
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly period ended March 31, 2024

OR

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

Commission file number 0-24047

GLEN BURNIE BANCORP

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

52-1782444

(I.R.S. Employer Identification No.)

101 Crain Highway, S.E.

Glen Burnie, Maryland

(Address of principal executive offices)

21061

(Zip Code)

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

Inapplicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging growth company

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

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	GLBZ	The NASDAQ Stock Market LLC

The number of shares of the registrant's common stock outstanding as of May 6, 2024, was 2,893,648.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

**GLEN BURNIE BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**
(dollars in thousands)

	March 31, 2024 (unaudited)	December 31, 2023 (audited)
ASSETS		
Cash and due from banks	\$ 9,091	\$ 1,940
Interest-bearing deposits in other financial institutions	33,537	13,301
Cash and Cash Equivalents	<u>42,628</u>	<u>15,241</u>
Investment securities available for sale, at fair value	128,727	139,427
Restricted equity securities, at cost	246	1,217
Loans, net of deferred fees and costs	177,950	176,307
Less: Allowance for credit losses	<u>(2,035)</u>	<u>(2,157)</u>
Loans, net	<u>175,915</u>	<u>174,150</u>
Premises and equipment, net	2,928	3,046
Bank owned life insurance	8,700	8,657
Deferred tax assets, net	8,255	7,897
Accrued interest receivable	1,281	1,192
Accrued taxes receivable	363	121
Prepaid expenses	460	475
Other assets	367	390
Total Assets	<u>\$ 369,870</u>	<u>\$ 351,813</u>
LIABILITIES		
Noninterest-bearing deposits	\$ 115,167	\$ 116,922
Interest-bearing deposits	<u>194,064</u>	<u>183,145</u>
Total Deposits	<u>309,231</u>	<u>300,067</u>
Short-term borrowings	40,000	30,000
Defined pension liability	327	324
Accrued expenses and other liabilities	<u>2,183</u>	<u>2,097</u>
Total Liabilities	<u>351,741</u>	<u>332,488</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$1, authorized 15,000,000 shares, issued and outstanding 2,887,467 and 2,882,627 shares as of March 31, 2024 and December 31, 2023, respectively.	2,887	2,883
Additional paid-in capital	10,989	10,964
Retained earnings	23,575	23,859
Accumulated other comprehensive loss	<u>(19,322)</u>	<u>(18,381)</u>
Total Stockholders' Equity	<u>18,129</u>	<u>19,325</u>
Total Liabilities and Stockholders' Equity	<u>\$ 369,870</u>	<u>\$ 351,813</u>

See accompanying notes to unaudited consolidated financial statements.

**GLEN BURNIE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME**
(dollars in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
INTEREST INCOME		
Interest and fees on loans	\$ 2,215	\$ 2,087
Interest and dividends on securities	938	965
Interest on deposits with banks and federal funds sold	252	233
Total Interest Income	3,405	3,285
INTEREST EXPENSE		
Interest on deposits	402	107
Interest on short-term borrowings	431	—
Total Interest Expense	833	107
Net Interest Income	2,572	3,178
Provision/(release) of credit loss allowance	169	(42)
Net interest income after credit loss provision/(release)	2,403	3,220
NONINTEREST INCOME		
Service charges on deposit accounts	38	42
Other fees and commissions	148	164
Income on life insurance	43	39
Total Noninterest Income	229	245
NONINTEREST EXPENSE		
Salary and benefits	1,618	1,698
Occupancy and equipment expenses	331	327
Legal, accounting and other professional fees	254	263
Data processing and item processing services	250	267
FDIC insurance costs	38	45
Advertising and marketing related expenses	23	22
Loan collection costs	5	1
Telephone costs	40	41
Other expenses	302	280
Total Noninterest Expenses	2,861	2,944
(Loss) income before income taxes	(229)	521
Income tax (benefit) expense	(232)	86
NET INCOME	\$ 3	\$ 435
Basic and diluted net income per share of common stock	\$ —	\$ 0.15

See accompanying notes to unaudited consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended	
	March 31,	2023
	2024	2023
Net income	\$ 3	\$ 435
Other comprehensive (loss) income:		
Net unrealized (loss) income on securities available for sale:		
Net unrealized (loss) income on securities during the period	(1,299)	2,763
Income tax benefit (expense) relating to item above	358	(760)
Net effect on other comprehensive (loss) income	<u>(941)</u>	<u>2,003</u>
Other comprehensive (loss) income	(941)	2,003
Comprehensive (loss) income	\$ (938)	\$ 2,438

See accompanying notes to unaudited consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands)
(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2022	\$ 2,865	\$ 10,862	\$ 23,579	\$ (21,252)	\$ 16,054
Net income	—	—	435	—	435
Cash dividends, \$0.10 per share	—	—	(287)	—	(287)
Dividends reinvested under dividend reinvestment plan	4	26	—	—	30
Other comprehensive income	—	—	—	2,003	2,003
Balance, March 31, 2023	\$ 2,869	\$ 10,888	\$ 23,727	\$ (19,249)	\$ 18,235
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2023	\$ 2,883	\$ 10,964	\$ 23,859	\$ (18,381)	\$ 19,325
Net income	—	—	3	—	3
Cash dividends, \$0.10 per share	—	—	(287)	—	(287)
Dividends reinvested under dividend reinvestment plan	4	25	—	—	29
Other comprehensive loss	—	—	—	(941)	(941)
Balance, March 31, 2024	\$ 2,887	\$ 10,989	\$ 23,575	\$ (19,322)	\$ 18,129

See accompanying notes to unaudited consolidated financial statements.

GLEN BURNIE BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 3	\$ 435
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion of premises and equipment	104	103
Amortization, and accretion of investment securities available for sale	43	37
Provision for (release of) credit losses	169	(42)
Increase in cash surrender value of bank owned life insurance	(43)	(39)
Decrease in ground rents	3	3
Increase in accrued interest receivable	(89)	(101)
Net (increase) decrease in other assets	(208)	58
Net increase (decrease) in accrued expenses and other liabilities	137	(224)
Net cash provided by operating activities	<u>119</u>	<u>230</u>
Cash flows from investing activities:		
Redemptions and maturities of investment securities available for sale	9,357	2,134
Net sale of Federal Home Loan Bank stock	971	30
Net (increase) decrease in loans	(1,933)	2,339
Purchases of premises and equipment	(34)	(43)
Net cash provided by investing activities	<u>8,361</u>	<u>4,460</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	9,165	(19,933)
Increase in short term borrowings	10,000	—
Cash dividends paid	(287)	(287)
Common stock dividends reinvested	29	30
Net cash provided by (used in) financing activities	<u>18,907</u>	<u>(20,190)</u>
Net increase (decrease) in cash and cash equivalents	27,387	(15,500)
Cash and cash equivalents at beginning of period	15,241	30,092
Cash and cash equivalents at end of period	<u>\$ 42,628</u>	<u>\$ 14,592</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid on deposits and borrowings	\$ 885	\$ 99
Net income taxes paid	—	245
Net (increase) decrease in unrealized depreciation on available for sale securities	(1,299)	2,763

See accompanying notes to unaudited consolidated financial statements.

**GLEN BURNIE BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATIONAL

Nature of Business

Glen Burnie Bancorp (the "Company") is a bank holding company organized in 1990 under the laws of the State of Maryland. The Company owns all the outstanding shares of capital stock of The Bank of Glen Burnie (the "Bank"), a commercial bank organized in 1949 under the laws of the State of Maryland (the "State"). 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 agencies and undergoes periodic examinations by those regulatory authorities.

NOTE 2 – BASIS OF PRESENTATION

In management's opinion, the accompanying unaudited consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim period reporting, reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial position at March 31, 2024 and December 31, 2023, the results of operations for the three-month periods ended March 31, 2024 and 2023, and the statements of cash flows for the three-month periods ended March 31, 2024 and 2023. The operating results for the three-month period ended March 31, 2024, are not necessarily indicative of the results that may be expected for the full year ended December 31, 2024, or any future interim period. The consolidated balance sheet at December 31, 2023 has been derived from the audited financial statements included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on March 22, 2024. The unaudited consolidated financial statements for March 31, 2024 and 2023, the consolidated balance sheet at December 31, 2023, and accompanying notes should be read in conjunction with the Company's audited consolidated financial statements and the accompanying notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Summary of Significant Accounting Policies

The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its Annual Report on Form 10-K for the year ended December 31, 2023. There have not been any significant changes in the Company's significant accounting policies.

Allowance for Credit Losses – Loans Receivable

The Company applies ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"), such that the allowance calculation is based on the current expected credit loss ("CECL") methodology. The Company maintains an allowance for credit losses ("ACL") for the expected credit losses of the loan portfolio as well as unfunded loan commitments. The amount of ACL is based on ongoing, quarterly assessments by management. The CECL methodology requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) and replaces the incurred loss methodology's threshold that delayed the recognition of a credit loss until it was probable that a loss event was incurred.

The ACL consists of the allowance for credit losses and the reserve for unfunded commitments. The estimate of expected credit losses under the CECL methodology is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period that historical experience was based on for each loan type. Finally, we consider forecasts about future economic conditions or changes in collateral values that are reasonable and supportable.

Portfolio segment is defined as the level at which the Company develops and documents a systematic methodology to determine its ACL. The Company has designated three loan portfolio segments: loans secured by real estate, commercial and industrial loans, and consumer loans. These loan portfolio segments are further disaggregated into classes, which represent loans of similar type, risk characteristics, and methods for monitoring and assessing credit risk. The loans secured by the real estate portfolio segment is disaggregated into five classes: construction and land, farmland, single-family residential, multi-family, and commercial. The commercial and industrial loan portfolio segment is disaggregated into two classes: commercial and industrial, and SBA guaranty. The risk of loss for the commercial and industrial loan portfolio segment is generally most indicated by the credit risk rating assigned to each borrower. Commercial and industrial loan risk ratings are determined by experienced senior credit officers based on specific facts and circumstances and are subject to periodic review by an independent internal team of credit specialists. The consumer loan portfolio segment is disaggregated into two classes: consumer and automobile. The risk of loss for the consumer loan portfolio segment is generally most indicated by delinquency status and general economic factors. Each of the three loan portfolio segments may also be further segmented based on risk characteristics.

For most of our loan portfolio classes, the historical loss experience is determined using the Average Charge-Off Method. This method pools loans into groups ("cohorts") sharing similar risk characteristics and tracks each cohort's net charge-offs over the lives of the loans. The Average Charge-Off Method uses historical values by period (20-year look-back) to calculate losses and then applies the historical average to future balances over the life of the account. The historical loss rates for each cohort are then averaged to calculate an overall historical loss rate which is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance for credit losses for the respective loan portfolio class. For certain loan portfolio classes, the Company determined there was not sufficient historical loss information to calculate a meaningful historical loss rate using the average charge-off methodology. For any such loan portfolio class, peer group history contributes to the Company's weighted average loss history. The peer group data is included in the weighted average loss history that is developed for each loan pool.

The Company also considers qualitative adjustments to the historical loss rate for each loan portfolio class. The qualitative adjustments for each loan class consider the conditions over the 20-year look-back period from which historical loss experience was based and are split into two components: 1) asset or class specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature, credit culture and management, business environment or other management factors; and 2) reasonable and supportable forecasts of future economic conditions and collateral values.

The Company performs a quarterly asset quality review which includes a review of forecasted gross charge-offs and recoveries, nonperforming assets, criticized loans, risk rating migration, delinquencies, etc. The asset quality review is performed by management and the results are used to consider a qualitative overlay to the quantitative baseline.

When management deems it to be appropriate, the Company establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in each respective loan pool. These individually evaluated loans are removed from their respective pools and typically represent collateral dependent loans but may also include other non-performing loans or restructured loans to borrowers experiencing financial difficulty.

Allowance for Credit Losses – Held-to-Maturity Debt Securities

For held-to-maturity ("HTM") debt securities, the Company is required to utilize a CECL methodology to estimate expected credit losses. The Company does not own any HTM debt securities. Therefore, the Company did not record an allowance for credit losses for these types of securities.

Allowance for Credit Losses – Available-for-Sale Debt Securities

The impairment model for available-for-sale ("AFS") debt securities differs from the CECL methodology applied for HTM debt securities because AFS debt securities are measured at fair value rather than amortized cost. Although ASC 326 replaced the legacy other-than-temporary impairment ("OTTI") model with a credit loss model, it retained the fundamental nature of the legacy OTTI model. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security

before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities where neither of the criteria are met, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the credit rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any remaining discount that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Under the new guidance, an entity may no longer consider the length of time fair value has been less than amortized cost. Changes in the allowance for credit losses are recorded as a provision (or release) for credit losses. Losses are charged against the allowance when management believes the collectability of an AFS security is considered below the amortized cost basis of the security. As of December 31, 2023 and March 31, 2024, the Company determined that the unrealized loss positions in AFS securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded.

Off-Balance-Sheet Credit Exposures

The only material off-balance-sheet credit exposures are unfunded loan commitments, which had a combined balance of \$34.6 million on March 31, 2024. The reserve for unfunded commitments is recognized as a liability (accrued expenses and other liabilities in the consolidated statements of financial condition), with adjustments to the reserve recognized through provision for credit losses in the consolidated statements of income. The reserve for unfunded commitments represents the expected lifetime credit losses on off-balance sheet obligations such as commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments that are unconditionally cancellable by the Company. The reserve for unfunded commitments is determined by estimating future draws, including the effects of risk mitigation actions, and applying the expected loss rates on those draws. Loss rates are estimated by utilizing the same loss rates calculated for the allowance for credit losses related to the respective loan portfolio class.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, The Bank of Glen Burnie. Consolidation resulted in the elimination of all intercompany accounts and transactions.

Cash Flow Presentation

In the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal Home Loan Bank of Atlanta ("FHLB Atlanta") overnight deposits, and federal funds sold. Generally, federal funds are sold for one-day periods.

Reclassifications

Certain items in the fiscal year 2023 consolidated financial statements have been reclassified to conform to the fiscal year 2024 classifications. The reclassifications had no effect on previously reported results of operations or retained earnings.

Use of Estimates

The preparation of financial statements 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the ACL; the fair value of financial instruments, such as loans and investment securities; benefit plan obligations and expenses; and the valuation of deferred tax assets and liabilities.

NOTE 3 – EARNINGS PER SHARE

Basic earnings per common share ("EPS") is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average common shares outstanding, plus the effect of common stock equivalents (for example, stock options computed using the treasury stock method).

	Three Months Ended March 31,	
	2024	2023
Basic and diluted earnings per share:		
Net income	\$ 3,158	\$ 435,021
Weighted average common shares outstanding	2,885,552	2,867,082
Basic and dilutive net income per share	<u>\$ 0.00</u>	<u>\$ 0.15</u>

Diluted earnings per share calculations were not required for the three-month periods ended March 31, 2024 and 2023, as there were no stock options outstanding.

NOTE 4 – INVESTMENT SECURITIES

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Company held no trading securities at March 31, 2024 or December 31, 2023. Available-for-sale investment securities, comprised of debt and mortgage-backed securities, are those that may be sold before maturity due to changes in the Company's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held-to-maturity investment securities are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost. The Company had no held-to-maturity securities at March 31, 2024 or December 31, 2023.

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

The following table summarizes the amortized cost and estimated fair value of the Company's investment securities portfolio at March 31, 2024 and December 31, 2023:

(dollars in thousands)	At March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 15,560	\$ 21	\$ (2,416)	\$ 13,165
Agency mortgage-backed securities	49,963	—	(6,253)	43,710
Municipal securities	42,965	1	(9,851)	33,115
U.S. Government agency securities	45,398	—	(7,953)	37,445
Corporate Securities	1,500	—	(208)	1,292
Total securities available for sale	\$ 155,386	\$ 22	\$ (26,681)	\$ 128,727

(dollars in thousands)	At December 31, 2023				
	Amortized Cost	Gross Gains	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 15,962	\$ 8	\$ (2,309)	\$ 13,661	
Agency mortgage-backed securities	51,930	—	(5,816)	46,114	
Municipal securities	42,990	4	(9,265)	33,729	
U.S. Government agency securities	45,406	—	(7,712)	37,694	
Corporate Securities	1,500	—	(216)	1,284	
U.S. Treasury securities	6,999	—	(54)	6,945	
Total securities available for sale	<u>\$ 164,787</u>	<u>\$ 12</u>	<u>\$ (25,372)</u>	<u>\$ 139,427</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 March 31, 2024 and December 31, 2023 are as follows:

March 31, 2024	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities available for sale:				(dollars in thousands)		
Collateralized mortgage obligations	\$ 132	\$ —	\$ 11,531	\$ (2,416)	\$ 11,663	\$ (2,416)
Agency mortgage-backed securities	79	—	43,631	(6,253)	43,710	(6,253)
Municipal securities	1,185	(35)	30,518	(9,816)	31,703	(9,851)
U.S. Government agency securities	—	—	37,445	(7,953)	37,445	(7,953)
Corporate Securities	—	—	1,292	(208)	1,292	(208)
U.S. Treasury securities	—	—	—	—	—	—
	<u>\$ 1,396</u>	<u>\$ (35)</u>	<u>\$ 124,417</u>	<u>\$ (26,646)</u>	<u>\$ 125,813</u>	<u>\$ (26,681)</u>

December 31, 2023	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities available for sale:				(dollars in thousands)		
Collateralized mortgage obligations	\$ 492	\$ (1)	\$ 11,927	\$ (2,308)	\$ 12,419	\$ (2,309)
Agency mortgage-backed securities	5	—	46,109	(5,816)	46,114	(5,816)
Municipal securities	2,978	(39)	28,667	(9,226)	31,645	(9,265)
U.S. Government agency securities	220	(1)	37,474	(7,711)	37,694	(7,712)
Corporate Securities	—	—	1,284	(216)	1,284	(216)
U.S. Treasury securities	—	—	6,944	(54)	6,944	(54)
	<u>\$ 3,695</u>	<u>\$ (41)</u>	<u>\$ 132,405</u>	<u>\$ (25,331)</u>	<u>\$ 136,100</u>	<u>\$ (25,372)</u>

The Company does not believe that the available-for-sale debt securities that were in an unrealized loss position have any credit loss impairment upon adoption of ASC 326 on January 1, 2021 or as of March 31, 2024. As of March 31, 2024, the Company did not intend to sell the investment securities that were in an unrealized loss position. It is more likely than not that the Company will not be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity. Available-for-sale debt securities issued by U.S. government agencies or U.S. government sponsored enterprises carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Municipal bonds are considered to have issuer(s) of high credit quality (rated A or higher) and the decline in fair value is due to changes in interest rates and other market conditions. Corporate securities are non-rated investments that are booked as a debt security where rating agencies do not provide a rating. The absence of a rating does not imply substandard quality. Non-rated corporate securities may be purchased from issuers operating in and around the Company's operating footprint. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bond(s) approach maturity.

At March 31, 2024, the Company recorded unrealized losses in its portfolio of debt securities totaling \$ 26.7 million related to 252 securities, which resulted from decreases in market value, spread volatility, and other factors that management deems to be temporary. Management does not believe the securities are impaired due to reasons of credit quality. Since management believes that it is more likely than not that the Company will not be required to sell these securities prior to maturity or a full recovery of the amortized cost, the Company does not consider these securities to have a credit loss impairment.

At December 31, 2023, the Company recorded unrealized losses in its portfolio of debt securities totaling \$ 25.4 million related to 256 securities, which resulted from decreases in market interest rates, spread volatility, and other factors that management deems to be temporary. Management does not believe the securities are impaired due to reasons of credit quality. Since management believes that it is more likely than not that the Company will not be required to sell these securities prior to maturity or a full recovery of the amortized cost, the Company does not consider these securities to have a credit loss impairment.

Shown below are contractual maturities of debt securities at March 31, 2024. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	At March 31, 2024		
	Amortized Cost	Fair Value	Yield (1), (2)
Available for sale securities maturing:			
Within one year	\$ 15,027	\$ 14,928	2.54 %
Over one to five years	6,094	5,538	1.57 %
Over five to ten years	33,179	29,391	2.17 %
Over ten years	101,086	78,870	2.39 %
Total debt securities	\$ 155,386	\$ 128,727	

(1) Yields are stated as book yields which are adjusted for amortization and accretion of purchase premiums and discounts, respectively.

(2) Yields on tax-exempt obligations are computed on a tax-equivalent basis.

NOTE 5 – LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The fundamental lending business of the Company is based on understanding, measuring, and controlling the credit risk inherent in the loan portfolio. The Company's loan portfolio is subject to varying degrees of credit risk. These risks entail both general risks, which are inherent in the lending process, and risks specific to individual borrowers. The Company's credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry, or collateral type.

The Company currently manages its credit products and the respective exposure to credit losses by specific portfolio segments and classes, which are levels at which the Company develops and documents its systematic methodology to determine the allowance for credit losses. The Company believes each portfolio segment has unique risk characteristics. The Company's loans held for investment is divided into three portfolio segments: loans secured by real estate, commercial and industrial loans, and consumer loans. Each of these segments is further divided into loan classes for the purpose of estimating the allowance for credit losses.

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The following table is a summary of loans receivable by loan portfolio segment and class.

(dollars in thousands)	March 31, 2024		December 31, 2023	
	Amount	%	Amount	%
Loans Secured by Real Estate				
Construction and land	\$ 6,106	4	\$ 4,636	3
Farmland	322	—	325	—
Single-family residential	86,068	48	86,887	50
Multi-family	5,130	3	5,165	3
Commercial	39,084	22	39,217	22
Total loans secured by real estate	136,710		136,230	
Commercial and Industrial				
Commercial and industrial	13,282	8	10,850	6
SBA guaranty	5,872	3	5,924	3
Total commercial and industrial loans	19,154		16,774	
Consumer Loans				
Consumer	2,399	1	2,039	1
Automobile	19,687	11	21,264	12
Total consumer loans	22,086		23,303	
Loans, net of deferred fees and costs	177,950	100	176,307	100
Less: Allowance for credit losses	(2,035)		(2,157)	
Loans, net	\$ 175,915		\$ 174,150	

The Bank's net loans totaled \$175.9 million on March 31, 2024, compared to \$174.2 million on December 31, 2023, an increase of \$1.8 million, or 1.01%. Construction and land loans increased from \$4.6 million on December 31, 2023, to \$6.1 million on March 31, 2024, an increase of \$1.5 million, or 31.71%. Farmland loans were \$0.3 million at March 31, 2024 and December 31, 2023. Single-family residential loans decreased from \$86.9 million on December 31, 2023, to \$86.1 million on March 31, 2024, a decrease of \$0.8 million, or 0.94%. Multi-family residential loans were \$5.1 million on March 31, 2024, and \$5.2 on December 31, 2023, a decrease of \$0.1 million, or 0.68%. Commercial real estate loans decreased \$0.1 million, or 0.34%, to \$39.1 million at March 31, 2024, compared to \$39.2 million on December 31, 2023. Commercial and industrial loans increased by \$2.4 million, or 22.41%, to \$13.3 million on March 31, 2024, compared to \$10.9 million on December 31, 2023. SBA guaranty loans were \$5.9 million on March 31, 2024 and December 31, 2023. Consumer loans increased by \$0.4 million, or 17.66% to \$2.4 million on March 31, 2024, compared to \$2.0 million on December 31, 2023. Automobile loans decreased from \$21.3 million on December 31, 2023, to \$19.7 million on March 31, 2024, a decrease of \$1.6 million or 7.42%.

Credit Risk and Allowance for Credit Losses. Credit risk is the risk of loss arising from the inability of a borrower to meet his or her obligations and entails both general risks, which are inherent in the process of lending, and risks specific to individual borrowers. Credit risk is mitigated through portfolio diversification, which limits exposure to any single customer, industry, or collateral type. Residential mortgage and home equity loans and lines generally have the lowest credit loss experience. Loans secured by personal property, such as auto loans, generally experience medium credit losses. Unsecured loan products, such as personal revolving credit, have the highest credit loss experience and for that reason, the Bank has chosen not to engage in a significant amount of this type of lending. Credit risk in commercial lending can vary significantly, as losses as a percentage of outstanding loans can shift widely during economic cycles and are particularly sensitive to changing economic conditions. Generally, improving economic conditions result in improved operating results on the part of commercial customers, enhancing their ability to meet their particular debt service requirements. Improvements, if any, in operating cash flows can be offset by the impact of rising interest rates that may occur during improved economic times. Inconsistent economic conditions may have an adverse effect on the operating results of commercial customers, reducing their ability to meet debt service obligations.

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The Company applies ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326") for estimating credit losses. The CECL model requires the immediate recognition of expected credit losses over the contractual term for financial instruments that fall within the scope of CECL at the date of origination or purchase of the financial instrument. The CECL model, which is applicable to the measurement of credit losses on financial assets measured at amortized cost and certain off-balance sheet credit exposures, affects the Company's estimates of the allowance for credit losses for our loan portfolio and the reserve for our off-balance sheet credit exposures related to loan commitments. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely. The allowance, based on all available information from internal and external sources, relevant to assessing the collectability of loans over their contractual terms, adjusted for expected prepayments when appropriate, is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. The evaluations are performed for each class of loans and take into consideration factors such as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, value of collateral securing the loans and current economic conditions and trends that may affect the borrowers' ability to pay. For example, delinquencies in unsecured loans and indirect automobile installment loans will be reserved for at significantly higher ratios than loans secured by real estate. Finally, the Company considers forecasts about future economic conditions or changes in collateral values that are reasonable and supportable. Based on that analysis, the Bank deems its allowance for credit losses in proportion to the total nonaccrual loans and past due loans to be sufficient.

Transactions in the allowance for credit losses for the three months ended March 31, 2024 and the year ended December 31, 2023 were as follows:

March 31, 2024 (dollars in thousands)	Loans Secured By Real Estate					Commercial and Industrial Loans			Consumer Loans		
	Construction and Land	Farmland	Single-family Residential	Multi-family Commercial	Commercial	Commercial and Industrial	SBA Guaranty	Consumer Automobile	Total		
Balance, beginning of year	\$ 31	\$ 18	\$ 1,290	\$ 96	\$ 190	\$ 304	\$ 21	\$ 30	\$ 177	\$ 2,157	
Charge-offs	—	—	—	—	(299)	—	—	(13)	(2)	(314)	
Recoveries	—	—	—	—	—	—	—	—	23	23	
(Release) provision for credit losses	6	(1)	15	(1)	305	(145)	—	20	(30)	169	
Balance, end of quarter	\$ 37	\$ 17	\$ 1,305	\$ 95	\$ 196	\$ 159	\$ 21	\$ 37	\$ 168	\$ 2,035	
Individually evaluated for impairment:											
Balance in allowance	\$ —	\$ —	\$ 21	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21
Related loan balance	—	—	35	—	—	141	—	—	—	—	176
Collectively evaluated for impairment:											
Balance in allowance	\$ 37	\$ 17	\$ 1,284	\$ 95	\$ 196	\$ 159	\$ 21	\$ 37	\$ 168	\$ 2,014	
Related loan balance	6,106	322	86,033	5,130	39,084	13,141	5,872	2,399	19,687	177,774	

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December 31, 2023 (dollars in thousands)	Loans Secured By Real Estate					Commercial and Industrial Loans			Consumer Loans		
	Construction and Land	Farmland	Single-family Residential	Multi-family Commercial	Commercial and Industrial	SBA Guaranty	Consumer	Automobile	Total		
Balance, beginning of year	\$ 44	\$ 20	\$ 1,230	\$ 103	\$ 221	\$ 174	\$ 22	\$ 23	\$ 325	\$ 2,162	
Charge-offs	—	—	—	—	—	—	—	(79)	(124)	(203)	
Recoveries	—	—	—	—	—	—	—	1	101	102	
(Release) provision for credit losses	(13)	(2)	60	(7)	(31)	130	(1)	85	(125)	96	
Balance, end of the year	\$ 31	\$ 18	\$ 1,290	\$ 96	\$ 190	\$ 304	\$ 21	\$ 30	\$ 177	\$ 2,157	
Individually evaluated for impairment:											
Balance in allowance	\$ —	\$ —	\$ 21	\$ —	\$ —	\$ 179	\$ —	\$ —	\$ —	\$ 200	
Related loan balance	—	—	30	—	—	299	—	—	—	329	
Collectively evaluated for impairment:											
Balance in allowance	\$ 31	\$ 18	\$ 1,269	\$ 96	\$ 190	\$ 125	\$ 21	\$ 30	\$ 177	\$ 1,957	
Related loan balance	4,636	325	86,857	5,165	39,217	10,551	5,924	2,039	21,264	175,978	
(dollars in thousands)											
Average loans							\$ 175,914	\$ 184,787			
Net charge offs to average loans (annualized)							0.66 %	(0.09)%			

During the three-month period ended March 31, 2024, loans to 6 borrowers and related entities totaling approximately \$314,000 were determined to be uncollectible and were charged off. During the three-month period ended March 31, 2023, loans to 3 borrowers and related entities totaling approximately \$ 8,000 were determined to be uncollectible and were charged off.

The following table provides current period gross charge-offs by the year of origination for each period shown:

March 31, 2024 (dollars in thousands)	Gross Charge-offs							
	Term Loans by Origination Year						Revolving Loans	Total
	2024	2023	2022	2021	2020	Prior		
Commercial and Industrial Loans								
Commercial and industrial	\$ —	\$ —	\$ —	\$ 299	\$ —	\$ —	\$ —	\$ 299
Consumer Loans								
Consumer	—	—	13	—	—	—	—	13
Automobile	—	—	—	—	—	2	—	2
Total gross charge-offs this period	\$ —	\$ —	\$ 13	\$ 299	\$ —	\$ 2	\$ —	\$ 314

December 31, 2023 (dollars in thousands)	Gross Charge-offs							
	Term Loans by Origination Year						Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior		
Consumer Loans								
Consumer	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 79	\$ —	\$ 79
Automobile	—	—	47	43	27	7	—	124
Total gross charge-offs this period	\$ —	\$ —	\$ 47	\$ 43	\$ 27	\$ 86	\$ —	\$ 203

Reserve for Unfunded Commitments. Loan commitments and unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Bank generally requires collateral to support financial instruments with credit risk on the same basis as it does for on-balance sheet instruments.

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The collateral requirement is based on management's credit evaluation of the counter party. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

As of March 31, 2024 and 2023, the Bank had outstanding commitments totaling \$ 34.6 million. The reserve for unfunded commitments represents the expected lifetime credit losses on off-balance sheet obligations such as commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments that are unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments is determined by estimating future draws, including the effects of risk mitigation actions, and applying the expected loss rates on those draws. Loss rates are estimated by utilizing the same loss rates calculated for the allowance for credit losses related to the respective loan portfolio class.

The following table shows the Bank's reserve for unfunded commitments arising from these transactions:

(dollars in thousands)	Three Months Ended Ended March 31,	
	2024	2023
Beginning balance	\$ 473	\$ 477
Reduction of unfunded reserve	(15)	—
Provisions charged to operations	39	5
 Ending balance	<u>\$ 497</u>	<u>\$ 482</u>

Contractual Obligations and Commitments. No material changes, outside the normal course of business, have been made during the first three months of 2024.

Asset Quality. The following tables set forth the amount of the Bank's current, past due, and non-accrual loans by categories of loans and restructured loans, at the dates indicated.

At March 31, 2024 (dollars in thousands)	90 Days or More and Still Accruing				
	Current	30-89 Days Past Due	Nonaccrual	Total	
Loans Secured by Real Estate					
Construction and land	\$ 6,106	\$ —	\$ —	\$ —	\$ 6,106
Farmland	322	—	—	—	322
Single-family residential	85,290	639	—	139	86,068
Multi-family	5,130	—	—	—	5,130
Commercial	38,943	—	—	141	39,084
Total loans secured by real estate	135,791	639	—	280	136,710
Commercial and Industrial					
Commercial and industrial	13,282	—	—	—	13,282
SBA guaranty	5,872	—	—	—	5,872
Total commercial and industrial loans	19,154	—	—	—	19,154
Consumer Loans					
Consumer	2,399	—	—	—	2,399
Automobile	19,308	288	—	91	19,687
Total consumer loans	21,707	288	—	91	22,086
	<u>\$ 176,652</u>	<u>\$ 927</u>	<u>\$ —</u>	<u>\$ 371</u>	<u>\$ 177,950</u>

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At December 31, 2023 (dollars in thousands)	30-89 Days		90 Days or More and Still Accruing		Nonaccrual	Total
	Current	Past Due				
Loans Secured by Real Estate						
Construction and land	\$ 4,636	\$ —	\$ —	\$ —	\$ —	\$ 4,636
Farmland	325	—	—	—	—	325
Single-family residential	86,233	509	—	145	86,887	
Multi-family	5,165	—	—	—	—	5,165
Commercial	39,217	—	—	—	—	39,217
Total loans secured by real estate	135,576	509	—	145	—	136,230
Commercial and Industrial						
Commercial and industrial	10,551	—	—	299	—	10,850
SBA guaranty	5,924	—	—	—	—	5,924
Total commercial and industrial loans	16,475	—	—	299	—	16,774
Consumer Loans						
Consumer	1,981	58	—	—	—	2,039
Automobile	20,794	387	—	83	—	21,264
Total consumer loans	22,775	445	—	83	—	23,303
	\$ 174,826	\$ 954	\$ —	\$ 527	\$ —	\$ 176,307

The balances in the above tables have not been reduced by the allowance for credit losses. For the period ended March 31, 2024, the allowance for credit loss is \$2.0 million. For the period ended December 31, 2023, the allowance for credit loss is \$2.2 million.

Non-accrual loans with specific reserves at March 31, 2024 are comprised of:

Single-family residential – One loan to one borrower that totaled \$29,000 with specific reserves of \$21,000 established for the loan. This was a restructured loan to a borrower with financial difficulty.

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Below is a summary of the recorded investment amount and related allowance for losses of the Bank's impaired loans at March 31, 2024 and December 31, 2023.

	March 31, 2024 (dollars in thousands)	Recorded	Unpaid	Interest	Specific	Average			
		Investment	Principal Balance	Income Recognized					
Impaired loans with specific reserves:									
Loans Secured by Real Estate									
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —			
Farmland	—	—	—	—	—	—			
Single-family residential	8	29	1	21	48				
Multi-family	—	—	—	—	—	—			
Commercial	—	—	—	—	—	—			
Total loans secured by real estate	8	29	1	21	48				
Commercial and Industrial									
Commercial and industrial	—	—	—	—	—	—			
SBA guaranty	—	—	—	—	—	—			
Total commercial and industrial loans	—	—	—	—	—	—			
Consumer Loans									
Consumer	—	—	—	—	—	—			
Automobile	—	—	—	—	—	—			
Total consumer loans	—	—	—	—	—	—			
Total impaired loans with specific reserves	\$ 8	\$ 29	\$ 1	\$ 21	\$ 48				
Impaired loans with no specific reserve:									
Loans Secured by Real Estate									
Construction and land	\$ —	\$ —	\$ —	\$ —	n/a	\$ —			
Farmland	—	—	—	—	n/a	—			
Single-family residential	110	110	1	n/a	123				
Multi-family	—	—	—	n/a	—	—			
Commercial	—	—	—	n/a	—	—			
Total loans secured by real estate	110	110	1	—	123				
Commercial and Industrial									
Commercial and industrial	141	141	1	n/a	141				
SBA guaranty	—	—	—	n/a	—	—			
Total commercial and industrial loans	141	141	1	—	141				
Consumer Loans									
Consumer	—	—	—	n/a	—	—			
Automobile	136	136	2	n/a	103				
Total consumer loans	136	136	2	n/a	103				
Total impaired loans with no specific reserve	\$ 387	\$ 387	\$ 4	\$ —	\$ 367				

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December 31, 2023 (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Loans Secured by Real Estate					
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	—	—	—	—	—
Single-family residential	9	30	4	21	48
Multi-family	—	—	—	—	—
Commercial	—	—	—	—	—
Total loans secured by real estate	9	30	4	21	48
Commercial and Industrial					
Commercial and industrial	120	299	—	179	499
SBA guaranty	—	—	—	—	—
Total commercial and industrial loans	120	299	—	179	499
Consumer Loans					
Consumer	—	—	—	—	—
Automobile	—	—	—	—	—
Total consumer loans	—	—	—	—	—
Total impaired loans with specific reserves	\$ 129	\$ 329	\$ 4	\$ 200	\$ 547
Impaired loans with no specific reserve:					
Loans Secured by Real Estate					
Construction and land	\$ —	\$ —	\$ —	\$ n/a	\$ —
Farmland	—	—	—	n/a	—
Single-family residential	115	115	5	n/a	130
Multi-family	—	—	—	n/a	—
Commercial	—	—	—	n/a	—
Total loans secured by real estate	115	115	5	—	130
Commercial and Industrial					
Commercial and industrial	—	—	—	n/a	—
SBA guaranty	—	—	—	n/a	—
Total commercial and industrial loans	—	—	—	—	—
Consumer Loans					
Consumer	—	—	—	n/a	—
Automobile	154	154	6	n/a	104
Total consumer loans	154	154	6	n/a	104
Total impaired loans with no specific reserve	\$ 269	\$ 269	\$ 11	\$ —	\$ 234

(dollars in thousands)	March 31, 2024	December 31, 2023
Restructured loans to borrowers with financial difficulty	\$ 29	\$ 30
Non-accrual and 90+ days past due and still accruing loans to average loans	0.21 %	0.25 %
Allowance for credit losses to nonaccrual & 90+ days past due and still accruing loans	549.1 %	409.3 %

At March 31, 2024, there was one restructured loan to a borrower with financial difficulty consisting of a single-family residential loan in the amount of \$29,000. This loan is in a nonaccrual status.

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The following table shows the activity for non-accrual loans for the three months ended March 31, 2024 and 2023.

(dollars in thousands)	Loans Secured By Real Estate		Commercial and Industrial Loans			Consumer Loans		
	Single-family Residential	Commercial	Commercial and Industrial	SBA Guaranty	Consumer	Automobile	Total	
December 31, 2022	\$ 104	\$ —	\$ 299	\$ —	\$ —	\$ 85	\$ 488	
Transfers into nonaccrual	187	—	—	—	—	3	190	
Loans paid down/payoffs	(191)	—	—	—	—	(11)	(202)	
Loans returned to accrual status	—	—	—	—	—	—	—	
Loans charged off	—	—	(3)	—	—	(5)	(8)	
March 31, 2023	\$ 100	\$ —	\$ 296	\$ —	\$ —	\$ 72	\$ 468	
December 31, 2023	\$ 145	\$ —	\$ 299	\$ —	\$ —	\$ 83	\$ 527	
Transfers into nonaccrual	—	141	—	—	—	17	158	
Loans paid down/payoffs	(6)	—	—	—	—	(7)	(13)	
Loans returned to accrual status	—	—	—	—	—	—	—	
Loans charged off	—	—	(299)	—	—	(2)	(301)	
March 31, 2024	\$ 139	\$ 141	\$ —	\$ —	\$ —	\$ 91	\$ 371	

Other Real Estate Owned. The Company had no real estate acquired in partial or total satisfaction of debt at March 31, 2024 and December 31, 2023. All such properties are initially recorded at a lower of cost or fair value (net realizable value) at the date acquired and carried on the balance sheet as other real estate owned. Losses arising at the date of acquisition are charged against the allowance for credit losses. Subsequent write-downs that may be required and the expense of operation are included in noninterest expense. Gains and losses realized from the sale of other real estate owned were included in noninterest income.

Credit Quality Information

In addition to monitoring the performance status of the loan portfolio, the Company utilizes a risk rating scale (1-8) to evaluate loan asset quality for all loans. Loans that are rated 1-4 are classified as pass credits. For the pass-rated loans, management believes there is a low risk of loss related to these loans and, as necessary, credit may be strengthened through improved borrower performance and/or additional collateral.

The Bank's internal risk ratings are as follows:

1 – 4 (Pass) - Pass credits are loans in grades "superior" through "acceptable". These are at least considered to be credits with acceptable risks and would be granted in the normal course of lending operations.

5 (Special Mention) - Special mention credits have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credits or in the Bank's credit position at some future date. If weaknesses cannot be identified, classification as special mention is not appropriate. Special mention credits are not adversely classified and do not expose the Bank to sufficient risk to warrant an adverse classification. No apparent loss of principal or interest is expected.

6 (Substandard) - Substandard credits are inadequately protected by the current worth and paying capacity of the obligor or by the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Credits so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

7 (Doubtful) - A doubtful credit has all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions,

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and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification for an entire credit should be avoided when collection of a specific portion appears highly probable with the adequately secured portion graded Substandard. The following tables provides information with respect to the Company's credit quality indicators by loan portfolio segment on March 31, 2024, and December 31, 2023:

March 31, 2024 (dollars in thousands)	Loans Secured By Real Estate					Commercial and Industrial Loans			Consumer Loans		
	Construction and Land		Single-family			Commercial		SBA Guaranty			Consumer Automobile
	Farmland	Residential	Multi-family	Commercial	Commercial and Industrial						Total
Pass	\$ 6,106	\$ 322	\$ 85,929	\$ 5,130	\$ 39,084	\$ 13,142	\$ 5,872	\$ 2,399	\$ 19,551	\$ 177,534	
Special mention	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	139	—	—	141	—	—	—	136	416
Doubtful	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—
	<u>\$ 6,106</u>	<u>\$ 322</u>	<u>\$ 86,068</u>	<u>\$ 5,130</u>	<u>\$ 39,084</u>	<u>\$ 13,282</u>	<u>\$ 5,872</u>	<u>\$ 2,399</u>	<u>\$ 19,687</u>	<u>\$ 177,950</u>	
Nonaccrual	\$ —	\$ —	\$ 139	\$ —	\$ 141	\$ —	\$ —	\$ —	\$ —	\$ 91	\$ 371
Restructured loans to borrowers with financial difficulty	\$ —	\$ —	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 29
Number restructured loans to borrowers with financial difficulty	—	—	1	—	—	—	—	—	—	—	1
Non-performing restructured loans to borrowers with financial difficulty	\$ —	\$ —	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 29
Number of non-performing restructured loan accounts	—	—	1	—	—	—	—	—	—	—	1
December 31, 2023 (dollars in thousands)	Loans Secured By Real Estate					Commercial and Industrial Loans			Consumer Loans		
	Construction and Land		Single-family			Commercial		SBA Guaranty			Consumer Automobile
	Farmland	Residential	Multi-family	Commercial	Commercial and Industrial						Total
Pass	\$ 4,636	\$ 325	\$ 86,742	\$ 5,165	\$ 39,217	\$ 10,551	\$ 5,924	\$ 2,039	\$ 21,110	\$ 175,709	
Special mention	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	145	—	—	299	—	—	—	154	598
Doubtful	—	—	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—	—	—
	<u>\$ 4,636</u>	<u>\$ 325</u>	<u>\$ 86,887</u>	<u>\$ 5,165</u>	<u>\$ 39,217</u>	<u>\$ 10,850</u>	<u>\$ 5,924</u>	<u>\$ 2,039</u>	<u>\$ 21,264</u>	<u>\$ 176,307</u>	
Nonaccrual	\$ —	\$ —	\$ 145	\$ —	\$ —	\$ 299	\$ —	\$ —	\$ —	\$ 83	\$ 527
Restructured loans to borrowers with financial difficulty	\$ —	\$ —	\$ 30	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 30
Number restructured loans to borrowers with financial difficulty	—	—	1	—	—	—	—	—	—	—	1
Non-performing restructured loans to borrowers with financial difficulty	\$ —	\$ —	\$ 30	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 30
Number of non-performing restructured loan accounts	—	—	1	—	—	—	—	—	—	—	1

NOTE 6 – FAIR VALUE

ASC Topic 820 provides a framework for measuring and disclosing fair value under GAAP. ASC 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 (for example, available-for-sale investment securities) or a nonrecurring basis (for example, impaired loans).

ASC 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 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 Fair Value Hierarchy

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar securities).
- Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment Securities Available-for-Sale and Interest Rate Swaps. Investment securities available-for-sale and interest rate swap contracts are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities, and interest rate swap contracts. Securities classified as Level 3 include asset-backed securities in illiquid markets.

The Bank may 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.

Loans. Impaired loans totaled \$416,000 with \$21,000 of specific reserves as of March 31, 2024. These assets included single-family residential, commercial and industrial, and automobile loans. They have been classified as impaired and include nonaccrual, past due 90 days or more and still accruing, and a homogeneous pool of indirect loans all considered to be impaired loans, which are valued under Level 3 inputs. Foreclosed real estate assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Company is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. On a quarterly basis, the Company determines such fair values through a variety of data points and mostly relies on appraisals from independent appraisers. We obtain an appraisal of properties when they become impaired and conduct new appraisals at least every year. Typically, these appraisals do not include an inside inspection of the property as our loan documents do not require the borrower to allow access to the property. Therefore, the most significant unobservable inputs are the details of the amenities included within the property and the condition of the property. Further, we cannot always accurately assess the amount of time it takes to gain ownership of our collateral through the foreclosure process and the damage, as well as potential looting, of the property further decreasing our value. Thus, in determining the fair values we discount the current independent appraisals, within a range of 0% to 16%, based on individual circumstances.

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

	(dollars in thousands)	Level 1	Level 2	Level 3	Fair Value
March 31, 2024					
Recurring:					
Securities available for sale					
Collateralized mortgage obligations	\$ —	\$ 13,165	\$ —	\$ 13,165	
Agency mortgage-backed securities	525	43,185	—	43,710	
Municipal securities	—	33,115	—	33,115	
Corporate securities	—	1,292	—	1,292	
U.S. Government agency securities	—	37,445	—	37,445	
Non-recurring:					
Impaired loans	—	—	395	395	
	<u>\$ 525</u>	<u>\$ 128,202</u>	<u>\$ 395</u>	<u>\$ 129,122</u>	
December 31, 2023					
Recurring:					
Securities available for sale					
Collateralized mortgage obligations	\$ —	\$ 13,661	\$ —	\$ 13,661	
Agency mortgage-backed securities	531	45,583	—	46,114	
Municipal securities	—	33,729	—	33,729	
Corporate securities	—	1,284	—	1,284	
U.S. Government agency securities	—	37,694	—	37,694	
U.S. Treasury securities	6,945	—	—	6,945	
Non-recurring:					
Impaired loans	—	—	398	398	
	<u>\$ 7,476</u>	<u>\$ 131,951</u>	<u>\$ 398</u>	<u>\$ 139,825</u>	

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The estimated fair values of the Company's financial instruments at March 31, 2024 and December 31, 2023 are summarized in the following table. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

(dollars in thousands)	March 31, 2024		December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 9,091	\$ 9,091	\$ 1,940	\$ 1,940
Interest-bearing deposits in other financial institutions	33,305	33,305	12,189	12,189
Federal funds sold	232	232	1,112	1,112
Investment securities available for sale	128,727	128,727	139,427	139,427
Investments in restricted stock	246	246	1,217	1,217
Ground rents	127	127	130	130
Loans, less allowance for credit losses	175,915	164,874	174,150	161,802
Accrued interest receivable	1,281	1,281	1,192	1,192
Cash value of life insurance	8,700	8,700	8,657	8,657
Financial liabilities:				
Deposits	309,231	246,601	300,067	252,707
Short-term borrowings	40,000	40,000	30,000	30,000
Accrued interest payable	586	586	366	366
Unrecognized financial instruments:				
Commitments to extend credit	34,569	34,569	33,162	33,162
Standby letters of credit	45	45	45	45

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments that were estimated using an exit pricing notion.

(dollars in thousands)	Carrying Amount	Fair Value	Level 1			Level 2			Level 3			
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
March 31, 2024												
Financial instruments - Assets												
Cash and cash equivalents	\$ 42,628	\$ 42,628	\$ 42,628	\$ —	\$ —	—	—	—	—	—	—	
Loans receivable, net	175,915	164,874	—	—	—	—	—	164,874	—	—	—	
Cash value of life insurance	8,700	8,700	—	—	—	8,700	—	—	—	—	—	
Financial instruments - Liabilities												
Deposits	309,231	246,601	30,363	216,238	—	—	—	—	—	—	—	
Short-term debt	40,000	40,000	—	40,000	—	—	—	—	—	—	—	

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

The fair value of cash and due from banks, federal funds sold, investments in restricted stocks and accrued interest receivable are equal to the carrying amounts. The fair values of investment securities are determined using market quotations, if available, or measured using pricing models or other model-based valuation techniques such as present value and future value cash flows. The fair value of loans receivable is estimated using discounted cash flow analysis. For cash surrender value of life insurance, the carrying value is a reasonable estimate of fair value. The cash surrender value of life insurance is reported in the Level 2 fair value category. The fair value of the Bank Term Funding Program loans is equal to the carrying amounts. The fair value of FHLB borrowings is estimated based upon discounted future cash flows using a discounted rate comparable to the current market rate for such borrowings. FHLB borrowings are reported in the Level 2 fair value category.

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

NOTE 7 – RECENT ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") with required effective dates. The following accounting pronouncements should be read in conjunction with "Critical Accounting Policies" of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2023 Form 10-K.

ASU No. 2023-01. Leases (Topic 842), "Common Control Arrangements." The ASU is an amendment to Topic 842. The amendments in this Update clarify the accounting for leasehold improvements associated with common control leases. This Update has been issued in order to address current diversity in practice associated with the accounting for leasehold improvements associated with a lease between entities under common control. The amendments in this Update apply to all lessees that are a party to a lease between entities under common control in which there are leasehold improvements. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2023. The Company adopted this guidance in the first quarter of 2024. The Company has no leases which are subject to this guidance and therefore the impact of adopting the new guidance did not have an impact upon the Company's financial position and results of operations.

ASU No. 2023-02. Investments-Equity Method and Joint Ventures (Topic 323), "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2023 and the Company adopted the guidance in the first quarter of 2024. The Company currently has no investments which are subject to this guidance and therefore the impact of adopting the new guidance did not have an impact upon the Company's financial position and results of operations.

ASU No. 2023-05. Business Combinations – "Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement." The amendments in this Update are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Additionally, a joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information. Early adoption is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively. The Company is evaluating the impact of adopting the new guidance on the consolidated financial statements.

ASU No. 2023-06. Disclosure Improvements – "Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative." The amendments in this Update represent changes to clarify or improve disclosure and presentation requirements of a variety of Topics. Many of the amendments allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements. Also, the amendments align the requirements in the Codification with the SEC's regulations. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The amendments in this Update should be applied prospectively. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity.

ASU No. 2023-07. "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-04"). This update requires public entities with reportable segments to provide additional and more detailed disclosures. This standard is effective for annual periods beginning after December 15, 2023. The Company adopted the guidance in the first quarter of 2024 but does not meet the requirements for reporting segment information and, as such, the adoption did not have an impact on its consolidated financial statements.

ASU No. 2023-08. "Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and disclosure of Crypto Assets ("ASU 2023-08")." This update provides guidance for crypto assets to be carried at fair value and requires additional disclosures. This standard is effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2023-08 to have an impact on its consolidated financial statements. The Company currently does not hold crypto assets or carry goodwill on its balance sheet.

ASU No. 2023-09. "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This update requires more detailed disclosures of income taxes paid net of refunds received, income from continuing operations before income tax expense or benefit, and income tax expense from continuing operations. This standard is to be applied on a prospective basis, with retrospective application permitted, and will be effective for the Company for annual periods beginning after December 15, 2024. We do not expect adoption of this standard to have a material impact on the Company's financial position or results of operations.

ASU No. 2024-01 "Compensation - Stock Compensation (Topic 718) - Scope Application of Profits Interest and Similar Awards" ("ASU 2024-01") clarifies how an entity determines whether a profits interest or similar award is within the scope of Topic 718 or is not a share-based payment arrangement and therefore within the scope of other guidance. ASU 2024-01 provides an illustrative example with multiple fact patterns and also amends certain language in the "Scope" and "Scope Exceptions" sections of Topic 718 to improve its clarity and operability without changing the guidance. Entities can apply the amendments either retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or modified on or after the date of adoption. If prospective application is elected, an entity must disclose the nature of and reason for the change in accounting principle. ASU 2024-01 is effective January 1, 2025, including interim periods. We do not expect adoption of this standard to have a material impact on the Company's financial position or results of operations.

ASU No. 2024-02 "Codification Improvements" ("ASU 2024-02") amends the Codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. ASU 2024-02 is effective January 1, 2025. We do not expect adoption of this standard to have a material impact on the Company's financial position or results of operations.

NOTE 8 – SUBSEQUENT EVENTS

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

When used in this discussion and elsewhere in this Form 10-Q, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "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 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. While it is impossible to identify all such factors, such factors include, but are not limited to, those factors identified in the Company's periodic reports filed with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K.

The Company does not undertake and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

OVERVIEW

Glen Burnie Bancorp, a Maryland corporation (the "Company"), through its subsidiary, The Bank of Glen Burnie, a Maryland banking corporation (the "Bank"), operates a commercial bank with eight offices in Anne Arundel County Maryland. Net income for the three-month periods ended March 31, 2024 and 2023, totaled \$3,000 and \$435,000, respectively. The decrease was primarily due to the \$726,000 increase in interest expense and the \$211,000 increase in provision for credit loss that were only partially offset by a \$120,000 increase in interest income and a \$318,000 decrease in tax expense.

The increase in interest expense on deposits was driven by the higher rate and balances in money market deposits. The increase in interest on borrowings was driven by a \$40.0 million increase in short-term borrowings due to the elevated level of deposit runoff in 2023. The higher interest expense was partially offset by the \$128,000 increase in loan interest income and resulted in a decrease in net interest income of \$606,000 for the three-months ended March 31, 2024 versus the same period last year.

Total interest income increased \$120,000 to \$3.4 million for the three-month period ended March 31, 2024, as compared to the same period in 2023. This resulted primarily from a 0.48% increase in the yield on loans that more than offset the \$8.9 million, or 4.80% decline in average total loan balances.

Total assets increased to \$369.9 million on March 31, 2024, an increase of \$18.1 million from December 31, 2023. Cash and cash equivalents increased by \$27.4 million or 179.69%, during the first three months of 2024. The Bank's loan portfolio increased by \$1.8 million or 1.01% and investment securities available for sale declined by \$10.7 million or 7.67% over the same period. The Company's allowance for credit losses was \$2.04 million as of March 31, 2024, compared to \$2.16 million at December 31, 2023, a decrease of \$122,000 or 5.66%. Total deposits increased \$9.2 million, or 3.05%, during the first three months of 2024 and short-term borrowings increased by \$10.0 million or 33.33%. Shareholder's equity was \$18.1 million on March 31, 2024, a \$1.2 million or 6.19% decrease, as compared to \$19.3 million on December 31, 2023. The decrease was primarily due to unrealized losses, net of taxes, on securities available for sale amounting to \$19.3 million on March 31, 2024, compared to \$18.4 million at December 31, 2023. The Company has strong liquidity and capital positions that provide ample capacity for future growth. The Bank's total regulatory capital to risk weighted assets were 18.30% on March 31, 2024, as compared to 18.40% on December 31, 2023.

Return on average assets for the three-month period ended March 31, 2024, was 0.00% compared to 0.47% for the three-month period ended March 31, 2023. Lower net income partially offset by a lower average asset balance primarily drove the lower return on average assets for the three-month period ended March 31, 2024, when compared to

the same period in 2023. Return on average equity for the three-month period ended March 31, 2024, was 0.06% compared to 0.9% for the three-month period ended March 31, 2023. Lower net income and a higher average equity balance primarily drove the lower return on average equity for the three-month period ended March 31, 2024, compared to the same periods in 2023.

The book value per share of Bancorp's common stock was \$6.28 on March 31, 2024, as compared to \$6.36 per share on March 31, 2023. The decrease primarily resulted from the unrealized losses on the Company's available for sale securities and the higher level of interest rates in 2024.

At March 31, 2024, the Bank remained above all "well-capitalized" regulatory requirement levels. The Bank's tier 1 risk-based capital ratio was 17.14% at March 31, 2024, compared to 17.37% at December 31, 2023.

Our liquidity position remained strong due to managed cash and cash equivalents, borrowing lines with the Federal Reserve Bank, the FHLB of Atlanta and correspondent banks, and the size and composition of the bond portfolio.

RESULTS OF OPERATIONS

Net income attributable to common stockholders for the three-month period ended March 31, 2024, was \$3,000, or \$0.00 per basic and diluted common share compared to \$435,000, or \$0.15 per basic and diluted common share for the same period of 2023. The results for the three-month period ended March 31, 2024, were lower than the same period of 2023 resulting primarily from a \$431,000 increase in interest expense on short-term borrowings, a \$295,000 increase in interest expense on deposits and a \$211,000 increase in the provision for credit losses on loans, partially offset by an increase of \$128,000 in loan interest income and fees and a \$318,000 decrease in the provision for income taxes. The Company's need to defend its deposit base as well as grow interest-earning asset balances necessitated a strategic change in direction.

Net Interest Income. The Company's net interest income for the three-month period ended March 31, 2024 was \$2.6 million, as compared to \$3.2 million for the same period in 2023, a decrease of \$606,000, or 19.07%. The decrease in net interest income was primarily due to the \$726,000 increase in interest expense related to higher balances and rates on money market deposits and short-term borrowings partially offset by higher interest income.

Total interest income for the first quarter of 2024 increased \$120,000, or 3.65% when compared to the same period in 2023, from \$3.3 million in 2023 to \$3.4 million in 2024. The primary driver of the increase was a \$128,000, or 6.13%, increase in interest and fees on loans due to higher rates and \$19,000 increase in interest on deposits with banks and federal funds that were partially offset by a \$27,000 decrease in interest and dividends on investment securities due to maturities subsequent to the first quarter of 2023.

Interest expense for the first quarter of 2024 increased \$726,000 from \$107,000 for the same period in 2023 to \$833,000, an increase of 678.50%. The increase was attributable to higher balances and rates on money market deposits and short-term borrowings.

Net interest margin for the three-month period ended March 31, 2024 was 2.86% compared to 3.41% for the three-month period ended March 31, 2023, a decrease of 0.55%. The decrease in the net interest margin is due to increases in average deposit costs and short-term borrowing costs, partially offset by increases in yields on investment securities, loans, and interest-bearing deposits at the Federal Reserve Bank. Loan yields increased from 4.58% to 5.06% between the two periods while the cost of interest-bearing liabilities increased from 0.20% to 1.51% between the two periods.

The average balance of interest-earning assets decreased \$16.3 million while the yield increased by 0.26% to 3.78% from 3.52%, when comparing the three-month periods ending March 31, 2024, and 2023, respectively. The average balance of interest-bearing funds increased \$8.1 million. The average balance of noninterest-bearing funds decreased \$24.4 million, and the cost of funds increased 0.87%, to 0.99% from 0.12% when comparing the three-month periods ending March 31, 2024, and 2023, respectively.

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The following tables set forth, for the periods indicated, information regarding the average balances of interest-earning assets and interest-bearing liabilities, the amount of interest income and interest expense and the resulting yields on average interest-earning assets and rates paid on average interest-bearing liabilities.

(dollars in thousands)	Three Months Ended March 31,					
	2024			2023		
	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost
ASSETS:						
Interest-earning assets:						
Interest-bearing deposits w/ banks & fed funds	\$ 21,609	\$ 236	4.39 %	\$ 20,698	\$ 215	4.22 %
Investment securities available for sale	163,618	938	2.29	172,519	979	2.27
Restricted equity securities	818	16	8.08	216	4	7.67
Total interest-bearing deposits/investments	<u>186,045</u>	<u>1,190</u>	<u>2.56</u>	<u>193,433</u>	<u>1,198</u>	<u>2.48</u>
Loans Secured by Real Estate						
Construction and land	5,285	69	5.23	4,389	39	3.61
Farmland	323	4	5.06	332	4	5.05
Single-family residential	86,444	1,015	4.69	80,170	869	4.34
Multi-family	5,143	62	4.86	4,828	65	5.42
Commercial	<u>39,015</u>	<u>586</u>	<u>6.04</u>	<u>43,487</u>	<u>591</u>	<u>5.51</u>
Total loans secured by real estate	136,210	1,736	5.13	133,206	1,568	4.77
Commercial and Industrial						
Commercial and industrial	11,041	139	5.07	9,828	102	4.21
SBA guaranty	<u>5,859</u>	<u>123</u>	<u>8.45</u>	<u>6,071</u>	<u>115</u>	<u>7.67</u>
Total commercial and industrial loans	16,900	262	6.24	15,899	217	5.53
Consumer Loans						
Consumer	2,499	8	1.21	1,611	8	2.05
Automobile	<u>20,305</u>	<u>209</u>	<u>4.12</u>	<u>34,070</u>	<u>294</u>	<u>3.46</u>
Total consumer loans	22,804	217	3.82	35,681	302	3.43
Total loans	<u>175,914</u>	<u>2,215</u>	<u>5.06</u>	<u>184,786</u>	<u>2,087</u>	<u>4.58</u>
Total interest-earning assets	361,959	3,405	3.78	378,219	3,285	3.52
Cash	2,139			2,067		
Allowance for credit losses	(2,148)			(2,106)		
Market valuation	(26,365)			(28,103)		
Other assets	<u>23,292</u>			<u>22,878</u>		
Total non-earning assets	(3,082)			(5,264)		
Total assets	<u>\$ 358,877</u>			<u>\$ 372,955</u>		
LIABILITIES AND STOCKHOLDER'S EQUITY:						
Interest-bearing deposits:						
Interest-bearing checking and savings	\$ 119,404	22	0.07 %	\$ 149,765	24	0.07 %
Money market	37,143	306	3.32	16,300	2	0.05
Certificates of deposit	<u>33,146</u>	<u>74</u>	<u>0.89</u>	<u>47,211</u>	<u>81</u>	<u>0.71</u>
Total interest-bearing deposits	189,693	402	0.85	213,276	107	0.20
Borrowed Funds:						
Bank Term Funding Program	20,000	271	5.46	—	—	—
FHLB advances	<u>11,667</u>	<u>160</u>	<u>5.51</u>			
Total borrowed funds	31,667	431	5.48	2	—	—
Total interest-bearing liabilities	<u>221,360</u>	<u>833</u>	<u>1.51</u>	<u>213,278</u>	<u>107</u>	<u>0.20</u>
Non-interest-bearing deposits	<u>116,165</u>			<u>140,585</u>		
Total cost of funds	337,525	833	0.99	353,863	107	0.12
Other liabilities and accrued expenses	<u>2,228</u>			<u>1,965</u>		
Total liabilities	339,753			355,828		
Stockholder's equity	<u>19,124</u>			<u>17,127</u>		
Total liabilities and equity	<u>\$ 358,877</u>			<u>\$ 372,955</u>		
Net interest income	<u>\$ 2,572</u>			<u>\$ 3,178</u>		
Yield on earning assets			3.78 %			3.52 %
Cost of interest-bearing liabilities			1.51 %			0.20 %
Net interest spread			2.27 %			3.32 %
Net interest margin			2.86 %			3.41 %

Provision for Credit Losses on Loans. The Company recognized a provision of \$169,000 compared to a \$42,000 release for the three-month period ended March 31, 2024, and 2023, respectively. The increase for the three-month period ended March 31, 2024, when compared to the three-month period ended March 31, 2023, primarily reflects a \$5.8 million decrease in the reservable balance of the loan portfolio and a \$334,000 increase in net charge offs. As a result, the allowance for credit loss on loans was \$2.04 million on March 31, 2024, representing 1.14% of total loans, compared to \$2.16 million, or 1.17% of total loans on March 31, 2023.

Noninterest Income. Noninterest income decreased to \$229,000 for the three-month period ended March 31, 2024, from \$245,000 for the corresponding period in 2023, a decrease of \$16,000, or 6.53%. The decrease was primarily due to decreases in other fees and commissions.

Noninterest Expenses. Noninterest expenses for the three-month period ended March 31, 2024 and 2023 were \$2.86 million and \$2.94 million, respectively, a decrease of \$83,000, or 2.82%. The decrease was driven by a year-over-year decrease of \$80,000 in salary and employee benefits attributable to decreases in group insurance costs and bonus pension/expense.

Income Taxes. During the three-month period ended March 31, 2024, the Company recorded an income tax benefit of \$232,000 compared to an expense of \$86,000 for the same period in 2023, a \$318,000, or 369.77% decrease. The resulting effective tax rate was 101.31% for the first quarter of 2024 compared to an effective tax rate of 16.51% for the first quarter of 2023. The current year's income tax benefit includes forecasted tax benefit of \$145,000 for the current period and \$87,000 associated with amended Maryland tax returns for tax years 2022 and 2021. The current period benefit is the result of pre-tax income containing a lower proportion of taxable income compared to the prior year period.

Comprehensive Income (Loss). In accordance with regulatory requirements, the Company reports comprehensive income (loss) in its financial statements. Comprehensive income (loss) consists of the Company's net income, adjusted for unrealized gains and losses on the Bank's portfolio of investment securities. For the first quarter of 2024, the comprehensive loss, net of tax, totaled \$0.9 million compared to income in the amount of \$2.4 million for the same period in 2023. The decrease in comprehensive income was due to an increase in unrealized losses on securities for the period ended March 31, 2024 compared to a decrease in unrealized losses on securities for the comparable prior year period.

FINANCIAL CONDITION

General. The Company's assets increased to \$369.9 million at March 31, 2024 from \$351.8 million at December 31, 2023, an increase of \$18.1 million or 5.13%, primarily due to a \$27.4 million increase in cash and cash equivalents, a \$10.7 million decrease in investment securities available for sale, and a \$1.8 million increase in loans, net. Cash and cash equivalents as of March 31, 2024, totaled \$42.6 million, an increase of \$27.4 million, or 179.69% from \$15.2 million on December 31, 2023. Investment securities available for sale as of March 31, 2024, totaled \$128.7 million, a decrease of \$10.7 million, or 7.67% from \$139.4 million on December 31, 2023. Loans, net totaled \$175.9 million at March 31, 2024, an increase of \$1.8 million or 1.01%, from \$174.2 million at December 31, 2023. The increase was primarily attributable to increases in construction and commercial and industrial loans partially offset by decreases in automobile and single-family residential loans.

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

A loan is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are

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measured based on the fair value of the collateral for collateral dependent loans and at the present value of expected future cash flows using the loans' effective interest rates for loans that are not collateral dependent.

At March 31, 2024, impaired loans totaled \$0.4 million, net of specific reserves. Included in the impaired loans total was \$0.4 million in loans classified as nonaccrual loans. At March 31, 2024, impaired loans included restructured loans to borrowers with financial difficulty totaling \$29,000. Borrowers under all other restructured loans are paying in accordance with the terms of the modified loan agreement and have been placed on accrual status after a period of performance with the restructured terms.

The following table presents details of our nonperforming loans and nonperforming assets, as these asset quality metrics are evaluated by management, at the dates indicated:

(dollars in thousands)	March 31, 2024	December 31, 2023
Nonaccrual loans	\$ 371	\$ 527
TDR loans excluding those in nonaccrual loans	-	-
Accruing loans past due 90+ days	-	-
Total nonperforming loans	371	527
Total nonperforming assets	\$ 371	\$ 527
Nonperforming assets to total assets	0.10 %	0.15 %

Deposits as of March 31, 2024, totaled \$309.2 million, an increase of \$9.1 million, or 3.05%, from \$300.1 million on December 31, 2023. Demand deposits as of March 31, 2024 totaled \$115.2 million, a decrease of \$1.8 million, or 1.50% from \$116.9 million at December 31, 2023. Interest-bearing checking accounts as of March 31, 2024 totaled \$26.0 million, a decrease of \$2.6 million, or 9.07% from \$28.6 million at December 31, 2023. Savings accounts as of March 31, 2024 totaled \$89.7 million, a decrease of \$3.4 million, or 3.63%, from \$93.1 million at December 31, 2023. Money market accounts as of March 31, 2024 totaled \$46.7 million, an increase of \$19.8 million, or 73.95%, from \$26.8 million at December 31, 2023. Time deposits under \$100,000 totaled \$19.9 million on March 31, 2024, a \$2.2 million or a 10.08% decrease from \$22.1 million at December 31, 2023. Time deposits over \$100,000 totaled \$11.8 million on March 31, 2024, a \$0.7 million, or 5.81% decrease from \$12.5 million at December 31, 2023.

Deposits on March 31, 2024, and December 31, 2023, were as follows:

(dollars in thousands)	March 31, 2024		December 31, 2023		2024 vs 2023	
	Amount	% of Total	Amount	% of Total	\$ Change	% Change
Noninterest-bearing deposits	\$ 115,167	37.3 %	\$ 116,922	39.0 %	\$ (1,755)	(1.50)%
Interest-bearing deposits:						
Checking	25,979	8.4 %	28,571	9.5 %	(2,592)	(9.07)%
Savings	89,728	29.0 %	93,104	31.0 %	(3,376)	(3.63)%
Money market	46,681	15.1 %	26,836	9.0 %	19,845	73.95 %
Total interest-bearing checking, savings and money market deposits	162,388	52.5 %	148,511	49.5 %	13,877	9.34 %
Time deposits of \$250,000 or less	29,167	9.4 %	32,133	10.7 %	(2,966)	(9.23)%
Time deposits of more than \$250,000	2,509	0.8 %	2,501	0.8 %	8	0.32 %
Total time deposits	31,676	10.2 %	34,634	11.5 %	(2,958)	(8.54)%
Total interest-bearing deposits	194,064	62.7 %	183,145	61.0 %	10,919	5.96 %
Total Deposits	\$ 309,231	100.0 %	\$ 300,067	100.0 %	\$ 9,164	3.05 %

Lease Commitments. For leases where the Bank is the lessee, operating leases are included in premises and equipment, net, and accrued expenses and other liabilities on the Consolidated Balance Sheet. The Bank currently does not have any finance leases.

Operating lease Right-of-Use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. Lease terms may include options to extend or to terminate when the Company is reasonably certain that the option will be exercised.

Future minimum payments of the Bank's operating leases as of March 31, 2024 are as follows:

Year ending December 31,	Amount (dollars in thousands)
2024	\$ 151
2025	49
2026	9
2027	6
2028	—
Thereafter	—
Total	\$ 215

Pension and Profit Sharing Plans. The Bank 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.

For the three months ended March 31, 2024, the Bank accrued \$69,000 for its projected 401(k) match contribution as well as other profit sharing benefits.

MARKET RISK AND INTEREST RATE SENSITIVITY

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

Interest rate risk is that risk to earnings or capital arising from movement of interest rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships across yield curves that affect bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest rate related options embedded in certain bank products (option risk). Changes in interest rates may also affect a bank's underlying economic value. The value of a bank's assets, liabilities, and interest-rate related, off-balance sheet contracts are affected by a change in rates because they represent the value of future cash flows, and in some cases the cash flows themselves, is changed.

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

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

We prepare a current base case and alternative simulations at least once a quarter and report the analysis to the IC and Board of Directors. In addition, more frequent forecasts are produced when the direction or degree of change in interest rates are particularly uncertain to evaluate the impact of balance sheet strategies or when other business conditions so dictate.

The statement of condition is subject to quarterly testing for alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"), although we may elect not to use particular scenarios that we determine are impractical in the current rate environment. It is our goal to structure the balance sheet so that net interest-earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

At March 31, 2024, the simulation analysis indicated that the Bank is in an asset sensitive position. Management strives to optimize the level of higher costing fixed rate funding instruments, while seeking to increase assets that are more fluid in their repricing. An asset sensitive position, theoretically, is favorable in a rising rate environment since more assets than liabilities will re-price in a given time frame as interest rates rise. Similarly, a liability sensitive position, theoretically, is favorable in a declining interest rate environment since more liabilities than assets will re-price in a given time frame as interest rates decline. Management works to maintain a consistent spread between yields on assets and costs of deposits and borrowings, regardless of the direction of interest rates.

The foregoing analysis assumes that the Company's assets and liabilities move with rates at their earliest repricing opportunities based on final maturity, while considering optionality such as call features, where applicable. Certificates of deposit and IRA accounts are presumed to be repriced at maturity. NOW savings accounts are assumed to be repriced within three-months although it is the Company's experience that such accounts may be less sensitive to changes in market rates.

Estimated Changes in Net Interest Income	Static Balance Sheet/Immediate Change in Rates			
	-200 bp	-100 bp	+100 bp	+200 bp
Policy Limit	(15)%	(10)%	(10)%	(15)%
March 31, 2024	(13)%	(6)%	6 %	12 %
March 31, 2023	(9)%	(4)%	0 %	0 %

As shown above, measures of net interest income at risk were more favorable in up-rate scenarios and less favorable in down-rate scenarios on March 31, 2024 than on March 31, 2023 over a 12-month modeling period. These measures remained within prescribed policy limits in the up and down interest rate scenarios.

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The following table sets forth the Company's interest-rate sensitivity at March 31, 2024.

	0-3 Months	Over 3 to 12 Months	Over 1 Through 5 Years	Over 5 Years	Total
(dollars in thousands)					
Assets:					
Repricing asset balances	<u>\$ 89,119</u>	<u>\$ 33,175</u>	<u>\$ 101,222</u>	<u>\$ 146,354</u>	<u>\$ 369,870</u>
Liabilities and Stockholders' Equity					
Repricing liability and equity balances	<u>\$ 18,510</u>	<u>\$ 28,652</u>	<u>\$ 74,103</u>	<u>\$ 248,605</u>	<u>\$ 369,870</u>
GAP	\$ 70,609	\$ 4,523	\$ 27,119	\$ (102,251)	
Cumulative GAP	\$ 70,609	\$ 75,132	\$ 102,251	\$ -	
Cumulative GAP as a % of total assets	19.09 %	20.31 %	27.65 %	0.00 %	

The measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of the Company's net assets.

Estimated Changes in Economic Value of Equity (EVE)	Static Balance Sheet/Immediate Change in Rates			
	-200 bp	-100 bp	+100 bp	+200 bp
Policy Limit	(20)%	(10)%	(10)%	(20)%
March 31, 2024	(9)%	(2)%	1 %	1 %
March 31, 2023	6 %	4 %	(7)%	(15)%

Inasmuch as a large portion of the Company's deposits are non-interest bearing, in an increasing interest rate environment the Company's interest income increases at a proportionally greater rate than its total interest expense, thereby resulting in higher net interest income. Conversely, in a declining interest rate environment the decreases in the Company's interest income will be greater than decreases in its already low interest expense, thereby resulting in lower net interest income. In a rising interest rate environment, the Company is positioned to generate more economic value of equity as asset values rise faster than funding sources because the liabilities reprice much slower than our assets, especially considering our interest-earning assets are much greater than our interest-bearing liabilities. Conversely, the Company's economic value of equity declines in a falling interest rate environment as the majority of our liabilities have a longer duration than the Company's assets and cannot continue to decrease much from their current low levels. Thus, the economic value of equity declines.

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 a primary source of funds supporting the Bank's lending and investment activities.

The Bank's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, federal funds sold, certificates of deposit with other financial institutions that have an original maturity of three months or less 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. The Bank's cash and cash equivalents (cash due from banks, interest-bearing deposits in other financial institutions, and federal funds sold), as of March 31, 2024, totaled \$42.6 million, an increase of \$27.4 million, or 179.69% from \$15.2 million at December 31, 2023.

As of March 31, 2024, the Bank was permitted to draw on an \$88.0 million line of credit from the FHLB of Atlanta. Short-term borrowings under the line totaled \$0 and \$20.0 million at March 31, 2024 and December 31, 2023, respectively. Borrowings under the line are secured by a floating lien on the Bank's residential mortgage loans and investment securities. As of March 31, 2024, the Bank had \$40.0 million in outstanding short-term borrowings from the Federal Reserve Bank ("FRB") under the Bank Term Funding Program ("BTFP"). At December 31, 2023, there was \$10.0 million in short-term borrowings from the FRB. Borrowings under the line are secured by investment securities. As of March 31, 2024, no further advances are available under the BTFP as that program has been terminated by the FRB. The Bank also has an unused line of credit through the Federal Reserve Discount Window that is limited to the amount of qualifying collateral pledged, which at March 31, 2024, totaled \$0.

In addition, the Bank has two unsecured federal funds lines of credit in the amount of \$9.0 million and \$8.0 million, of which \$0 was outstanding as of March 31, 2024.

The Company's stockholders' equity decreased \$1.2 million, or 6.19% during the three-month period ended March 31, 2024. The decrease was primarily due to an increase in the after-tax net unrealized holding loss on securities available for sale in the amount of \$0.9 million and the \$287,000 in dividends paid in the quarter ended March 31, 2024.

The Federal Reserve Board and the FDIC have established guidelines with respect to the maintenance of appropriate levels of capital by bank holding companies and state non-member banks, respectively. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to the Basel III Capital Rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules also implements the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

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 Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting principles. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The rules include a common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. The rules establish a capital conservation buffer above the regulatory minimum capital requirements. Since 2019, this capital conservation buffer is 2.5%. The capital conservation buffer is designed to absorb losses during periods of economic stress and as detailed above, effectively increases the minimum required risk-weighted capital ratios. The rules also implemented strict eligibility criteria for regulatory capital instruments.

The rules also revise the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets. The Common Equity Tier 1, Tier 1 and Total Capital ratios are calculated by dividing the respective capital amounts by

risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

The regulations impose several sets of capital adequacy requirements: minimum leverage rules, which require bank holding companies and banks to maintain a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to "risk-weighted" assets. In addition, there are requirements to maintain a capital conservation buffer which raised the minimum required common equity Tier 1 capital ratio to 7.00%, the Tier 1 capital ratio to 8.50% and the total capital ratio to 10.50%. At March 31, 2024, the Bank was in full compliance with these guidelines with a Tier 1 leverage ratio of 10.43%, a Tier 1 risk-based capital ratio of 17.14%, a common equity Tier 1 risk-based capital ratio of 17.14%, and a total risk-based capital ratio of 18.30%. The Company's capital amounts and ratios at March 31, 2024 and December 31, 2023 were as follows:

March 31, 2024	To Be Considered				To Be Well Capitalized	
	Actual		Adequately Capitalized		Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
Common equity tier 1	\$ 37,359	17.14 %	\$ 9,810	4.50 %	\$ 14,170	6.50 %
Total capital	\$ 39,891	18.30 %	\$ 17,440	8.00 %	\$ 21,799	10.00 %
Tier 1 capital	\$ 37,359	17.14 %	\$ 13,080	6.00 %	\$ 17,440	8.00 %
Tier 1 leverage	\$ 37,359	10.43 %	\$ 14,329	4.00 %	\$ 17,911	5.00 %

December 31, 2023	To Be Considered				To Be Well Capitalized	
	Actual		Adequately Capitalized		Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
Common equity tier 1	\$ 37,975	17.37 %	\$ 9,840	4.50 %	\$ 14,213	6.50 %
Total capital	\$ 40,237	18.40 %	\$ 17,493	8.00 %	\$ 21,867	10.00 %
Tier 1 capital	\$ 37,975	17.37 %	\$ 13,120	6.00 %	\$ 17,493	8.00 %
Tier 1 leverage	\$ 37,975	10.76 %	\$ 14,113	4.00 %	\$ 17,641	5.00 %

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's accounting policies are fully described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2023 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 allowance for credit losses ("ACL") consists of the allowance for credit losses and the reserve for unfunded commitments. In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"). The ASC, as amended, is intended to provide financial statement users with more decision useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income.

As a result of our adoption of ASC 326, our methodology for estimating the ACL changed significantly from December 31, 2020. The standard replaced the “incurred loss” approach with an “expected loss” approach known as current expected credit loss (“CECL”). The CECL methodology requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) and it removes the incurred loss methodology’s threshold that delayed the recognition of a credit loss until it was “probable” a loss event was deemed to be “incurred.”

The estimate of expected credit losses under the CECL methodology is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. We then consider whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was based. Finally, we consider forecasts about future economic conditions or changes in collateral values that are reasonable and supportable.

Management’s determination of the amount of the ACL is a critical accounting estimate as it requires significant reliance on the credit risk we ascribe to individual borrowers, the use of estimates and significant judgment as to the amount and timing of expected future cash flows on criticized loans, significant reliance on historical loss rates on homogenous portfolios, consideration of our quantitative and qualitative evaluation of past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts.

Going forward, the impact of utilizing the CECL methodology to calculate the ACL will be significantly influenced by the composition, characteristics, and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the allowance for credit losses, and therefore, greater volatility in our reported earnings. For further information regarding the Bank’s allowance for credit losses, see “Allowance for Credit Losses,” above.

Valuation of the Securities Portfolio. The Company early adopted ASC 326 during the first fiscal quarter 2021 and based on the application of the modified retrospective method it became effective on January 1, 2021 for all financial assets measured at amortized cost. Under ASC 326, the Company is required to use an allowance approach when recognizing credit loss for its Available-For-Sale (“AFS”) debt securities. This is measured as the difference between the investment security’s amortized cost basis and the amount expected to be collected over the investment security’s lifetime. Specifically, the length of time the security has been in an unrealized loss position will no longer be used to determine whether a credit loss exists. Impairment must be evaluated at the individual security level during each reporting period, through a comparison of the present value of expected cash flows from the security with the amortized cost basis of the security.

The Company conducts its assessment at the individual security level. When an AFS investment security is considered impaired, the Company determines whether the decline is credit loss related or due to other factors. To evaluate the nature of the impairment, the Company compares, at the reporting date, the present value of future cash flows expected to be received to the amortized cost basis. An impairment more than the calculated allowance related to credit losses is then recorded through other comprehensive income in equity, net of applicable taxes.

AFS investment securities issued by U.S. government agencies or U.S. government sponsored enterprises carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Municipal bonds are considered to have issuer(s) of high credit quality (rated A or higher) and the decline in fair value is due to changes in interest rates and other market conditions.

Corporate securities are non-rated investments that are booked as a debt security where rating agencies do not provide a rating. The absence of a rating does not imply substandard quality. Non-rated corporate securities may be purchased from issuers operating in and around the Company’s operating footprint.

Accrued Taxes. Management estimates income tax expense based on the amount it expects to owe various tax authorities. 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.

Deferred Income Taxes. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are recognized only to the extent that it is more likely than not that such an amount will be realized based on consideration of available evidence.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that current available evidence about the future raises doubt about the likelihood of a deferred tax asset being realized, a valuation allowance is established. We recognize a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination presumed to occur. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The judgment about the level of future taxable income is inherently subjective and is reviewed on a continual basis as regulatory and business factors change.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a "smaller reporting company" and, as such, disclosure pursuant to this Item 3 is not required.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. The Company's Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this quarterly report and have concluded that the system is effective. There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, we are party to litigation arising from the banking, financial, and other activities we conduct. Management, after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising from these matters will have a material effect on the Company's financial condition, operating results, or liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.

3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Form 8-A filed December 27, 1999, File No. 0-24047)
3.2	Articles of Amendment, dated October 8, 2003 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047)
3.3	Articles Supplementary, dated November 16, 1999 (incorporated by reference to Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed December 8, 1999, File No. 0-24047)
3.4	By-Laws (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2003, File No. 0-24047)
4.1	Description of Registrant's Securities (incorporated by reference to "Description of Common Stock" set forth in Amendment No. 1 to the Registrant's Form 8 A filed December 27, 1999, File No. 0-24047)
10.1	Glen Burnie Bancorp Director Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 33-62280)
10.2	The Bank of Glen Burnie Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-8, File No. 333-46943)
10.3	Amended and Restated Change-in-Control Severance Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2001, File No. 0-24047)
10.4	The Bank of Glen Burnie Executive and Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, File No. 0-24047)
31.1	Rule 15d-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 15d-14(a) Certification of Chief Financial Officer (filed herewith)
32	Section 1350 Certifications: Certification by the Principal Executive Officer and Principal Accounting Officer of the periodic financial reports, required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	Inline XBRL Instance Document (filed herewith)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)

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- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLEN BURNIE BANCORP
(Registrant)

Date: May 13, 2024

By: /s/ Mark C. Hanna
Mark C. Hanna
President, Chief Executive Officer

By: /s/ Jeffrey D. Harris
Jeffrey D. Harris
Chief Financial Officer

CERTIFICATION

I, Mark C. Hanna, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Glen Burnie Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 13, 2024

/s/ Mark C. Hanna
Mark C. Hanna
Chief Executive Officer

CERTIFICATION

I, Jeffrey D. Harris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Glen Burnie Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 13, 2024

/s/ Jeffrey D. Harris
Jeffrey D. Harris
Chief Financial Officer

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Glen Burnie Bancorp (the "Company") on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company for the periods reflected therein.

Date: May 13, 2024

/s/ Mark C. Hanna

Mark C. Hanna
President, Chief Executive Officer

/s/ Jeffrey D. Harris

Jeffrey D. Harris
Chief Financial Officer
