **\$1,000,000** over each of the years ended December 31, 2010, 2009, and 2008.

The Bank owned 17,451 shares of common stock of the FHLB at December 31, 2010. 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 \$55,470,000 at December 31, 2010. Short-term advances totaled \$4,000,000 under this credit arrangement at December 31, 2010. This advance is a daily rate credit, adjustable daily, and due by November 2011. Long-term advances totaled \$20,000,000 under this credit arrangement at December 31, 2010 (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 **\$307,000**, \$11,000 and \$1,924,000 for 2010, 2009, and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-term Borrowings (continued)

The Bank also has available **\$3,000,000**, \$9,000,000, and \$9,000,000 at December 31, 2010, 2009, and 2008, respectively, in a short-term credit facility, an unsecured line of credit, from another bank for short-term liquidity needs, if necessary. No outstanding borrowings existed under this credit arrangement at December 31, 2010, 2009, and 2008.

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2010	2009	2008
Federal Home Loan Bank of Atlanta, convertible advances	\$ 20,000,000	\$ 27,000,000	\$ 27,000,000
Mortgage payable-individual, interest at 7%, payments of \$3,483, including principal and interest, due monthly through October 2010, secured by real estate	-	33,711	71,712
	\$ 20,000,000	\$ 27,033,711	\$ 27,071,712

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.

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, 2010, the scheduled maturities of long-term borrowings are approximately as follows:

	2010
2016 and thereafter	20,000,000

Note 8. Junior Subordinated Debentures Owed To Unconsolidated Subsidiary Trust

The Bancorp sponsored a trust, Glen Burnie Statutory Trust I, of which 100% of the common equity is owned by the Company. The trust was formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Company (the debentures). The debentures held by the trust are the sole assets of that trust. Distributions on the capital securities issued by the trust are payable semi-annually at a 10.6% rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Junior Subordinated Debentures Owed To Unconsolidated Subsidiary Trust (continued)

Bancorp exercised its right to call both the capital securities of the statutory trust and the junior subordinated debentures on September 7, 2010. As a result, the Company realized a \$250,000 early call premium, which is included in interest expense on junior subordinated debentures for the year ended December 31, 2010.

At December 31, 2009 and 2008, despite the fact that the Trust I was not included in the Company's consolidated financial statements, the trust preferred securities issued by these subsidiary trusts were included in the Tier 1 capital of the Company for regulatory capital purposes. Federal Reserve Board rules limit the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The current quantitative limits did not preclude the Company from including the \$5.0 million in trust preferred securities outstanding in Tier 1 capital as of December 31, 2009 and 2008.

Note 9. Deposits

Major classifications of interest-bearing deposits are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
NOW and SuperNOW	\$ 23,683,375	\$ 22,353,053	\$ 21,079,314
Money Market	16,710,611	15,284,223	12,764,167
Savings	53,007,293	48,378,319	45,801,719
Certificates of Deposit, \$100,000 or more	30,885,936	31,576,905	27,882,777
Other time deposits	<u>102,101,454</u>	<u>108,957,638</u>	<u>98,700,862</u>
	<u>\$ 226,388,669</u>	<u>\$ 226,550,138</u>	<u>\$ 206,228,839</u>

Interest expense on deposits is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
NOW and SuperNOW	\$ 27,833	\$ 27,702	\$ 30,618
Money Market	66,840	57,280	62,475
Savings	147,998	134,607	153,301
Certificates of Deposit, \$100,000 or more	734,355	1,063,174	976,446
Other time deposits	<u>2,719,605</u>	<u>3,654,519</u>	<u>3,557,345</u>
	<u>\$ 3,696,631</u>	<u>\$ 4,937,282</u>	<u>\$ 4,780,185</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Deposits (continued)

At December 31, 2010, the scheduled maturities of time deposits are approximately as follows:

	2010
2011	\$ 72,247,000
2012	21,714,000
2013	17,761,000
2014	7,190,000
2015	12,493,000
2016 and thereafter	1,582,000
	\$ 132,987,000

Deposit balances of executive officers and directors and their affiliated interests totaled approximately \$2,131,000, \$2,215,000, and \$2,611,000 at December 31, 2010, 2009, and 2008, respectively.

The Bank had no brokered deposits at December 31, 2010, 2009, and 2008.

Note 10. Income Taxes

The components of income tax expense for the years ended December 31, 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Current:			
Federal	\$ 472,423	\$ 268,693	\$ 655,129
State	253,573	156,773	271,112
Total current	725,996	425,466	926,241
Deferred income taxes (benefits):			
Federal	(231,837)	(509,545)	(1,275,873)
State	(8,648)	(149,174)	(329,730)
Total deferred	(240,485)	(658,719)	(1,605,603)
Income tax expense (benefit)	\$ 485,511	\$ (233,253)	\$ (679,362)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

A reconciliation of income tax expense computed at the statutory rate of 34% to the actual income tax expense for the years ended December 31, 2010, 2009, and 2008 is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income (loss) before income tax expense (benefit)	<u>\$ 2,550,296</u>	<u>\$ 1,029,209</u>	<u>\$ (275,400)</u>
Taxes computed at Federal income tax rate	\$ 867,102	\$ 349,925	\$ (93,636)
Increase (decrease) resulting from:			
Tax-exempt income	(530,509)	(502,488)	(547,038)
State income taxes, net of Federal income tax benefit	161,650	(80,690)	(38,688)
Other	<u>(12,732)</u>	<u>-</u>	<u>-</u>
Income tax expense (benefit)	<u>\$ 485,511</u>	<u>\$ (233,253)</u>	<u>\$ (679,362)</u>

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

The components of the net deferred income tax benefits as of December 31, 2010, 2009, and 2008 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Deferred income tax benefits:			
Accrued deferred compensation	\$ 99,454	\$ 90,594	\$ 82,049
Impairment loss on investment securities	1,176,090	1,072,662	1,110,771
Allowance for credit losses	1,077,153	1,206,604	563,737
Nonaccrual interest	69,103	11,849	-
Alternative minimum tax credits	199,140	-	66,371
Net unrealized depreciation on investment securities available for sale	663,477	684,422	500,186
Accumulated depreciation	39,916	35,692	-
Other real estate owned	2,644	-	-
Reserve for unfunded commitments	<u>78,890</u>	<u>78,890</u>	<u>78,890</u>
Total deferred income tax benefits	<u>3,405,867</u>	<u>3,180,713</u>	<u>2,402,004</u>
Deferred income tax liabilities:			
Accumulated depreciation	-	-	41,113
Accumulated securities discount accretion	<u>56,893</u>	<u>51,278</u>	<u>74,408</u>
Total deferred income tax liabilities	<u>56,893</u>	<u>51,278</u>	<u>115,521</u>
Net deferred income tax benefits	<u>\$ 3,348,974</u>	<u>\$ 3,129,435</u>	<u>\$ 2,286,483</u>

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, 2010, 2009, and 2008, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes (formerly FIN 48, Accounting for Uncertainty in Income Taxes).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

The Company's federal income tax returns for 2009, 2008, and 2007 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.

Note 11. Pension and Profit Sharing Plans

The Bank has a money purchase pension plan, which provides for annual employer contributions based on employee compensation, and covers substantially all employees. Annual contributions, included in employee benefit expense, totaled **\$328,268**, \$231,538 and \$220,000 for the years ended December 31, 2010, 2009 and 2008, 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 **\$16,116**, \$26,992, and \$33,452 for the years ended December 31, 2010, 2009, and 2008, 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 **\$301,116**, \$200,858, and \$116,027 for the years ended December 31, 2010, 2009, and 2008, respectively.

Note 12. Other Benefit Plans

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled **\$7,954,062**, \$7,702,656, and \$7,434,573 at December 31, 2010, 2009, and 2008, respectively. Income on their insurance investment totaled **\$251,406**, \$268,083, and \$273,170 for 2010, 2009, and 2008, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Other Operating Expenses

Other operating expenses include the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Professional services	\$ 454,147	\$ 489,485	\$ 485,685
Stationery, printing and supplies	202,796	189,446	214,815
Postage and delivery	167,922	162,782	187,017
FDIC assessment	464,585	549,716	35,544
Directors fees and expenses	203,833	200,765	198,939
Marketing	227,883	246,947	255,921
Data processing	61,008	82,743	100,562
Correspondent bank services	54,399	87,249	60,706
Telephone	172,507	173,550	160,242
Liability insurance	63,383	67,264	71,497
(Gains) losses and expenses on OREO	(121,876)	64,790	8,343
Other ATM expense	110,899	155,818	232,670
Other	582,023	518,646	396,749
	<u>\$ 2,643,509</u>	<u>\$ 2,989,201</u>	<u>\$ 2,408,690</u>

Note 14. 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:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loan commitments:			
Construction and land development	\$ -	\$ 1,155,200	\$ 400,000
Other mortgage loans	2,013,000	2,270,000	2,590,000
	<u>\$ 2,013,000</u>	<u>\$ 3,425,200</u>	<u>\$ 2,990,000</u>
Unused lines of credit:			
Home-equity lines	\$ 8,130,179	\$ 6,404,113	\$ 6,395,182
Commercial lines	10,738,826	11,335,335	13,380,292
Unsecured consumer lines	808,053	805,479	785,487
	<u>\$ 19,677,058</u>	<u>\$ 18,544,927</u>	<u>\$ 20,560,961</u>
Letters of credit:	<u>\$ 71,762</u>	<u>\$ 79,250</u>	<u>\$ 196,530</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies (continued)

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, 2010, the Bank has accrued **\$200,000** as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Note 15. 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 **\$15,251,000**, \$13,813,000, and \$12,430,000 at December 31, 2010, 2009, and 2008, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Stock repurchase program:

In February 2008, the Company instituted a Stock Repurchase Program which expired in December 2009. Under the program, as extended and increased, the Company could spend up to \$4,127,309 to repurchase its outstanding stock. The repurchases may be made from time to time at a price not to exceed \$12.50 per share. During 2009, the Company repurchased 305,083 shares at an average price of \$9.29. During 2008, the Company repurchased 50,300 shares at an average price of \$11.48.

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, 2010, 2009 and 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Stockholders' Equity (continued)

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, 2010, 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 2010, 2009, and 2008, shares of common stock purchased under the plan totaled **19,076**, **20,371**, and **20,003**, respectively. At December 31, 2010, shares of common stock reserved for issuance under the plan totaled **106,397**.

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, 2010, 2009, and 2008.

At December 31, 2010, shares of common stock reserved for issuance under the plan totaled **313,919**.

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

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

Regulatory capital requirements:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Stockholders' Equity (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2010, 2009, and 2008, that both the Company and Bank meet all capital adequacy requirements to which they are subject.

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

As discussed in Note 8, the capital securities held by the Glen Burnie Statutory Trust I qualifies as Tier I capital for the Company as of December 31, 2009 and 2008, under Federal Reserve Board guidelines.

A comparison of capital as of December 31, 2010, 2009, and 2008 with minimum requirements is approximately as follows:

	<i>Actual</i>		<i>For Capital Adequacy Purposes</i>		<i>To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
As of December 31, 2010						
Total Capital						
(to Risk Weighted Assets)						
Company	\$ 30,361,000	12.6%	\$ 19,307,000	8.0%	N/A	
Bank	29,974,000	12.4%	19,307,000	8.0%	\$ 24,134,000	10.0%
Tier I Capital						
(to Risk Weighted Assets)						
Company	27,337,000	11.3%	9,651,000	4.0%	N/A	
Bank	26,951,000	11.2%	9,651,000	4.0%	14,477,000	6.0%
Tier I Capital						
(to Average Assets)						
Company	27,337,000	7.6%	14,313,000	4.0%	N/A	
Bank	26,951,000	7.7%	13,928,000	4.0%	17,410,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Stockholders' Equity (continued)

	<i>Actual</i>		<i>For Capital Adequacy Purposes</i>		<i>To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
As of December 31, 2009						
Total Capital						
(to Risk Weighted Assets)						
Company	\$ 34,048,000	14.5%	\$ 18,798,000	8.0%		N/A
Bank	33,745,000	14.4%	18,786,000	8.0%	\$ 23,483,000	10.0%
Tier I Capital						
(to Risk Weighted Assets)						
Company	31,100,000	13.2%	9,403,000	4.0%		N/A
Bank	30,799,000	13.1%	9,390,000	4.0%	14,085,000	6.0%
Tier I Capital						
(to Average Assets)						
Company	31,100,000	8.9%	14,041,000	4.0%		N/A
Bank	30,799,000	8.7%	14,193,000	4.0%	14,741,000	5.0%
As of December 31, 2008						
Total Capital						
(to Risk Weighted Assets)						
Company	\$ 35,687,000	14.9%	\$ 19,122,000	8.0%		N/A
Bank	35,707,000	15.0%	19,107,000	8.0%	\$ 23,884,000	10.0%
Tier I Capital						
(to Risk Weighted Assets)						
Company	33,665,000	14.1%	9,564,000	4.0%		N/A
Bank	33,485,000	14.0%	9,553,000	4.0%	14,330,000	6.0%
Tier I Capital						
(to Average Assets)						
Company	33,665,000	10.5%	12,825,000	4.0%		N/A
Bank	33,485,000	10.2%	13,196,000	4.0%	16,495,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Earnings Per Common Share

Earnings per common share are calculated as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Basic:			
Net income	\$ 2,064,785	\$ 1,262,462	\$ 403,962
Weighted average common shares outstanding	2,690,218	2,734,524	2,981,124
Basic net income per share	\$ 0.76	\$ 0.46	\$ 0.14

Diluted earnings per share calculations were not required for 2010, 2009, and 2008 as there were no options outstanding at December 31, 2010, 2009, and 2008.

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

Note 17. Fair Values of Financial Instruments

ASC Topic 825, *Disclosure about Fair Value of Financial Instruments*, formerly SFAS No. 107, requires the disclosure of the estimated fair values of financial instruments. Quoted market prices, where available, are shown as estimates of fair values. Because no quoted market prices are available or a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on the amount and timing of future cash flows and estimated discount rates.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Fair Values of Financial Instruments (continued)

The following table shows the estimated fair value and the related carrying values of the Company's financial instruments as December 31, 2010, 2009, and 2008. Items that are not financial instruments are not included.

	2010		2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	\$ 6,492,313	\$ 6,492,313	\$ 6,993,811	\$ 6,993,811	\$ 6,960,377	\$ 6,960,377
Interest-bearing deposits in other financial institutions	1,567,673	1,567,673	3,748,387	691,624	7,883,816	7,883,816
Federal funds sold	940,317	940,317	691,624	6,393,710	6,393,710	6,393,710
Investment securities						
available for sale	87,268,359	87,268,359	84,462,605	84,462,605	57,948,645	57,948,645
Federal Home Loan Bank Stock	1,745,100	1,745,100	1,858,300	1,858,300	1,767,600	1,767,600
Maryland Financial Bank Stock	100,000	100,000	100,000	100,000	100,000	100,000
Common stock-Statutory Trust I	-	-	155,000	155,000	155,000	155,000
Ground rents	178,200	178,200	184,900	184,900	184,900	184,900
Loans, less allowance for credit losses	229,850,888	234,426,000	235,882,862	239,915,000	235,132,621	239,446,000
Accrued interest receivable	1,538,883	1,538,883	1,626,792	1,626,792	1,680,392	1,680,392
Financial liabilities:						
Deposits	294,444,828	269,480,000	294,357,837	267,358,000	269,767,598	272,091,000
Short-term borrowings	4,273,948	4,273,948	81,290	81,290	629,855	629,855
Long-term borrowings	20,000,000	19,611,000	27,033,711	25,979,000	27,071,712	27,162,000
Dividends payable	231,579	231,579	230,285	230,285	385,794	385,794
Accrued interest payable	55,131	55,131	112,599	112,599	139,579	139,579
Accrued interest payable on junior subordinated debentures	-	-	171,518	171,518	171,518	171,518
Junior subordinated debentures owed to unconsolidated subsidiary trust	-	-	5,155,000	5,707,615	5,155,000	5,281,827
Unrecognized financial instruments:						
Commitments to extend credit	21,690,058	21,690,058	21,970,127	21,970,127	23,550,961	23,550,961
Standby letters of credit	71,762	71,762	79,250	79,250	196,530	196,530

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

Loans:

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

Investment securities:

Estimated fair values are based on quoted market prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Fair Values of Financial Instruments (continued)

Deposits:

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

Borrowings:

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

Junior Subordinated Debentures:

Fair value is estimated based on quoted market prices of similar instruments.

Other assets and liabilities:

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

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

Note 18. Fair Value Measurements

Effective January 1, 2008, the Company adopted ASC Topic 820, formerly SFAS No. 157, *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or on a nonrecurring basis.

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

Fair Value Hierarchy

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Value Measurements (continued)

In determining the appropriate levels, the Company performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820. The Bank's securities available-for-sale are the only assets or liabilities subject to fair value measurements on a recurring basis. The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. At December 31, 2010 these non-recurring assets consisted of 22 loans classified as nonaccrual and a homogeneous pool of indirect and consumer loans considered to be impaired, which are valued under Level 3 inputs and one property classified as OREO valued under Level 2 inputs.

Fair value measurements on a recurring and non-recurring basis at December 31, 2010 are as follows:

December 31, 2009	Level 1	Level 2	Level 3	Fair Value
Recurring:				
Securities available for sale	\$ -	\$ 84,462,605	\$ -	\$ 84,462,605
Non-recurring:				
Impaired loans	-	-	7,325,938	7,325,938
OREO	-	25,000	-	25,000
	<u>-</u>	<u>84,487,605</u>	<u>7,325,938</u>	<u>91,813,543</u>
Activity:				
Securities available for sale:				
Purchases of securities	-	25,707,804	-	25,707,804
Sales, calls, and maturities of securities	-	(22,117,929)	-	(22,117,929)
Net amortization/accretion of premium/discount	-	(574,572)	-	(574,572)
Increase in market value	-	52,659	-	52,659
OTTI on investments	-	(262,208)	-	(262,208)
Impaired loans:				
New impaired loans	-	-	6,228,366	6,228,366
Payments and other loan reductions	-	-	(1,377,911)	(1,377,911)
Change in total provision	-	-	(240,409)	(240,409)
Loans converted to OREO	-	-	(512,247)	(512,247)
OREO:				
OREO converted from loans	-	512,247	-	512,247
Sales of OREO	-	(322,247)	-	(322,247)
	<u>-</u>	<u>(322,247)</u>	<u>-</u>	<u>(322,247)</u>
December 31, 2010				
Recurring:				
Securities available for sale	-	87,268,359	-	87,268,359
Non-recurring:				
Impaired loans	-	-	11,423,737	11,423,737
OREO	-	215,000	-	215,000
	<u>-</u>	<u>215,000</u>	<u>-</u>	<u>215,000</u>
	<u>\$ -</u>	<u>\$ 87,483,359</u>	<u>\$ 11,423,737</u>	<u>\$ 98,907,096</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18. Fair Value Measurements (continued)

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

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired and foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals.

Non-Financial Assets and Non-Financial Liabilities

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

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

Note 19. Recently Issued Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06 - *Fair Value Measurements and Disclosures* amending Topic 820. The ASU provides for additional disclosures of transfers between assets and liabilities valued under Level 1 and 2 inputs as well as additional disclosures regarding those assets and liabilities valued under Level 3 inputs. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for those provisions addressing Level 3 fair value measurements which provisions are effective for fiscal years, and interim periods therein, beginning after December 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 amending FASB ASC Topic 855 to exclude SEC reporting entities from the requirement to disclose the date on which subsequent events have been evaluated. It further modifies the requirement to disclose the date on which subsequent events have been evaluated in reissued financial statements to apply only to such statements that have been restated to correct an error or to apply U.S. GAAP retrospectively. The Company has complied with ASU No. 2010-09.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Recently Issued Accounting Pronouncements (continued)

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The main objective of this ASU is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The ASU requires that entities provide additional information to assist financial statement users in assessing their credit risk exposures and evaluating the adequacy of its allowance for credit losses. For the Company, the disclosures as of the end of a reporting period are required for the annual reporting periods ending on December 31, 2010. Required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning January 1, 2011. The adoption of this ASU will result in additional disclosures in the Company's financial statements regarding its loan portfolio and related allowance for loan losses but does not change the accounting for loans or the allowance. The Company has complied with this ASU for the annual reporting period ending December 31, 2010 and will comply for interim and annual reporting periods thereafter.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Parent Company Financial Information

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

Balance Sheets			
December 31,	2010	2009	2008
Assets			
Cash	\$ 355,922	\$ 348,515	\$ 338,902
Investment in The Bank of Glen Burnie	25,946,536	29,848,797	32,727,244
Investment in GBB Properties, Inc.	255,770	260,184	261,999
Investment in the Glen Burnie Statutory Trust I	-	155,000	155,000
Due from subsidiaries	1,414	43,996	22,878
Other assets	4,583	49,433	114,541
Total assets	<u>\$ 26,564,225</u>	<u>\$ 30,705,925</u>	<u>\$ 33,620,564</u>
Liabilities and Stockholders' Equity			
Dividends payable	\$ 231,579	\$ 230,285	\$ 385,794
Accrued interest payable on borrowed funds	-	171,518	171,518
Borrowed funds from subsidiary	-	5,155,000	5,155,000
Total liabilities	<u>231,579</u>	<u>5,556,803</u>	<u>5,712,312</u>
Stockholders' equity:			
Common stock	2,702,091	2,683,015	2,967,727
Surplus	9,334,810	9,190,911	11,568,241
Retained earnings	15,300,344	14,311,508	14,129,637
Accumulated other comprehensive loss, net of benefits	<u>(1,004,599)</u>	<u>(1,036,312)</u>	<u>(757,353)</u>
Total stockholders' equity	<u>26,332,646</u>	<u>25,149,122</u>	<u>27,908,252</u>
Total liabilities and stockholders' equity	<u>\$ 26,564,225</u>	<u>\$ 30,705,925</u>	<u>\$ 33,620,564</u>

The borrowed funds from subsidiary balance represented the junior subordinated debt securities payable to the wholly-owned subsidiary trust that was deconsolidated as a result of applying the provisions of ASC Topic 810, formerly FIN 46. The Company repaid this balance in September 2010 (See Note 8).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Parent Company Financial Information (continued)

Statements of Income			
Years Ended December 31,	2010	2009	2008
Dividends and distributions from subsidiaries	\$ 1,455,000	\$ 4,269,844	\$ 1,902,239
Other income	24,645	16,430	16,430
Interest expense on junior subordinated debentures	(648,127)	(546,430)	(546,180)
Other expenses	<u>(105,785)</u>	<u>(122,096)</u>	<u>(69,468)</u>
Income before income tax benefit and equity in undistributed net income of subsidiaries	725,733	3,617,748	1,303,021
Income tax benefit	277,440	246,018	226,356
Change in undistributed equity of subsidiaries	<u>1,061,612</u>	<u>(2,601,304)</u>	<u>(1,125,415)</u>
Net income	<u>\$ 2,064,785</u>	<u>\$ 1,262,462</u>	<u>\$ 403,962</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Parent Company Financial Information (continued)

Statements of Cash Flows			
Years Ended December 31,	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 2,064,785	\$ 1,262,462	\$ 403,962
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in other assets	44,850	65,108	5,001
Decrease (increase) in due from subsidiaries	42,582	(21,118)	(169)
Decrease in accrued interest payable	(171,518)	-	-
Change in undistributed equity of subsidiaries	(1,061,612)	2,601,304	1,125,415
Net cash provided by operating activities	<u>919,087</u>	<u>3,907,756</u>	<u>1,534,209</u>
Cash flows from investing activities:			
Sale of common stock in the Glen Burnie Statutory Trust I	155,000	-	-
Capital contributed from subsidiary	<u>5,000,000</u>	-	-
Net cash provided by investing activities	<u>5,155,000</u>	-	-
Cash flows from financing activities:			
Proceeds from dividend reinvestment plan	162,975	173,667	194,054
Redemption of guaranteed preferred beneficial interest in Glen Burnie Bancorp junior subordinated debentures	(5,155,000)	-	-
Repurchase and retirement of common stock	-	(2,835,709)	(577,239)
Dividends paid	<u>(1,074,655)</u>	<u>(1,236,101)</u>	<u>(1,344,344)</u>
Net cash used in financing activities	<u>(6,066,680)</u>	<u>(3,898,143)</u>	<u>(1,727,529)</u>
Increase (decrease) in cash	7,407	9,613	(193,320)
Cash, beginning of year	<u>348,515</u>	<u>338,902</u>	<u>532,222</u>
Cash, end of year	<u>\$ 355,922</u>	<u>\$ 348,515</u>	<u>\$ 338,902</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Quarterly Results of Operations (Unaudited)

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

		2010			
(Dollars in thousands, except per share amounts)	Three months ended,				
	December 31	September 30	June 30	March 31	
Interest income	\$ 4,387	\$ 4,608	\$ 4,612	\$ 4,572	
Interest expense	993	1,397	1,431	1,478	
Net interest income	3,394	3,211	3,181	3,094	
Provision for credit losses	-	300	450	300	
Net securities gains	(1)	176	-	-	
Income before income taxes	881	900	318	451	
Net income	655	689	322	399	
Net income per share (basic and diluted)	\$ 0.24	\$ 0.25	\$ 0.12	\$ 0.15	
		2009			
(Dollars in thousands, except per share amounts)	Three months ended,				
	December 31	September 30	June 30	March 31	
Interest income	\$ 4,673	\$ 4,749	\$ 4,689	\$ 4,533	
Interest expense	1,570	1,649	1,655	1,668	
Net interest income	3,103	3,100	3,034	2,865	
Provision for credit losses	1,747	337	209	150	
Net securities gains	402	135	51	(2)	
Income before income taxes	(699)	648	570	510	
Net income	(210)	527	490	455	
Net income per share (basic and diluted)	\$ (0.08)	\$ 0.20	\$ 0.18	\$ 0.16	
		2008			
(Dollars in thousands, except per share amounts)	Three months ended,				
	December 31	September 30	June 30	March 31	
Interest income	\$ 4,604	\$ 4,667	\$ 4,492	\$ 4,413	
Interest expense	1,661	1,546	1,499	1,548	
Net interest income	2,943	3,121	2,993	2,865	
Provision for credit losses	700	239	152	55	
Net securities gains	50	86	48	7	
Income before income taxes	272	(1,915)	743	625	
Net income	1,382	(2,118)	604	536	
Net income per share (basic and diluted)	\$ 0.47	\$ (0.71)	\$ 0.20	\$ 0.18	

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410-766-3300

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101 Crain Highway, SE
Glen Burnie, MD 21061
410-768-8852

Crownsville
1221 Generals Highway
Crownsville, MD 21032
410-923-2200

Linthicum
7063 Baltimore-Annapolis
Boulevard
Linthicum, MD 21061
410-487-8500

New Cut
740 Stevenson Road
Severn, MD 21144
410-766-5343

Odenton
1405 Annapolis Road
Odenton, MD 21113
410-674-2200

Riviera Beach
8707 Ft. Smallwood Road
Pasadena, MD 21122
410-437-2070

Severn
811 Reece Road
Severn, MD 21144
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Severna Park
534 Ritchie Highway
Severna Park, MD 21146
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