

GLEN BURNIE BANCORP
Form DEF 14A
April 04, 2008

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
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Glen Burnie Bancorp

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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[GLEN BURNIE BANCORP LETTERHEAD]

April 14, 2008

Dear Fellow Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Glen Burnie Bancorp (the “Company”) to be held at Michael’s Eighth Avenue, 7220 GrayburnDrive Glen Burnie, Maryland on Thursday, May 8, 2008 at 2:00 p.m.

The accompanying notice and proxy statement describe the formal business to be transacted at the meeting which includes the election of directors and authorization for the Board of Directors to select the Company’s auditors for the 2008 fiscal year.

Enclosed with this proxy statement are a proxy card and an Annual Report to Stockholders for the 2007 fiscal year. During the meeting, we will report on the operations of the Company’s wholly-owned subsidiary, The Bank of Glen Burnie. Directors and officers of the Company as well as representatives of Trice Geary & Myers LLC, our independent auditors, will be present to respond to any questions the stockholders may have.

ON BEHALF OF THE BOARD OF DIRECTORS, WE URGE YOU TO SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD AS SOON AS POSSIBLE EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING. This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the meeting. Your vote is important, regardless of the number of shares you own. If you plan to attend the meeting, please check the box on the enclosed form of proxy.

Sincerely,

John E. Demyan
Chairman

Michael G. Livingston
President and Chief
Executive Officer

GLEN BURNIE BANCORP
101 Crain Highway, S.E.
Glen Burnie, Maryland 21061
(410) 766-3300

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 8, 2008

NOTICE IS HEREBY GIVEN that the 2008 Annual Meeting of Stockholders (the "Annual Meeting") of Glen Burnie Bancorp (the "Company") will be held at Michael's Eighth Avenue, 7220 Grayburn Drive, Glen Burnie, Maryland on Thursday, May 8, 2008 at 2:00 p.m., Eastern Time.

A proxy statement and proxy card for the Annual Meeting accompany this notice.

The Annual Meeting has been called for the following purposes:

1. To elect four directors;
2. To authorize the Board of Directors to accept the selection of the Audit Committee of an outside auditing firm for the 2008 fiscal year; and
3. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Any action may be taken on any one of the foregoing proposals at the Annual Meeting on the date specified above or on any date or dates to which, by original or later adjournment, the Annual Meeting may be adjourned. Stockholders of record at the close of business on March 31, 2008 are the only stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments thereof.

You are requested to complete and sign the accompanying proxy card, which is solicited by the Board of Directors and to mail it promptly in the accompanying envelope. The proxy card will not be used if you attend and vote at the Annual Meeting in person.

BY ORDER OF THE BOARD OF DIRECTORS

Barbara J. Elswick
Secretary

Glen Burnie, Maryland
April 14, 2008

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE YOUR COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO ENSURE A QUORUM. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

**PROXY STATEMENT
OF
GLEN BURNIE BANCORP
101 Crain Highway, S.E.
Glen Burnie, Maryland 21061**

**ANNUAL MEETING OF STOCKHOLDERS
May 8, 2008**

GENERAL

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board of Directors” or “Board”) of Glen Burnie Bancorp (the “Company”) to be used at the 2008 Annual Meeting of Stockholders of the Company and any adjournments or postponements thereof (hereinafter called the “Annual Meeting”) which will be held at Michael’s Eighth Avenue, 7220 Grayburn Drive, Glen Burnie, Maryland on Thursday, May 8, 2008 at 2:00 p.m., Eastern Time. The accompanying Notice of Annual Meeting and form of proxy and this Proxy Statement are being first mailed to stockholders on or about April 14, 2008.

VOTING AND REVOCABILITY OF PROXIES

Proxies solicited by the Board of Directors of the Company will be voted in accordance with the directions given therein. **Where no instructions are given, proxies will be voted for the nominees named below and for the proposal to authorize the Board of Directors to accept the selection of the Audit Committee of an outside auditing firm for the 2008 fiscal year.** The proxy confers discretionary authority on the persons named therein to vote with respect to the election of any person as a director where the nominee is unable to serve or for good cause will not serve, and with respect to matters incident to the conduct of the Annual Meeting. If any other business is presented at the Annual Meeting, proxies will be voted by those named therein in accordance with the determination of a majority of the Board of Directors. Proxies marked as abstentions will not be counted as votes cast. In addition, shares held in street name which have been designated by brokers on proxy cards as not voted will not be counted as votes cast. Proxies marked as abstentions or as broker no votes, however, will be treated as shares present for purposes of determining whether a quorum is present.

Stockholders who execute proxies retain the right to revoke them at any time prior to being voted. Unless so revoked, the shares represented by properly executed proxies will be voted at the Annual Meeting and all adjournments thereof. Proxies may be revoked by written notice to Barbara J. Elswick, the Secretary of the Company, at the address above or by the filing of a later dated proxy prior to a vote being taken on a particular proposal at the Annual Meeting. A proxy will not be voted if a stockholder attends the Annual Meeting and votes in person. The presence of a stockholder at the Annual Meeting will not revoke such stockholder’s proxy.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The securities entitled to vote at the Annual Meeting consist of the Company’s common stock, par value \$1.00 per share (the “Common Stock”). Stockholders of record as of the close of business on March 31, 2008 (the “Record Date”)

are entitled to one vote for each share then held. At the Record Date, the Company had 2,987,228 shares of Common Stock issued and outstanding. The presence, in person or by proxy, of at least a majority of the total number of shares of Common Stock outstanding and entitled to vote will be necessary to constitute a quorum at the Annual Meeting. Persons and groups beneficially owning in excess of 5% of the Common Stock are required to file certain reports with respect to such ownership pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). The following table sets forth, as of the Record Date, certain information as to the Common Stock beneficially owned by all persons who were known to the Company to beneficially own more than 5% of the Common Stock outstanding at the Record Date.

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<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership¹</u>	<u>Percent of Shares Of Common Stock Outstanding</u>
John E. Demyan 101 Crain Highway, S.E. Glen Burnie, Maryland 21061	281,302	9.42%
Frederick W. Kuethe, III 377 Swinton Way Severna Park, Maryland 21032	156,196 ²	5.23%
Marrrian K. McCormick 8 Oak Lane Glen Burnie, Maryland 21061	165,171 ³	5.53%

¹Rounded to nearest whole share. For purposes of this table, a person is deemed to be the beneficial owner of any shares of Common Stock if he or she has or shares voting or investment power with respect to such Common Stock or has a right to acquire beneficial ownership at any time within 60 days from the Record Date. As used herein, “voting power” is the power to vote or direct the voting of shares and “investment power” is the power to dispose or direct the disposition of shares. Except as otherwise noted, ownership is direct, and the named individuals or group exercise sole voting and investment power over the shares of the Common Stock.

²Includes 21,004 shares held jointly, 940 shares held by Mr. Kuethe individually, 6,433 shares held by Mr. Kuethe for the benefit of a minor child, 427 shares held by Mrs. Kuethe individually, and 6,432 shares held by Mrs. Kuethe for the benefit of a minor child. Each disclaims beneficial ownership to the shares owned individually by the other. Also includes 120,960 shares held by Mr. Kuethe as one of the trustees for The Kuethe Family Educational Trust.

³Includes 5,739 shares held by Mrs. McCormick individually, 18,230 shares held by Mrs. McCormick for the benefit of minor children, 20,242 shares held by Mrs. McCormick jointly with others, and 120,960 shares held by Mrs. McCormick as one of the trustees for The Kuethe Family Educational Trust.

PROPOSAL I -- ELECTION OF DIRECTORS

The Board of Directors currently consists of 12 directors. Under the Company’s Articles of Incorporation, directors are divided into three classes and elected for terms of three years each and until their successors are elected and qualified. The Board has nominated John E. Demyan, Charles Lynch, Jr., F. W. Kuethe, III, and Mary Lou Wilcox for election as directors to serve for terms of three years each and until their successors are elected and qualified. Under Maryland law, directors are elected by a plurality of all votes cast at a meeting at which a quorum is present.

Unless contrary instruction is given, the persons named in the proxies solicited by the Board of Directors will vote each such proxy for the election of the named nominees. If any of the nominees is unable to serve, the shares represented by all properly executed proxies which have not been revoked will be voted for the election of such substitute as the Board may recommend or the Board may reduce the size of the Board to eliminate the vacancy. At this time, the Board does not anticipate that any nominee will be unavailable to serve.

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The following table sets forth, for each nominee and each continuing director, his or her name, age as of the Record Date, the year he or she first became a director of the Company, the expiration of his or her current term, and whether such individual has been determined by the Board to be “independent” as defined in Rule 4200(a)(15) of the listing standards of the National Association of Securities Dealers (NASD). Each nominee and continuing director is also a member of the Board of Directors of The Bank of Glen Burnie (the “Bank”) and GBB Properties, Inc. (“GBB Properties”). There are no known arrangements or understandings between any director or nominee for director of the Company and any other person pursuant to which such director or nominee has been selected as a director or nominee.

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<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Current Term to Expire</u>	<u>Independent</u>
<i>Board Nominees for Term to Expire in 2011</i>				
John E. Demyan	60	1995	2008	No
Charles Lynch, Jr.	54	2003	2008	Yes
F. W. Kuethe, III	48	1992	2008	No
Mary Lou Wilcox	59	1997	2008	Yes

Directors Continuing in Office

Shirley E. Boyer	71	1995	2009	Yes
Norman E. Harrison	62	2005	2009	Yes
Michael G. Livingston	54	2005	2009	No
Edward L. Maddox	57	2005	2009	Yes
Thomas Clocker	73	1995	2010	Yes
F. William Kuethe, Jr.	75	1995	2010	No
William N. Scherer, Sr.	84	1995	2010	Yes
Karen B. Thorwarth	50	1995	2010	Yes

Presented below is certain information concerning the nominees and directors continuing in office. Unless otherwise stated, all directors and nominees have held the positions indicated for at least the past five years.

John E. Demyan has been Chairman of the Board of the Company, the Bank and GBB Properties since 1995. He previously served as a director of the Company and the Bank from 1990 through 1994. He completed the Maryland Banking School in 1994. He is the owner and manager of commercial and residential properties in northern Anne Arundel County, Maryland. Mr. Demyan is also a commercial multi-engine pilot and flight instructor. He is an active volunteer with Angel Flight Mid-Atlantic, an organization that provides free air transportation for medical treatments to individuals who have exhausted their resources as a result of their medical condition.

Charles Lynch, Jr. is President of The General Ship Repair Corporation in Baltimore, Maryland and has over 30 years of experience in marine engineering and ship repair. He holds a Bachelor of Science degree in Industrial Engineering, with a minor in Ocean Engineering, from the University of Miami and serves on the Baltimore Maritime Museum's Board of Directors. He is an active member of the Propeller Club, Port of Baltimore Chapter, The Society of Naval Architects and Marine Engineers, The Maryland Marine Club, The Tupenny Club of Baltimore and the Annapolis Yacht Club.

Frederick W. Kuethe, III has been a Vice President of the Company since 1995 and a director of the Bank since 1988. In addition to his active participation on the board, he also works in software design and systems integration at Northrop Grumman Corp. He is a graduate of the Maryland Banking School. Mr. Kuethe is the son of F. William Kuethe, Jr.

Mary Lipin Wilcox is a teacher at Belle Grove Elementary School in Brooklyn Park, Maryland. She is an active member of her church, the teacher's association and the community. She has served on the Glen Burnie Improvement Association's Carnival Banking Committee for over 35 years as well as serving on other Carnival committees.

Shirley E. Boyer is the owner/manager of a large number of residential properties in Anne Arundel County, Maryland. She has 13 years experience in the local banking industry where she was given progressive responsibilities, holding positions from Teller to Assistant Branch Manager.

Norman E. Harrison, Jr., has 35 years of experience as a certified public accountant. He is a founding partner of Harrison & Company, LLC a public accounting firm specializing in auditing, accounting, taxes and consulting. Prior to opening his present company, Mr. Harrison was a senior partner responsible for managing the Baltimore office of Stegman & Company, P.A., a large regional public accounting firm. Mr. Harrison is a member of the American Institute of Certified Public Accountants and the Maryland Association of Certified Public Accountants. He currently serves as an advisory board or board member of several non profit organizations and a privately held corporation.

Michael G. Livingston became President and Chief Executive Officer on January 1, 2008. Prior to that date, he was Deputy Chief Executive Officer and Executive Vice President since August 2004 and became a Director on January 1, 2005. Mr. Livingston was a Senior Vice President from January 1998 until August 2004 and had been Chief Lending Officer of the Bank from 1996 until August 2004. He served as Deputy Chief Operating Officer from February 14, 2003 through December 31, 2003 and was appointed the Chief Operating Officer effective January 1, 2004.

Edward L. Maddox has 31 years of professional experience in the financial services industry. He currently provides expertise in the areas of profitability reporting, commercial lending revenue enhancement and international cash management products to major U.S. banks as a consultant with Automated Financial Systems. During his career Mr. Maddox worked in the operations division of First National Bank of Maryland and the Equitable Trust Company. He was a member of the Adjunct Faculty at Loyola College from 1980 - 1985 while serving as the director of consulting for Commercial Banking Funds Management with Littlewood, Shain & Company. In 2003, Governor Robert L. Ehrlich appointed Mr. Maddox to the Maryland State Information Technology Board. He served as a Delegate on the Greater Severna Park Council from 1979-1982 and 1989-1993. He currently serves on the Shipley's Choice Community Association's Board of Directors where he has held several leadership positions including a three-year term as President.

Thomas Clocker has been the owner/operator of Angel's Food Market in Pasadena, Maryland since 1960. He served on the Mid-Atlantic Food Association's board of directors for nine years and is a founding member of the Pasadena Business Association. Mr. Clocker is actively involved in the community as a supporter of local schools, athletic associations and scouting groups.

F. William Kuethe, Jr. served as President and Chief Executive Officer of the Company and the Bank from 1995 until 2007 and is currently President Emeritus. He also served as a director of the Bank from 1960 through 1989. He was formerly President of Glen Burnie Mutual Savings Bank from 1960 through 1995. Mr. Kuethe, a former licensed appraiser and real estate broker, has banking experience at all levels. Mr. Kuethe is the father of Frederick W. Kuethe, III.

William N. Scherer, Sr. has been a member of the local business community since 1952 when he owned and operated an accounting and tax business. After graduating from law school in 1962, he opened a law practice in Glen Burnie. He currently specializes in wills and estates. He previously operated Scherer's Market in Jessup, Maryland from 1960 to 2004. Mr. Scherer is chairman of the Audit Committee. Mr. Scherer is past director of the Chartwell Golf and Country Club and past President of the Mariner Sands Chapel, Stuart, Florida.

Karen B. Thorwarth is a Certified Insurance Counselor and a licensed agent. She has 24 years of experience including commercial property and casualty insurance, marketing, and underwriting of commercial boat and pleasure yacht insurance.

CORPORATE GOVERNANCE

The Board of Directors periodically reviews its corporate governance policies and procedures to ensure that the Company meets the highest standards of ethical conduct, reports results with accuracy and transparency, and maintains full compliance with the laws, rules and regulations which govern the Company's operations.

Meetings and Committees of the Board of Directors

Board of Directors. The Board of Directors consists of twelve members and holds regular monthly meetings and special meetings as needed. During the year ended December 31, 2007, the Board met 12 times. No incumbent

director attended fewer than 75% of the total number of meetings of the Board of Directors held during 2007 and the total number of meetings held by all committees on which the director served during such year. Board members are expected to attend the Annual Meeting of Stockholders, and all incumbent directors attended the 2007 Annual Meeting of Stockholders.

The Board has numerous committees, each of which meets at scheduled times, including the following committees:

Audit Committee. The Bank's Audit Committee acts as the audit committee for the Company and currently consists of Directors William N. Scherer, Sr., Shirley E. Boyer, Karen B. Thorwarth, Norman E. Harrison and Thomas Clocker. During the year ended December 31, 2007, the Audit Committee met 17 times.

The Audit Committee monitors internal accounting controls, meets with the Bank's Internal Auditor to review internal audit findings, recommends independent auditors for appointment by the Board, and meets with the Company's independent auditors regarding these internal controls to assure full disclosure of the Company's financial condition. Each member of the Audit Committee is independent, as defined in Rule 4200(a)(15) of the listing standards of the NASD, meets the criteria for independence set forth in Rule 10A-3(b)(1) promulgated under the Exchange Act, and otherwise meets the criteria for Audit Committee membership set forth in applicable NASD rules. In addition, each member of the Audit Committee is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. Additionally at least one member of the Committee has employment experience in finance or accounting and the requisite professional certification in accounting, which results in the individual's financial sophistication. The Audit Committee does not include an "audit committee financial expert" (as defined in applicable Securities and Exchange Commission (SEC) rules), because the Board of Directors believes that the benefits provided by the addition to the Audit Committee of an individual who meets the SEC criteria at this time do not justify the cost of retaining such an individual.

Employee Compensation and Benefits Committee. The Bank's Employee Compensation and Benefits Committee acts as the compensation committee for the Company and is composed of Directors Shirley E. Boyer, F. William Kuethe, Jr., John E. Demyan, William N. Scherer, Sr., Frederick W. Kuethe, III, Thomas Clocker, Michael G. Livingston, Norman Harrison, and Karen Thorwarth. Messrs. Kuethe, Demyan, Kuethe and Livingston are not independent directors. This Committee met three times during 2007. The purpose of the Compensation Committee is to evaluate and ascertain the appropriateness of compensation levels pertaining to the officers of the Bank other than the Chief Executive Officer and the other executive officers of the Bank. The compensation levels of the Chief Financial Officer is recommended by the Chief Executive Officer for deliberation and approval of the Committee prior to submission to the full Board. The compensation levels of the Chief Executive Officer and the other executive officers of the Bank are reviewed by the full Board of Directors and must be approved by a majority of the independent directors. No executive officer is present during deliberations or voting on his compensation.

Nominations. The independent members of the Company's Board of Directors acts as a nominating committee for the annual selection of its nominees for election as directors, and the Board held one meeting during 2008 in order to make nominations for directors. The Board has not adopted a charter with respect to the nominating committee function. The Board of Directors believes that the interests of the Company's shareholders are served by relegating the nominations process to the Board members who are independent from management. While the Board of Directors will consider nominees recommended by stockholders, it has not actively solicited recommendations from the Company's stockholders for nominees, nor established any procedures for this purpose. In considering prospective nominees, the Board of Directors will consider the prospect's relevant financial and business experience, familiarity with and participation in the Bank's market area, the integrity and dedication of the prospect, his independence and other factors the Board deems relevant. The Board of Directors will apply the same criteria to nominees recommended by stockholders as those recommended by the Board. Nominations by stockholders must comply with certain informational requirements set forth in Article III, Section 1 of the Company's Bylaws. See "Stockholder Proposals" elsewhere in this Proxy Statement.

Director Compensation

Director's Fees. Currently, all directors are paid a fee of \$1,000 for each combined regular or special meeting of the Company and the Bank attended, with fees paid for one excused absence. In addition to the foregoing director's fees, Mr. Demyan is compensated at the rate of \$30,000 per annum for the additional responsibilities of serving as the Chairman of the Board. Directors (other than F. William Kuethe, Jr., Mr. Demyan and Mr. Livingston who receive no fees for committee meetings) are paid an additional \$300 chairman fee or \$200 member fee, as applicable, for each committee meeting. Directors are also eligible for annual bonuses.

Executive and Director Deferred Compensation Plan. The Bank's Board of Directors has adopted The Bank of Glen Burnie Executive and Director Deferred Compensation Plan pursuant to which participating directors may elect to defer all or a portion of their fees on a pre-tax basis. Deferred fees are held in a trust account and invested as directed by the participant. Participants are fully vested in their accounts at all times and may elect to have their accounts paid out in a lump sum or in equal installments over a period of five, ten or fifteen years beginning on a date no earlier than three years after the initial deferral election. Upon a participant's death, any amounts remaining in their account will be paid to their beneficiaries.

Director Health Plan. All directors have the right to participate in the Bank's health insurance plan. Under the terms of the plan, the Bank pays 80% of the premiums for participating directors and their spouses.

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The following table summarizes the compensation paid to directors other than those included in the Summary Compensation Table below, for the fiscal year ended December 31, 2007:

<u>Name</u> (a)	<u>Fees Earned or</u> <u>Paid in Cash⁹</u>
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Hypothetical Examples

Hypothetical terms only. Actual terms may vary. See the cover page for actual offering terms.

The following examples are hypothetical and provided for illustrative purposes only. They do not purport to be representative of every possible scenario concerning increases or decreases in the price of the Underlying relative to its Initial Price. Royal Bank of Canada cannot predict the Final Price of the Underlying. You should not take these examples as an indication or assurance of the expected performance of the Underlying. The numbers appearing in the examples and tables below have been rounded for ease of analysis. The following examples and tables illustrate the Payment at Maturity or upon an automatic call per Note on a hypothetical offering of the Notes, based on the following hypothetical assumptions (actual terms for the Notes will be set on the Trade Date):

Principal Amount:	\$10.00
Term:	Approximately 2 years
Hypothetical Initial Price*:	\$100.00
Hypothetical Contingent Coupon Rate:	9% per annum (or 2.25% per quarter), which is the low end of the Contingent Coupon Rate set forth above.
Hypothetical Contingent Coupon**:	\$0.225 per quarter
Coupon Observation Dates:	Quarterly
Call Observation Dates:	Quarterly (callable after six months)
Hypothetical Downside Threshold*:	\$70.00 (which is 70% of the Initial Price)
Hypothetical Coupon Barrier*:	\$70.00 (which is 70% of the Initial Price)

* May not be the actual Initial Price, Contingent Coupon Rate, Coupon Barrier or Downside Threshold applicable to the Notes. The actual Initial Price, Contingent Coupon Rate, Coupon Barrier and Downside Threshold will be determined on the Trade Date.

** Contingent Coupon payments, if payable, will be paid in arrears in equal quarterly installments during the term of the Notes unless earlier called.

Scenario #1: Notes Are Called on the Second Coupon Observation Date (which is the first Call Observation Date).

Date	Closing Price	Payment (per Note)
First Coupon Observation Date	\$80.00 (at or above Coupon Barrier and Initial Price)	\$0.225 (Contingent Coupon – not callable)
Second Coupon Observation Date	\$105.00 (at or above Coupon Barrier and Initial Price)	\$10.225 (Call Settlement Amount)
	Total Payment:	\$10.45 (4.50% return)

Since the Notes are called on the second Coupon Observation Date, we will pay you on the Call Settlement Date a total of \$10.225 per Note, reflecting your principal amount plus the applicable Contingent Coupon. When added to the Contingent Coupon payment of \$0.225 received in respect of the first Coupon Observation Date, we will have paid you a total of \$10.45 per Note, for a 4.50% total return on the Notes. No further amount will be owed to you under the Notes.

Scenario #2: Notes Are Called on the Third Coupon Observation Date.

Date	Closing Price	Payment (per Note)
First Coupon Observation Date	\$95.00 (at or above Coupon Barrier; below Initial Price)	\$0.225 (Contingent Coupon – not callable)
Second Coupon Observation Date	\$85.00 (at or above Coupon Barrier; below	\$0.225 (Contingent Coupon – not

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Date	Initial Price)	called)
Third Coupon Observation Date	\$105.00 (at or above Initial Price)	\$10.225 (Call Settlement Amount)

Total Payment: \$10.675 (6.75% return)

Since the Notes are called on the third Coupon Observation Date, we will pay you on the Call Settlement Date a total of \$10.225 per Note, reflecting your principal amount plus the applicable Contingent Coupon. When added to the Contingent Coupon payments of \$0.45 received in respect of prior Coupon Observation Dates, we will have paid you a total of \$10.675 per Note, for a 6.75% total return on the Notes. No further amount will be owed to you under the Notes.

Scenario #3: Notes Are NOT Called and the Final Price of the Underlying Is at or Above the Downside Threshold.

Date	Closing Price	Payment (per Note)
First Coupon Observation Date	\$95.00 (at or above Coupon Barrier; below Initial Price)	\$0.225 (Contingent Coupon – not callable)
Second Coupon Observation Date	\$65.00 (below Coupon Barrier)	\$0.00 (not called)
Third Coupon Observation Date	\$60.00 (below Coupon Barrier)	\$0.00 (not called)
Fourth Coupon Observation Date	\$37.00 (below Coupon Barrier)	\$0.00 (not called)
Fifth to Seventh Coupon Observation Dates	Various (each at or above Coupon Barrier; below Initial Price)	\$0.675 (3 Contingent Coupon payments of \$0.225 –not called)
Final Valuation Date	\$85.00 (at or above Downside Threshold and Coupon Barrier; below Initial Price)	\$10.225 (Payment at Maturity)

Total Payment: \$11.25 (11.25% return)

At maturity, we will pay you a total of \$10.225 per Note, reflecting your principal amount plus the applicable Contingent Coupon. When added to the Contingent Coupon payments of \$0.90 received in respect of prior Coupon Observation Dates, we will have paid you a total of \$11.25 per Note, for a 11.25% total return on the Notes.

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Scenario #4: Notes Are NOT Called and the Final Price of the Underlying Is Below the Downside Threshold

Date	Closing Price	Payment (per Note)
First Coupon Observation Date	\$85.00 (at or above Coupon Barrier; below Initial Price)	\$0.225 (Contingent Coupon – not callable)
Second Coupon Observation Date	\$90.00 (at or above Coupon Barrier; below Initial Price)	\$0.225 (Contingent Coupon – not called)
Third Coupon Observation Date	\$95.00 (at or above Coupon Barrier; below Initial Price)	\$0.225 (Contingent Coupon – not called)
Fourth Coupon Observation Date	\$50.00 (below Coupon Barrier; below Initial Price)	\$0.00 (not called)
Fifth to Seventh Coupon Observation Dates	Various (each below Coupon Barrier; below Initial Price)	\$0.00 (not called)
Final Valuation Date	\$30.00 (below Downside Threshold and Coupon Barrier)	$\$10.00 + [\$10.00 \times \text{Underlying Return}] =$ $\$10.00 + [\$10.00 \times -70\%] =$ $\$10.00 - \$7.00 =$ \$3.00 (Payment at Maturity)
	Total Payment:	\$3.675 (-63.25% return)

Since the Notes are not called and the Final Price of the Underlying is below the Downside Threshold, we will pay you at maturity \$3.00 per Note. When added to the Contingent Coupon payments of \$0.675 received in respect of prior Coupon Observation Dates, we will have paid you \$3.675 per Note, for a loss on the Notes of 63.25%.

The Notes differ from ordinary debt securities in that, among other features, we are not necessarily obligated to repay the full amount of your initial investment. If the Notes are not called on any Call Observation Date, you may lose some or all of your initial investment. Specifically, if the Notes are not called and the Final Price is less than the Downside Threshold, you will lose 1% (or a fraction thereof) of your principal amount for each 1% (or a fraction thereof) that the Underlying Return is less than zero.

Any payment on the Notes, including payments in respect of an automatic call, Contingent Coupon or any repayment of principal provided at maturity, is dependent on our ability to satisfy our obligations when they come due. If we are unable to meet our obligations, you may not receive any amounts due to you under the Notes.

What Are the Tax Consequences of the Notes?

U.S. Federal Income Tax Consequences

The following, together with the discussion of U.S. federal income tax in the accompanying product prospectus supplement, prospectus supplement, and prospectus, is a general description of the material U.S. federal income tax consequences relating to an investment in the Notes. The following summary is not complete and is qualified in its entirety by the discussion under the section entitled “Supplemental Discussion of U.S. Federal Income Tax Consequences” in the accompanying product prospectus supplement no. UBS-TPAOS-2, the section entitled “Certain Income Tax Consequences” in the accompanying prospectus supplement, and the section entitled “Tax Consequences” in the accompanying prospectus, which you should carefully review prior to investing in the Notes. The discussions below and in the accompanying product prospectus supplement, prospectus supplement, and prospectus, do not address the tax consequences applicable to holders subject to Section 451(b) of the Internal Revenue Code.

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat the Notes as a callable pre-paid cash-settled contingent income-bearing derivative contract linked to the Underlying for U.S. federal income tax purposes, and the terms of the Notes require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the Notes for all tax purposes in accordance with such characterization. Although the U.S. federal income tax treatment of the Contingent Coupons is uncertain, we intend to take the position, and the following discussion assumes, that such Contingent Coupons (including any coupon paid on or with respect to the call or maturity date) constitute taxable ordinary income to a U.S. holder at the time received or accrued in accordance with the holder’s regular method of accounting. If the Notes are treated as described above, subject to the potential application of the “constructive ownership” rules under Section 1260 of the Internal Revenue Code, a U.S. holder should generally recognize capital gain or loss upon the call, sale or maturity of the Notes in an amount equal to the difference between the amount a holder receives at such time (other than amounts properly attributable to any Contingent Coupon, which would be taxed, as described above, as ordinary income) and the holder’s tax basis in the Notes. Capital gain recognized by an individual U.S. holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations.

Alternative tax treatments are also possible and the Internal Revenue Service might assert that a treatment other than that described above is more appropriate. In addition, the Internal Revenue Service has released a notice that may affect the taxation of holders of the Notes. According to the notice, the Internal Revenue Service and the Treasury Department are actively considering whether the holder of an instrument such as the Notes should be required to accrue ordinary income on a current basis. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The Internal Revenue Service and the Treasury Department are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital and whether the special “constructive ownership rules” of Section 1260 of the Internal Revenue Code might be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations.

Individual holders that own “specified foreign financial assets” may be required to include certain information with respect to such assets with their U.S. federal income tax return. You are urged to consult your own tax advisor regarding such requirements with respect to the Notes.

Under Section 871(m) of the Internal Revenue Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the Internal Revenue Service has issued guidance that states that the U.S. Treasury Department and the Internal Revenue Service intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Notes are not delta-one instruments,

non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Underlying or the Notes, and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Underlying or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

The Notes are not intended for purchase by any investor that is not a United States person, as that term is defined for U.S. federal income tax purposes, and the underwriters will not make offers of the Notes to any such investor.

Canadian Federal Income Tax Consequences

For a discussion of the material Canadian federal income tax consequences relating to an investment in the Notes, please see the section entitled “Tax Consequences—Canadian Taxation” in the accompanying prospectus, which you should carefully review prior to investing in the Notes.

Information About the Underlying

Included on the following pages is a brief description of the Underlying. This information has been obtained from publicly available sources. Set forth below is a table that provides the quarterly high, low and period-end closing prices for the Underlying. We obtained the closing price information set forth below from the Bloomberg Professional® service (“Bloomberg”) without independent verification. You should not take the historical prices of the Underlying as an indication of future performance.

The Underlying is registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Companies with securities registered under the Exchange Act are required to file financial and other information specified by the SEC periodically. Information filed by the Underlying with the SEC can be reviewed electronically through a web site maintained by the SEC. The address of the SEC’s website is <http://www.sec.gov>. Information filed with the SEC by the issuer of the Underlying under the Exchange Act can be located by reference to its SEC Central Index Key (“CIK”) number provided below. In addition, information filed with the SEC can be inspected and copied at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of this material can also be obtained from the Public Reference Section, at prescribed rates. Information from outside sources is not incorporated by reference in, and should not be considered part of, this free writing prospectus or any accompanying prospectus or prospectus supplement. We have not independently verified the accuracy or completeness of the information contained in outside sources.

SPDR S&P® Oil & Gas Exploration & Production ETF

We have derived the following information regarding the Underlying from publicly available documents. We have not independently verified the accuracy or completeness of the following information. We are not affiliated with the Underlying and the Underlying will have no obligations with respect to the Notes. This pricing supplement relates only to the Notes and does not relate to the shares of the Underlying or any securities held by the underlying index. Neither we nor our affiliates participate in the preparation of the publicly available documents described below. Neither we nor our affiliates have made any due diligence inquiry with respect to the Underlying in connection with the offering of the Notes. There can be no assurance that all events occurring prior to the date of this free writing prospectus, including events that would affect the accuracy or completeness of the publicly available documents described below, that would affect the trading price of the shares of the Underlying have been or will be publicly disclosed. Subsequent disclosure of any events or the disclosure of or failure to disclose material future events concerning the Underlying could affect the price of the shares of the Underlying after the pricing date, and therefore could affect the payment at maturity.

The selection of the Underlying is not a recommendation to buy or sell the shares of the Underlying. Neither we nor any of our affiliates make any representation to you as to the performance of the shares of the Underlying.

The SPDR S&P® Oil & Gas Exploration & Production ETF

The Underlying is an investment portfolio maintained and managed by SSFM. The Underlying trades on the NYSE Arca under the ticker symbol “XOP.” The inception date of the Underlying is June 19, 2006. Prior to January 8, 2007, the Underlying was known as the SPDR® Oil & Gas Exploration & Production ETF.

The Underlying seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the underlying index. The underlying index represents the oil and gas exploration and production sub-industry portion of the S&P Total Market Index (“S&P TMI”), an index that measures the performance of the U.S. equity market. The Underlying is composed of companies that are in the oil and gas sector exploration and production.

The Underlying utilizes a “replication” investment approach in attempting to track the performance of the underlying index. The Underlying typically invests in substantially all of the securities which comprise the underlying index in approximately the same proportions as the underlying index. The Underlying will normally invest at least 80% of its total assets in common stocks that comprise the underlying index.

The information above was compiled from the SPDR® website. We have not independently investigated the accuracy of that information. Information contained in the SPDR® website is not incorporated by reference in, and should not be considered a part of, this document.

S&P® Oil & Gas Exploration & Production Select Industry® Index

We have derived all information contained in this document regarding the underlying index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. Such information reflects the policies of, and is subject to change by, S&P.

The underlying index is an equal-weighted index that is designed to measure the performance of the oil and gas exploration and production sub-industry portion of the S&P TMI. The S&P TMI includes all U.S. common equities listed on the NYSE (including NYSE Arca), the NYSE American, the Nasdaq Global Select Market, and the Nasdaq Capital Market. Each of the component stocks in the underlying index is a constituent company within the oil and gas exploration and production sub-industry portion of the S&P TMI.

To be eligible for inclusion in the underlying index, companies must be in the S&P TMI and must be included in the relevant Global Industry Classification Standard (GICS) sub-industry. The GICS was developed to establish a global standard for categorizing companies into sectors and industries. In addition to the above, companies must satisfy one of the two following combined size and liquidity criteria:

- float-adjusted market capitalization above US\$500 million and float-adjusted liquidity ratio above 90%; or
- float-adjusted market capitalization above US\$400 million and float-adjusted liquidity ratio above 150%.

All U.S. companies satisfying these requirements are included in the underlying index. The total number of companies in the underlying index should be at least 35. If there are fewer than 35 stocks, stocks from a supplementary list of highly correlated sub-industries that meet the market capitalization and liquidity thresholds above are included in order of their float-adjusted market capitalization to reach 35 constituents. Minimum market capitalization requirements may be relaxed to ensure there are at least 22 companies in the underlying index as of each rebalancing effective date.

Eligibility factors include:

Market Capitalization: Float-adjusted market capitalization should be at least US\$400 million for inclusion in the underlying index. Existing index components must have a float-adjusted market capitalization of US\$300 million to remain in the underlying index at each rebalancing.

Liquidity: The liquidity measurement used is a liquidity ratio, defined as dollar value traded over the previous 12-months divided by the float-adjusted market capitalization as of the underlying index rebalancing reference date. Stocks having a float-adjusted market capitalization above US\$500 million must have a liquidity ratio greater than 90% to be eligible for addition to the underlying index. Stocks having a float-adjusted market capitalization between US\$400 and US\$500 million must have a liquidity ratio greater than 150% to be eligible for addition to the underlying index. Existing index constituents must have a liquidity ratio greater than 50% to remain in the underlying index at the quarterly rebalancing. The length of time to evaluate liquidity is reduced to the available trading period for IPOs or spin-offs that do not have 12 months of trading history.

Takeover Restrictions: At the discretion of S&P, constituents with shareholder ownership restrictions defined in company bylaws may be deemed ineligible for inclusion in the underlying index. Ownership restrictions preventing entities from replicating the index weight of a company may be excluded from the eligible universe or removed from the underlying index.

Turnover: S&P believes turnover in index membership should be avoided when possible. At times, a company may appear to temporarily violate one or more of the addition criteria. However, the addition criteria are for addition to the underlying index, not for continued membership. As a result, an index constituent that appears to violate the criteria for addition to the underlying index will not be deleted unless ongoing conditions warrant a change in the composition of the underlying index.

HISTORICAL INFORMATION

The following table sets forth the quarterly high, low and period-end closing prices for the Underlying, based on daily closing prices, as reported by Bloomberg L.P. The historical performance of the Underlying should not be taken as an indication of its future performance during the term of the Notes.

Quarter Begin	Quarter End	Quarterly Closing High	Quarterly Closing Low	Quarterly Period-End Close
1/1/2008	3/31/2008	\$55.83	\$44.79	\$53.73
4/1/2008	6/30/2008	\$71.31	\$54.44	\$70.15
7/1/2008	9/30/2008	\$70.93	\$42.68	\$44.83
10/1/2008	12/31/2008	\$43.38	\$22.97	\$29.64
1/1/2009	3/31/2009	\$33.48	\$23.41	\$26.60
4/1/2009	6/30/2009	\$38.25	\$27.54	\$31.72
7/1/2009	9/30/2009	\$39.61	\$28.51	\$38.62
10/1/2009	12/31/2009	\$43.36	\$36.91	\$41.21
1/1/2010	3/31/2010	\$44.07	\$39.22	\$42.13
4/1/2010	6/30/2010	\$45.82	\$38.57	\$38.99
7/1/2010	9/30/2010	\$42.85	\$38.05	\$42.26
10/1/2010	12/31/2010	\$52.71	\$42.18	\$52.69
1/1/2011	3/31/2011	\$64.50	\$52.75	\$64.50
4/1/2011	6/30/2011	\$64.97	\$54.71	\$58.78
7/1/2011	9/30/2011	\$65.24	\$42.80	\$42.80
10/1/2011	12/31/2011	\$57.56	\$39.99	\$52.69
1/1/2012	3/31/2012	\$61.34	\$52.67	\$56.91
4/1/2012	6/30/2012	\$57.85	\$45.20	\$50.40
7/1/2012	9/30/2012	\$59.35	\$48.73	\$55.69
10/1/2012	12/31/2012	\$57.38	\$50.69	\$54.07
1/1/2013	3/31/2013	\$62.10	\$55.10	\$60.49
4/1/2013	6/30/2013	\$62.61	\$54.71	\$58.18
7/1/2013	9/30/2013	\$66.47	\$58.62	\$65.89
10/1/2013	12/31/2013	\$72.74	\$65.02	\$68.53
1/1/2014	3/31/2014	\$71.83	\$64.04	\$71.83
4/1/2014	6/30/2014	\$83.45	\$71.19	\$82.28
7/1/2014	9/30/2014	\$82.08	\$68.83	\$68.83
10/1/2014	12/31/2014	\$66.84	\$42.75	\$47.86
1/1/2015	3/31/2015	\$53.94	\$42.55	\$51.66
4/1/2015	6/30/2015	\$55.63	\$46.43	\$46.66
7/1/2015	9/30/2015	\$45.22	\$31.71	\$32.84
10/1/2015	12/31/2015	\$40.53	\$28.64	\$30.22
1/1/2016	3/31/2016	\$30.96	\$23.60	\$30.35
4/1/2016	6/30/2016	\$37.50	\$29.23	\$34.81
7/1/2016	9/30/2016	\$39.12	\$32.75	\$38.46
10/1/2016	12/31/2016	\$43.42	\$34.73	\$41.42
1/1/2017	3/31/2017	\$42.21	\$35.17	\$37.44
4/1/2017	6/30/2017	\$37.89	\$30.17	\$31.92
7/1/2017	9/30/2017	\$34.37	\$29.09	\$34.09
10/1/2017	12/31/2017	\$37.64	\$32.25	\$37.18
1/1/2018	3/31/2018	\$39.85	\$32.38	\$35.22
4/1/2018	6/21/2018*	\$44.22	\$34.03	\$41.26

* This document includes information for the second calendar quarter of 2018 for the period from April 1, 2018 through June 21, 2018. Accordingly, the “Quarterly Closing High,” “Quarterly Closing Low” and “Quarterly Period-End

Close” data indicated are for this shortened period only and do not reflect complete data for the second calendar quarter of 2018.

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The graph below illustrates the performance of the Underlying from June 23, 2008 to June 21, 2018, assuming an Initial Price of \$41.26, which was its closing price on June 21, 2018. The solid line represents a hypothetical Coupon Barrier and Downside Threshold of \$28.88, which is equal to 70.00% of the closing price on June 21, 2018 (rounded to two decimal places). The actual Coupon Barrier and Downside Threshold will be based on the closing price of the XOP on the Trade Date.

n Hypothetical Coupon Barrier / Downside Threshold = 70%

HISTORIC PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.

Source: Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets.

Supplemental Plan of Distribution (Conflicts of Interest)

We have agreed to indemnify UBS and RBCCM against liabilities under the Securities Act of 1933, as amended, or to contribute payments that UBS and RBCCM may be required to make relating to these liabilities as described in the prospectus supplement and the prospectus. We will agree that UBS Financial Services Inc. may sell all or a part of the Notes that it will purchase from us to investors at the price public or to its affiliates at the price indicated on the cover of the pricing supplement, the document that will be filed under Rule 424(b)(2) containing the final pricing terms of the Notes.

Subject to regulatory constraints and market conditions, RBCCM intends to offer to purchase the Notes in the secondary market, but it is not required to do so.

We or our affiliates may enter into swap agreements or related hedge transactions with one of our other affiliates or unaffiliated counterparties in connection with the sale of the Notes and RBCCM and/or an affiliate may earn additional income as a result of payments pursuant to the swap or related hedge transactions. See “Use of Proceeds and Hedging” in the accompanying product prospectus supplement no. UBS-TPAOS-2.

We expect to deliver the Notes on a date that is greater than two business days following the Trade Date. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The value of the Notes shown on your account statement may be based on RBCCM’s estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. If so specified in the pricing supplement related to the Notes, for a period of approximately 6 months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM’s estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period may be a higher amount, potentially reflecting the addition of the underwriting discount and our estimated costs and profits from hedging the Notes. Any such excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value. This period may be reduced at RBCCM’s discretion based on a variety of factors, including but not limited to, the amount of the Notes that we repurchase and our negotiated arrangements from time to time with UBS.

For additional information as to the relationship between us and RBCCM, please see the section “Plan of Distribution—Conflicts of Interest” in the prospectus dated January 8, 2016.

No Prospectus (as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”)) will be prepared in connection with the Notes. Accordingly, the Notes may not be offered to the public in any member state of the European Economic Area (the “EEA”), and any purchaser of these Notes who subsequently sells any of the Notes in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a “retail investor” means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Structuring the Notes

The Notes are our debt securities, the return on which is linked to the performance of the Underlying. As is the case for all of our debt securities, including our structured notes, the economic terms of the Notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Notes at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate is a factor that is likely to result in a higher initial estimated value of the Notes at the time their terms are set than if the secondary market rate was used. Unlike the estimated value included on the cover of this document or in the final pricing supplement relating to the Notes, any value of the Notes determined for purposes of a secondary market transaction may be based on a different borrowing rate, which may result in a lower value for the Notes than if our initial internal borrowing rate were used.

In order to satisfy our payment obligations under the Notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Underlying, and the tenor of the Notes. The economic terms of the Notes and their initial estimated value depend in part on the terms of these hedging arrangements. The lower implied borrowing rate is a factor that reduces the economic terms of the Notes to you. The initial offering price of the Notes also reflects the underwriting commission and our estimated hedging costs. These factors result in the initial estimated value for the Notes on the Trade Date being less than their public offering price. See “Key Risks—The Initial Estimated Value of the Notes Will Be Less than the Price to the Public” above.

Terms Incorporated in Master Note

The terms appearing above under the caption “Indicative Terms of the Notes” and the provisions in the accompanying product prospectus supplement no. UBS-TPAOS-2 dated January 20, 2016 under the caption “General Terms of the Securities” are incorporated into the master note issued to DTC, the registered holder of the Notes. In addition to those terms, the following two sentences are also incorporated into the master note: RBC confirms that it fully understands and is able to calculate the effective annual rate of interest applicable to the Notes based on the methodology for calculating per annum rates provided for in the Notes. RBC irrevocably agrees not to plead or assert Section 4 of the Interest Act (Canada), whether by way of defense or otherwise, in any proceeding relating to the Notes.