NACCO INDUSTRIES INC
Form DEF 14A
March 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
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
Filed by the Registrant þ

Filed by a Party other than the Registrant
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under Rule 14a-12
NACCO INDUSTRIES, INC.
(Name of Registrant as Specified in Its Charter)
Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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5875 LANDERBROOK DRIVE; SUITE 220
CLEVELAND, OHIO 44124-4069

NOTICE OF ANNUAL MEETING

The Annual Meeting of stockholders of NACCO Industries, Inc., which we refer to as the Company, will be held on Tuesday, May 7, 2013 at 9:00 A.M., at 5875 Landerbrook Drive, Cleveland, Ohio, for the following purposes:

1. To elect nine directors for the ensuing year;
2. To act on the proposal to approve, for purposes of Section 162(m) of the Internal Revenue Code, the NACCO Industries, Inc. Annual Incentive Compensation Plan;
3. To ratify the appointment of the independent registered public accounting firm of the Company for the current fiscal year; and
4. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 13, 2013 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof. The 2013 Proxy Statement and related form of proxy are being mailed to stockholders commencing on or about March 22, 2013.

John D. Neumann
Secretary
March 22, 2013

Important Notice Regarding the Availability of Proxy Materials for the
Annual Meeting of Stockholders To Be Held on May 7, 2013

The 2013 Proxy Statement and 2012 Annual Report are available, free of charge, at http://www.nacco.com by clicking on the “2013 Annual Meeting Materials” link and then clicking on either the “2013 Proxy Statement” link or the “2012 Annual Report” link, as appropriate.

If you wish to attend the meeting and vote in person, you may do so.

The Company's Annual Report for the year ended December 31, 2012 is being mailed to stockholders concurrently with the 2013 Proxy Statement. The 2012 Annual Report contains financial and other information about the Company, but is not incorporated into the 2013 Proxy Statement and is not deemed to be a part of the proxy soliciting material.

If you do not expect to be present at the Annual Meeting, please promptly fill out, sign, date and mail the enclosed form of proxy or, in the alternative, vote your shares electronically either over the internet (www.investorvote.com/NC) or by touch-tone telephone (1-800-652-8683). If you hold shares of both Class A Common Stock and Class B Common Stock, you only have to complete the single enclosed form of proxy or vote once via the internet or telephone. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States.

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5875 LANDERBROOK DRIVE; SUITE 220
CLEVELAND, OHIO 44124-4069
PROXY STATEMENT — MARCH 22, 2013

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of NACCO Industries, Inc., a Delaware corporation, which we also refer to as the Company, NACCO, we, our or us, of proxies to be used at the annual meeting of stockholders of the Company to be held on May 7, 2013, which we refer to as the Annual Meeting. This Proxy Statement and the related form of proxy are being mailed to stockholders commencing on or about March 22, 2013.

If the enclosed form of proxy is executed, dated and returned or if you vote electronically, the shares represented by the proxy will be voted as directed on all matters properly coming before the Annual Meeting for a vote. Proxies that are properly signed without any indication of voting instructions will be voted as follows:

- for the election of each director nominee;
- for the approval of the incentive compensation plan recommended by our Board of Directors;
- for the ratification of the appointment of the independent registered public accounting firm; and
- as recommended by our Board of Directors with regard to any other matters or, if no recommendation is given, in the proxy holders' own discretion.

The proxies may be revoked at any time prior to their exercise by giving notice to us in writing or by executing and delivering a later dated proxy. Attendance at the Annual Meeting will not automatically revoke a proxy, but a stockholder attending the Annual Meeting may request a ballot and vote in person, thereby revoking a previously granted proxy.

Stockholders of record at the close of business on March 13, 2013 will be entitled to notice of, and to vote at, the Annual Meeting. On that date, we had 6,787,202 outstanding shares of Class A Common Stock, par value $1.00 per share, which we refer to as the Class A Common, entitled to vote at the Annual Meeting and 1,582,255 shares of Class B Common Stock, par value $1.00 per share, which we refer to as the Class B Common, entitled to vote at the Annual Meeting. Each share of Class A Common is entitled to one vote for a nominee for each of the nine directorships to be filled and one vote on each other matter properly brought before the Annual Meeting. Each share of Class B Common is entitled to ten votes for each such nominee and ten votes on each other matter properly brought before the Annual Meeting. Class A Common and Class B Common will vote as a single class on all matters anticipated to be brought before the Annual Meeting.

At the Annual Meeting, in accordance with Delaware law and our Bylaws, the inspectors of election appointed by the Board of Directors for the Annual Meeting will determine the presence of a quorum and will tabulate the results of stockholder voting. As provided by Delaware law and our Bylaws, the holders of a majority of our stock, issued and outstanding, and entitled to vote at the Annual Meeting and present in person or by proxy at the Annual Meeting, will constitute a quorum for the Annual Meeting. The inspectors of election intend to treat properly executed proxies marked “abstain” as “present” for purposes of determining whether a quorum has been achieved at the Annual Meeting. The inspectors will also treat proxies held in “street name” by brokers that are voted on at least one, but not all, of the proposals to come before the Annual Meeting, which we refer to as broker non-votes, as “present” for purposes of determining whether a quorum has been achieved at the Annual Meeting.

In accordance with Delaware law, the nine director nominees receiving the greatest number of votes will be elected directors. Proposal two is to approve, for purposes of Section 162(m) of the Internal Revenue Code, which we refer to as Code Section 162(m), the NACCO Industries, Inc. Annual Incentive Compensation Plan, which we refer to as the NACCO Short-Term Plan. The affirmative vote of a majority of the votes cast is required to approve proposal two for purposes of Code Section 162(m). For purposes of Code Section 162(m), abstentions and broker non-votes will not be treated as votes cast, so abstentions and broker non-votes will not affect the outcome of proposal two.

In accordance with our Bylaws, the affirmative vote of the holders of a majority of the voting power of our stock that is present in person or represented by proxy and that is actually voted is required to approve all other proposals that are brought before the Annual Meeting. As a result, abstentions and broker non-votes in respect of any proposal will not be counted for purposes of determining whether a proposal has received the requisite approval by our stockholders.

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In accordance with Delaware law and our Bylaws, we may, by a vote of the stockholders, in person or by proxy, adjourn the Annual Meeting to a later date or dates, without changing the record date. If we were to determine that an adjournment was desirable, the appointed proxies would use the discretionary authority granted pursuant to the proxy cards to vote in favor of such an adjournment.

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BUSINESS TO BE TRANSACTED

1. Election of Directors

Director Nominee Information

It is intended that shares represented by proxies in the enclosed form will be voted for the election of the nominees named in the following table to serve as directors for a term until the next annual meeting and until their successors are elected, unless contrary instructions are received. All of the nominees listed below presently serve as our directors and were elected at our 2012 annual meeting of stockholders, except James A. Ratner and David B.H. Williams, who were appointed to fill vacancies on our Board of Directors effective September 28, 2012, the date on which we spun-off Hyster-Yale Materials Handling, Inc, which we refer to as Hyster-Yale, to our stockholders. If an unexpected occurrence should make it necessary, in the judgment of the proxy holders, to substitute some other person for any of the nominees, shares represented by proxies will be voted for such other person as the proxy holders may select.

The disclosure below provides information as of the date of this Proxy Statement about each director nominee. The information presented is based upon information each director has given us about his age, positions held, principal occupation and business experience for the past five years, and the names of other publicly-held companies for which he currently serves as a director or has served as a director during the past five years. In addition, we have presented information regarding each nominee's specific experience, qualifications, attributes and skills that led our Board of Directors to the conclusion that he should serve as a director. We also believe that the nomination of each of our director nominees is in the best long-term interests of our stockholders, as each individual possesses the highest personal and professional ethics, integrity and values, and has the judgment, skill, independence and experience required to serve as a member of our Board of Directors. Each individual has also demonstrated a strong commitment of service to the Company.

Name	Age	Principal Occupation and Business Experience and Other Directorships in Public Companies During Last Five Years	Director Since
John P. Jumper	68	President, Chief Executive Officer and Chairman of the Board of Science Applications International Corporation (a government technology solutions company). Retired Chief of Staff, United States Air Force. From prior to 2008, President, John P. Jumper & Associates (aerospace consulting). Also, Director of Wesco Aircraft Holding, Inc. and Hyster-Yale. From prior to 2008 to 2012, Director of Goodrich Corporation. From prior to 2008 to 2009, Director of TechTeam Global and from prior to 2008 to 2010, Director of Somanectics Corp. From prior to 2008 to February 2012, Director of Jacobs Engineering, Inc.	2012
		Through his extensive military career, including as the highest-ranking officer in the U.S. Air Force, General Jumper developed valuable and proven leadership and management skills that make him a significant contributor to our Board of Directors. In addition, General Jumper's service on the boards of other publicly-traded corporations allows him to provide valuable insight to the Board of Directors on matters of corporate governance and executive compensation policies and practices.	
Dennis W. LaBarre	70	Partner in the law firm of Jones Day. Mr. LaBarre also serves as a Director of Hyster-Yale.	1982
		Mr. LaBarre is a lawyer with broad experience counseling boards and senior management of publicly-traded and private corporations regarding corporate governance, compliance and other domestic and international business and transactional issues. In addition, he has over	

30 years of experience as a member of senior management of a major international law firm. These experiences enable him to provide our Board of Directors with an expansive view of the legal and business issues pertinent to the Company, which is further enhanced by his extensive knowledge of us as a result of his many years of service on our Board of Directors and through his involvement with its committees.

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Name	Age	Principal Occupation and Business Experience and Other Directorships in Public Companies During Last Five Years	Director Since
Richard de J. Osborne	78	Retired Chairman and Chief Executive Officer of ASARCO Incorporated (a leading producer of non-ferrous metals). Current non-executive Chairman of the Board of Directors of Datawatch Corp. Mr. Osborne's experience as chairman, chief executive officer and chief financial officer of a leading producer of non-ferrous metals enables him to provide our Board of Directors with a wealth of experience in and understanding of the mining industry. From this experience, as well as his past and current service on the boards of other publicly-traded corporations, Mr. Osborne offers our Board of Directors a comprehensive perspective for developing corporate strategies and managing risks of a major publicly-traded corporation.	1998
Alfred M. Rankin, Jr.	71	Chairman, President and Chief Executive Officer of the Company. Chairman of the Board of each of our principal wholly-owned subsidiaries: The North American Coal Corporation, which we refer to as NA Coal, Hamilton Beach Brands, Inc., which we refer to as HBB, and The Kitchen Collection, LLC, which we refer to as KC. Also, Chairman, President and Chief Executive Officer of Hyster-Yale and Chairman of its principal operating subsidiary, NACCO Materials Handling Group, Inc., which we refer to as NMHG. Also, Director of Hyster-Yale and The Vanguard Group. From prior to 2008 to 2012, Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland. From prior to 2008 to 2012, Director of Goodrich Corporation. In over 40 years of service to the Company as a Director and over 20 years in senior management, Mr. Rankin has amassed extensive knowledge of all of our strategies and operations. In addition to his extensive knowledge of the Company, he also brings to our Board of Directors unique insight resulting from his service on the boards of other publicly-traded corporations and former service on the Board of Directors of the Federal Reserve Bank of Cleveland. Additionally, through his dedicated service to many of Cleveland's cultural institutions, he provides a valuable link between our Board of Directors, the Company and the community surrounding our corporate headquarters.	1972
James A. Ratner	68	Executive Vice President of Forest City Enterprises, Inc. (a real estate development company) and Chairman and Chief Executive Officer of Forest City Commercial Group, the commercial real estate development and management division of Forest City. Mr. Ratner's experience in senior management of a major publicly-traded company and his service on the boards of many of Cleveland's civic and cultural institutions provides our Board of Directors with valuable insight into corporate governance and strategy	2012

		and provides a valuable link between our Board of Directors, the Company and the community surrounding our corporate headquarters.	
Britton T. Taplin	56	Self-employed (personal investments). Mr. Taplin also serves as a Director of Hyster-Yale. Mr. Taplin is the grandson of the founder of the Company and brings the perspective of a long-term stockholder to our Board of Directors.	1992

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Name	Age	Principal Occupation and Business Experience and Other Directorships in Public Companies During Last Five Years	Director Since
David F. Taplin	63	Self-employed (tree farming). Mr. Taplin is the grandson of the founder of the Company and brings the perspective of a long-term stockholder to our Board of Directors.	1997
John F. Turben	77	Founding Partner of Kirtland Capital Partners (a private equity company). Mr. Turben brings to our Board of Directors the entrepreneurial perspective of a founder and operator of a successful company. Mr. Turben has acquired extensive experience handling transactional and investment issues through his over 35 years of involvement in operating a private equity firm. Through this experience, as well as his service on other boards of publicly-traded corporations and private institutions, he provides important insight and assistance to our Board of Directors in the areas of finance, investments and corporate governance, which enable him to be a significant contributor to our Board of Directors.	1997
David B.H. Williams	43	Partner in the law firm of Williams, Bax & Saltzman, P.C. Mr. Williams is a lawyer with nearly 20 years of experience in providing legal counsel to businesses in connection with litigation and commercial matters. Mr. Williams' substantial experience as a litigator and commercial advisor enables him to provide valuable insight on business and legal issues pertinent to the Company.	2012

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Directors' Meetings and Committees

The Board of Directors has an Audit Review Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, a Finance Committee and an Executive Committee. The members of such committees are as follows:

Audit Review Committee
John P. Jumper
Richard de J. Osborne (Chairman)
James A. Ratner
John F. Turben

Compensation Committee
John P. Jumper
Richard de J. Osborne (Chairman)
James A. Ratner

Finance Committee
Dennis W. LaBarre
Alfred M. Rankin, Jr.
James A. Ratner
Britton T. Taplin
John F. Turben (Chairman)
David B.H. Williams

Executive Committee
Dennis W. LaBarre
Richard de J. Osborne
Alfred M. Rankin, Jr. (Chairman)
John F. Turben

Nominating and Corporate Governance Committee
John P. Jumper (Chairman)
Dennis W. LaBarre
Richard de J. Osborne
David F. Taplin

The Audit Review Committee held eight meetings in 2012. The Audit Review Committee has the responsibilities set forth in its charter with respect to:

- the quality and integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the adequacy of our internal controls;
- our guidelines and policies to monitor and control our major financial risk exposures;
- the qualifications, independence, selection and retention of the independent registered public accounting firm;
- the performance of our internal audit function and independent registered public accounting firm;
- assisting our Board of Directors and us in interpreting and applying our Corporate Compliance Program and other issues related to corporate and employee ethics; and
- preparing the Annual Report of the Audit Review Committee to be included in our Proxy Statement.

Our Board of Directors has determined that Richard de J. Osborne, the Chairman of the Audit Review Committee, qualifies as an audit committee financial expert as defined in Section 407(d) of Regulation S-K under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. The Board of Directors has determined that Mr. Osborne and each of the members of the Audit Review Committee are independent, as that term is defined in the listing standards of the New York Stock Exchange, which we refer to as the NYSE, and Rule 10A-3(b)(1) under the Exchange Act. Our Board of Directors believes that, in keeping with our high standards, all members of the Audit Review Committee should have a high level of financial knowledge, and has determined that each member of the Audit Review Committee is financially literate as described in Section 303A.07(a) of the NYSE listing standards. No member of the Audit Review Committee serves individually on more than three public company audit committees.

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The Compensation Committee held six meetings in 2012. The Compensation Committee has the responsibilities set forth in its charter with respect to the administration of our policies, programs and procedures for compensating our employees, including our executive officers and directors. Among other things, the Compensation Committee's responsibilities include:

- the review and approval of corporate goals and objectives relevant to compensation for the Chief Executive Officer and other executive officers;
- the evaluation of the performance of the Chief Executive Officer and other executive officers in light of these goals and objectives;
- the determination and approval of Chief Executive Officer and other executive officer compensation levels;
- the consideration of whether the risks arising from our employee compensation policies and practices are reasonably likely to have a material adverse effect on us;
- the making of recommendations to our Board of Directors, where appropriate or required, and the taking of other actions with respect to all other compensation matters, including incentive compensation plans and equity-based plans; and
- the review and approval of the Compensation Discussion and Analysis and the preparation of the annual Compensation Committee Report to be included in our Proxy Statement.

Consistent with applicable laws, rules and regulations, the Compensation Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to one or more subcommittees of the Compensation Committee or, in appropriate cases, to our senior managers. The Compensation Committee retains and receives assistance in the performance of its responsibilities from an internationally recognized compensation consulting firm, discussed further below under the heading "Executive Compensation - Compensation Discussion and Analysis - Compensation Consultants." Each member of the Compensation Committee is independent, as defined in the NYSE listing standards.

The Nominating and Corporate Governance Committee held three meetings in 2012. The Nominating and Corporate Governance Committee has the responsibilities set forth in its charter. Among other things, the Nominating and Corporate Governance Committee's responsibilities include:

- the review and making of recommendations to our Board of Directors of the criteria for membership on our Board of Directors;
- the review and making of recommendations to our Board of Directors of the optimum number and qualifications of directors believed to be desirable;
- the establishment and monitoring of a system to receive suggestions for nominees to directorships of the Company; and
- the identification and making of recommendations to our Board of Directors of specific candidates for membership on our Board of Directors.

The Nominating and Corporate Governance Committee will consider director candidates recommended by our stockholders. See "- Procedures for Submission and Consideration of Director Candidates" on page 9. In addition to the foregoing responsibilities, the Nominating and Corporate Governance Committee is responsible for reviewing our Corporate Governance Guidelines and recommending changes to the Corporate Governance Guidelines, as appropriate; overseeing evaluations of the Board of Directors' effectiveness; and annually reporting to the Board of Directors the Nominating and Corporate Governance Committee's assessment of our Board of Directors' performance. Each member of the Nominating and Corporate Governance Committee is independent, as defined in the NYSE listing standards. However, the Nominating and Corporate Governance Committee may, from time to time, consult with other members of the Taplin and Rankin families, including Alfred M. Rankin, Jr., regarding the composition of our Board of Directors.

The Finance Committee held six meetings in 2012. The Finance Committee reviews our financing and financial risk management strategies and those of our principal subsidiaries and makes recommendations to our Board of Directors on matters concerning finance.

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The Executive Committee did not hold any meetings in 2012. The Executive Committee may exercise all of the powers of our Board of Directors over the management and control of our business during the intervals between meetings of our Board of Directors.
Our Board of Directors held ten meetings in 2012. In 2012, all of the directors attended at least 90 percent of the total meetings held by our Board of Directors and by the committees on which they served during their tenure.
Our Board of Directors has determined that, based primarily on the ownership of Class A Common and Class B Common by the members of the Taplin and Rankin families and their voting history, we have the characteristics of, and may be, a "controlled company," as that term is defined in Section 303A of the NYSE listing standards. Accordingly, our Board of Directors has determined that we could be characterized as a "controlled company." However, our Board of Directors has elected not to make use at the present time of any of the exceptions to the requirements of the NYSE listing standards that are available to controlled companies. Accordingly, at least a majority of the members of our Board of Directors is independent, as defined in the NYSE listing standards. In making a determination as to the independence of our directors, our Board of Directors considered Section 303A of the NYSE listing standards and broadly considered the materiality of each director's relationship with us. Based upon the foregoing criteria, our Board of Directors has determined that the following directors are independent as defined in the NYSE listing standards: John P. Jumper, Dennis W. LaBarre, Richard de J. Osborne, James A. Ratner, Britton T. Taplin, David F. Taplin and John F. Turben.
In accordance with the rules of the NYSE, our non-management directors are scheduled to meet in executive session, without management, once a year. The Chairman of the Compensation Committee presides at such meeting. Additional meetings of the non-management directors may be scheduled from time to time when the non-management directors believe such meetings are desirable. The determination of which director should preside at such additional meetings will be made based upon the principal subject matter to be discussed at each such meeting. A meeting of the non-management directors was held on February 12, 2013.
We hold a regularly scheduled meeting of our Board of Directors in conjunction with our annual meeting of stockholders. Directors are expected to attend the annual meeting of stockholders absent an appropriate excuse. All of our directors who were directors on the date of our 2012 annual meeting of stockholders attended our 2012 annual meeting of stockholders.

We have adopted a code of ethics, entitled "Code of Corporate Conduct," applicable to all of our personnel, including the principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. Waivers of our code of ethics for our directors or executive officers, if any, may be disclosed on our website, by press release or by filing a Current Report on Form 8-K with the Securities and Exchange Commission, which we refer to as the SEC. We have also adopted Corporate Governance Guidelines, which provide a framework for the conduct of our Board of Directors' business. The Code of Corporate Conduct, the Corporate Governance Guidelines and the Independence Standards for Directors, as well as each of the charters of the Audit Review Committee, the Compensation Committee and the Nominating and Corporate Governance Committee, are available free of charge on our website at http://www.nacco.com, under the heading "Corporate Governance." The information contained on or accessible through our website other than this Proxy Statement is not incorporated by reference into this Proxy Statement, and you should not consider such information contained on or accessible through our website as part of this Proxy Statement.
The Audit Review Committee reviews all relationships and transactions in which we and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest in such transactions. Our legal department is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions in order to enable the Audit Review Committee to determine, based on the facts and circumstances, whether we have or a related person has a direct or indirect material interest in the transaction. As set forth in the Audit Review Committee's charter, in the course of the review of a potentially material related-person transaction, the Audit Review Committee considers:
- the nature of the related person's interest in the transaction;

- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to us;

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- whether the transaction would impair the judgment of a director or executive officer to act in our best interest; and
- any other matters the Audit Review Committee deems appropriate.

Based on this review, the Audit Review Committee will determine whether to approve or ratify any transaction that is directly or indirectly material to us or a related person.

Any member of the Audit Review Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote with respect to the approval or ratification of the transaction; however, such director may be counted in determining the presence of a quorum at a meeting of the Audit Review Committee that considers the transaction.

Procedures for Submission and Consideration of Director Candidates

Stockholder recommendations for nominees for election to our Board of Directors must be submitted to NACCO Industries, Inc., 5875 Landerbrook Drive, Suite 220, Cleveland, Ohio 44124-4069, Attention: Secretary, and must be received at our offices on or before December 31 of each year in anticipation of the following year's annual meeting of stockholders. The Nominating and Corporate Governance Committee will consider such recommendations if they are in writing and set forth the following information:

1. the name and address of the stockholder recommending the candidate for consideration as such information appears on our records, the telephone number where such stockholder can be reached during normal business hours, the number of shares of Class A Common and Class B Common owned by such stockholder and the length of time such shares have been owned by the stockholder; if such person is not a stockholder of record or if such shares are owned by an entity, reasonable evidence of such person's beneficial ownership of such shares or such person's authority to act on behalf of such entity;
2. complete information as to the identity and qualifications of the proposed nominee, including the full legal name, age, business and residence addresses and telephone numbers and other contact information, and the principal occupation and employment of the candidate recommended for consideration, including his or her occupation for at least the past five years, with a reasonably detailed description of the background, education, professional affiliations and business and other relevant experience (including directorships, employments and civic activities) and qualifications of the candidate;
3. the reasons why, in the opinion of the recommending stockholder, the proposed nominee is qualified and suited to be one of our directors;
4. the disclosure of any relationship the candidate has with us or any of our subsidiaries or affiliates, whether direct or indirect;
5. a description of all relationships, arrangements and understandings between the proposing stockholder and the candidate and any other person(s) (naming such person(s)) pursuant to which the candidate is being proposed or would serve as a director, if elected; and
6. a written acknowledgment by the candidate being recommended that he or she has consented to being considered as a candidate, has consented to our undertaking of an investigation into that individual's background, education, experience and other qualifications and will consent to be named in our Proxy Statement and to serve as one of our directors, if elected.

We do not require our directors to possess any specific qualifications or specific qualities or skills. In evaluating director nominees, the Nominating and Corporate Governance Committee will consider such factors as it deems appropriate, and other factors identified from time to time by our Board of Directors. The Nominating and Corporate Governance Committee will consider the entirety of each proposed director nominee's credentials. As a general matter, the Nominating and Corporate Governance Committee will consider a diverse number of factors such as judgment, skill, ethics, integrity, values, independence, possible conflicts of interest, experience with businesses and other organizations of comparable size or character, the interplay of the candidate's experience and approach to addressing business issues with the experience and approach of incumbent members of our Board of Directors and other new director candidates. The Nominating and Corporate Governance Committee's goal in selecting directors for nomination to our Board of Directors is generally to seek a well-balanced membership that combines a diversity of experience and skill in order to enable us to pursue our strategic objectives.

The Nominating and Corporate Governance Committee will consider all information provided to it that is relevant to a

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candidate's nomination as one of our directors. Following such consideration, the Nominating and Corporate Governance Committee may seek additional information regarding, and may request an interview with, any candidate whom it wishes to continue to consider. Based upon all information available to it and any interviews it may have conducted, the Nominating and Corporate Governance Committee will meet to determine whether to recommend the candidate to our Board of Directors. The Nominating and Corporate Governance Committee will consider candidates recommended by stockholders on the same basis as candidates from other sources.

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for directors. The Nominating and Corporate Governance Committee regularly reviews the appropriate size of our Board of Directors and whether any vacancies on our Board of Directors are expected due to retirement or otherwise. In the event vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee may consider various potential candidates. Candidates may be recommended by current members of our Board of Directors, third-party search firms or stockholders. No search firm was retained by the Nominating and Corporate Governance Committee during the past fiscal year. The Nominating and Corporate Governance Committee generally does not consider recommendations for director nominees submitted by individuals who are not stockholders or otherwise affiliated with us. In order to preserve its impartiality, the Nominating and Corporate Governance Committee may not consider a recommendation that is not submitted in accordance with the procedures set forth above.

Board Leadership Structure and Risk Management

Through our holding company structure, we operate a diverse group of businesses spanning the following three principal industries: mining, small appliances and specialty retail. Due to the diversity of our businesses, including in terms of their products, customers, operations, geographical scope, risks and structure, the Board of Directors believes that our Chief Executive Officer is the most appropriate person to serve as our Chairman because he possesses in-depth knowledge of the issues, opportunities and challenges facing each of our principal businesses. Because of this knowledge and insight, the Board of Directors believes that he is in the best position to effectively identify strategic opportunities and priorities and to lead the discussion for the execution of the Company's strategies and achievement of its objectives. As Chairman, our Chief Executive Officer is able to:

- focus our Board of Directors on the most significant strategic goals and risks of our businesses;
- utilize the individual qualifications, skills and experience of the other members of the Board of Directors in order to maximize their contributions to our Board of Directors;
- ensure that each other member of our Board of Directors has sufficient knowledge and understanding of our businesses to enable him to make informed judgments;
- provide a seamless flow of information from our subsidiaries to our Board of Directors; and
- facilitate the flow of information between our Board of Directors and our management.

This board leadership structure also enhances the effectiveness of the boards of directors of our subsidiaries, which have parallel structures and provide oversight at the strategic and operational business unit level. Each director who serves on our Board of Directors is also a member of each subsidiary's board of directors, which integrates our Board of Directors with the boards of our subsidiaries. Our Chief Executive Officer serves as the Chairman of each subsidiary's board of directors, which provides a common and consistent presence that enables these subsidiary boards of directors to function effectively and efficiently. The Chief Executive Officer's role as Chairman of the subsidiary boards also allows him to exercise effective oversight, including risk oversight, on an independent and informed basis. The Board of Directors believes that the combined role of Chairman and Chief Executive Officer promotes strategic development and execution at each of the subsidiaries, which is essential to effective governance. We do not assign a lead independent director but the Chairman of our Compensation Committee presides at the regularly scheduled meetings of non-management directors.

The Board of Directors oversees our risk management. The full Board of Directors (as supplemented by the appropriate board committee in the case of risks that are overseen by a particular committee) regularly reviews information provided by management in order for our Board of Directors to oversee the risk identification, risk management and risk mitigation strategies. Our board committees assist the full Board of Directors' oversight of our

material risks by focusing on risks related to the particular area of concentration of the relevant committee. For example, our Compensation Committee oversees risks related to our executive compensation plans and arrangements, our Audit Review Committee oversees financial reporting and control risks, our Finance Committee oversees financing and other financial risk management strategies and our Nominating and Corporate Governance Committee oversees risks associated with the independence of the Board of Directors

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and potential conflicts of interest. Each committee reports on these discussions of the applicable relevant risks to the full Board of Directors during the Board of Directors meetings. The full Board of Directors incorporates the insight provided by these reports into its overall risk management analysis.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves or has served on the compensation committee of any entity that has one or more executive officers serving as a member of our Compensation Committee.

Certain Business Relationships

Dennis W. LaBarre, one of our and our principal subsidiaries' directors, is a partner in the law firm of Jones Day. Jones Day provided legal services on our behalf and on behalf of our principal subsidiaries during 2012 on a variety of matters, and it is anticipated that such firm will provide similar services in 2013. Mr. LaBarre does not receive any direct compensation from legal fees we pay to Jones Day and these legal fees do not provide any material indirect compensation to Mr. LaBarre.

Report of the Audit Review Committee

The Audit Review Committee has reviewed and discussed with our management and Ernst & Young LLP, our independent registered public accounting firm, our audited financial statements contained in our Annual Report to Stockholders for the year ended December 31, 2012. The Audit Review Committee has also discussed with our independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1 AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Review Committee has received and reviewed the written disclosures and the independence letter from Ernst & Young LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young LLP's communications with the Audit Review Committee concerning independence, and has discussed with Ernst & Young LLP its independence.

Based on the review and discussions referred to above, the Audit Review Committee recommended to the Board of Directors (and the Board of Directors subsequently approved the recommendation) that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC.

RICHARD DE J. OSBORNE, CHAIRMAN
JOHN P. JUMPER
JAMES A. RATNER
JOHN F. TURBEN

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Director Compensation

The following table sets forth all compensation of each current or former director for services as our directors and as directors of our principal subsidiaries for 2012, other than Alfred M. Rankin, Jr. In addition to being a director, Mr. Rankin currently serves as Chairman, President and Chief Executive Officer of the Company and Chairman of each of NA Coal, HBB and KC. Mr. Rankin does not receive any compensation for his services as a director. Mr. Rankin's compensation for services as one of our executive officers is shown in the Summary Compensation Table on page 49.

DIRECTOR COMPENSATION

For Fiscal Year Ended December 31, 2012

Name	Fees Earned or Paid in Cash(1) ($)	Stock Awards(2) ($)	All Other Compensation(3) ($)	Total ($)
John P. Jumper	$110,677	$71,883	$1,709	$184,269
Dennis W. LaBarre	$60,368	$130,175	$5,704	$196,247
Richard de J. Osborne	$117,300	$79,481	$1,551	$198,332
James A. Ratner (4)	$25,785	$17,215	$700	$43,700
Michael E. Shannon (5)	$89,540	$66,435	$919	$156,894
Britton T. Taplin	$91,177	$71,883	$5,445	$168,505
David F. Taplin	$87,177	$71,883	$5,634	$164,694
John F. Turben	$122,025	$77,007	$5,585	$204,617
David B.H. Williams (4)	$20,285	$17,215	$700	$38,200
Eugene Wong (5)	$28,254	$103,010	$3,919	$135,183

(1) Amounts in this column reflect the annual retainers and other fees earned by the directors in 2012. They also include payment for certain fractional shares of Class A Common that were earned and paid in cash under the Non-Employee Directors' Plan described below.

(2) Under the Non-Employee Directors' Plan, the directors are required to receive a portion of their annual retainer in shares of Class A Common, which we refer to as the Mandatory Shares. They are also permitted to elect to receive all or part of the remainder of the retainer and all fees in the form of shares of Class A Common, which we refer to as the Voluntary Shares. Amounts in this column reflect the aggregate grant date fair value of the Mandatory Shares and Voluntary Shares that were granted to directors under the Non-Employee Directors' Plan, determined pursuant to the Financial Accounting Standards Board Accounting Standards Codification Topic 718, which we refer to as FASB ASC Topic 718. The amounts listed include the following amounts that certain directors elected to receive in the form of Voluntary Shares rather than in cash: $58,292 for Mr. LaBarre, $7,598 for Mr. Osborne, $11,767 for Mr. Shannon, $5,123 for Mr. Turben and $48,342 for Dr. Wong. See Note (2) of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for more information regarding the accounting treatment of our equity awards.

(3) The amount listed includes: (i) Company-paid premium payments for life insurance for the benefit of the directors in the amount of $471 for Messrs. Jumper, LaBarre, Osborne, Britton Taplin, David Taplin, and Turben; $376 for Messrs. Ratner and Williams and $95 for Messrs. Shannon and Wong (ii) other Company-paid premium payments for accidental death and dismemberment insurance for the director and his spouse; and (iii) personal excess liability insurance for the director and immediate family members. The amount listed also includes charitable contributions made in our name on behalf of the director and his spouse under our matching charitable gift program in the amount of $4,000 each for Mr. LaBarre, Britton Taplin, David Taplin and Mr. Turben and $3,000 for Dr. Wong.

(4) Messrs. Ratner and Williams were appointed to our Board of Directors effective September 28, 2012 in connection with the Hyster-Yale spin-off.

(5) Messrs. Shannon and Wong resigned from our Board of Directors effective September 28, 2012 in connection with the Hyster-Yale spin-off.

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Description of Material Factors Relating to the Director Compensation Table

Each non-employee director is entitled to receive the following compensation for service on our Board of Directors and on our subsidiaries' boards of directors:

- a retainer of $125,000 ($69,000 of which is required to be paid in the form of shares of Class A Common, as described below);
- attendance fees of $1,000 for each meeting attended (including telephonic meetings) of our Board of Directors or a subsidiary board of directors, but not exceeding $2,000 per day;
- attendance fees of $1,000 for each meeting attended (including telephonic meetings) of a committee of our Board of Directors on which the director served or a committee of a subsidiary's board of directors on which the Director served;
- a retainer of $5,000 for each committee of our Board of Directors on which the director served (other than the Executive Committee);
- an additional retainer of $5,000 for each committee of our Board of Directors on which the director served as chairman (other than the Audit Review Committee); and
- an additional retainer of $10,000 for the chairman of the Audit Review Committee of our Board of Directors.

The retainers are paid quarterly in arrears and the meeting fees are paid following each meeting. Each director is also reimbursed for expenses incurred as a result of attendance at meetings. We also occasionally make our private aircraft available to directors for attendance at meetings of our Board of Directors and our subsidiaries' boards of directors.

Under the Non-Employee Directors' Plan, each director who was not an officer of the Company or of any of our subsidiaries received $69,000 of his $125,000 retainer in whole shares of Class A Common. Any fractional shares were paid in cash. The actual number of shares of Class A Common issued to a director is generally determined by the following formula:

the dollar value of the portion of the $69,000 retainer that was earned by the director each quarter
divided by
the average closing price of shares of Class A Common on the NYSE for each week during such quarter.

However, with respect to the retainer that was paid to the directors for the third quarter of 2012, modified calculations were required as a result of the spin-off of Hyster-Yale from the Company effective September 28, 2012 and the impact the spin-off had on the average closing price of shares of Class A Common. The number of shares issued was determined under a formula that used the fair market value of a share of hypothetical composite NACCO Class A Common/Hyster-Yale class A common stock for the quarter.

These shares are fully vested on the date of grant, and the director is entitled to all rights of a stockholder, including the right to vote and receive dividends. However, the shares cannot be assigned, pledged, hypothecated or otherwise transferred by the director, voluntarily or involuntarily, other than:

- by will or the laws of descent and distribution;
- pursuant to a qualifying domestic relations order; or
- to a trust for the benefit of the director or his spouse, children or grandchildren.

The foregoing restrictions on transfer lapse upon the earliest to occur of:

- the date which is ten years after the last day of the calendar quarter for which such shares were earned;
- the date of the death or permanent disability of the director;
- five years (or earlier with the approval of our Board of Directors) from the date of the retirement of the director from our Board of Directors;
- the date that a director is both retired from our Board of Directors and has reached 70 years of age; or

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- at such other time as determined by the Board of Directors in its sole discretion.

In addition, each director may elect under the Non-Employee Directors' Plan to receive shares of Class A Common in lieu of cash for up to 100% of the balance of his retainers and meeting attendance fees. The number of shares issued is determined under the same formula stated above. However, these Voluntary Shares are not subject to the foregoing transfer restrictions.

Each director also receives (i) Company-paid life insurance in the amount of $50,000; (ii) Company-paid accidental death and dismemberment insurance for the director and spouse; (iii) personal excess liability insurance in the amount of $10 million for the director and immediate family members who reside with the director and (iv) up to $4,000 per year in matching charitable contributions.

Director Compensation Program for 2013

The Compensation Committee periodically evaluates and recommends changes to our compensation program for directors. After receiving advice from the Hay Group, our compensation consultant, the Compensation Committee and our Board of Directors reviewed our director compensation program and determined that no changes should be made to the program as a result of the Hyster-Yale spin-off in 2012 or for 2013.

Executive Compensation

Hyster-Yale Spin-Off

On September 28, 2012, the Company spun-off Hyster-Yale, a former wholly-owned subsidiary of the Company, to our stockholders. The spin-off resulted in changes to our Named Executive Officer group (as defined below), as well as our compensation programs. For the portion of 2012 prior to the spin-off, Messrs. Rankin, Schilling and Butler were employed by NMHG, the principal operating subsidiary of Hyster-Yale. For periods after the spin-off:

- Alfred M. Rankin, Jr. provided services to both NACCO and Hyster-Yale and was employed and compensated by both NACCO and NMHG after the spin-off. In addition to reflecting post-spin compensation that was paid to Mr. Rankin from NACCO, this Proxy Statement includes compensation earned by Mr. Rankin during the first nine months of 2012 prior to the spin-off while Hyster-Yale and NMHG were wholly-owned subsidiaries of NACCO.
- Kenneth C. Schilling was both our and Hyster-Yale's principal financial officer until the spin-off date. He resigned from NACCO on the spin-off date but continued in his role as the principal financial officer of Hyster-Yale after the spin-off date. This Proxy Statement includes only compensation that was earned by Mr. Schilling during the first nine months of 2012 prior to the spin-off date while NMHG was a wholly-owned subsidiary of NACCO.
- J.C. Butler, Jr., the Senior Vice President - Finance, Treasurer and Chief Administrative Officer of NACCO, became the Company's principal financial officer on September 28, 2012. This Proxy Statement describes the compensation earned by Mr. Butler during the entire 2012 calendar year, both before and after the spin-off.

SEC rules require that Hyster-Yale also disclose in its 2013 proxy statement compensation earned by Messrs. Rankin and Schilling during the first nine months of 2012 prior to the spin-off date. As a result, the disclosure of pre-spin compensation contained in this Proxy Statement is duplicative of the pre-spin compensation shown in Hyster-Yale's 2013 proxy statement. NACCO and Hyster-Yale did not each pay Messrs. Rankin and Schilling for services provided prior to the spin-off and Messrs. Rankin and Schilling were not compensated twice for the same duties. As a result, the information contained in this Proxy Statement and Hyster-Yale's 2013 proxy statement should be read carefully to avoid double-counting of such amounts.

Compensation Discussion and Analysis

The following describes the material elements of our compensation objectives and policies as they relate to those individuals named in the Summary Compensation Table on page 49, whom we refer to as the Named Executive Officers. This discussion and analysis of our compensation program should be read in conjunction with the accompanying tables, footnotes and text disclosing the compensation awarded to, earned by or paid to the Named Executive Officers during 2012. Although the information below focuses primarily on compensation provided by NACCO, it includes information regarding pre-spin compensation provided by NMHG where required.

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Executive Compensation Governance

The Compensation Committee of our Board of Directors and the Compensation Committees of the Company's subsidiary boards of directors, which we refer to collectively as the Compensation Committee unless the context requires otherwise, establish and oversee the administration of our policies, programs and procedures for compensating our employees, including our executive officers. Each Compensation Committee consists solely of independent directors.

The Compensation Committee's responsibilities include:

- review and approval of corporate goals and objectives relevant to compensation for the Chief Executive Officer and other executive officers;
- evaluation of the performance of the Chief Executive Officer and other executive officers in light of these performance goals and objectives;
- determination and approval of the compensation levels of the Chief Executive Officer and other executive officers based on this evaluation;
- consideration of whether the risks arising from our employee compensation policies and practices are reasonably likely to have a material adverse effect on us;
- making recommendations to our Board of Directors, where appropriate or required, with respect to non-equity-based compensation matters; and
- taking other actions with respect to all other compensation matters, including equity-based and other incentive compensation plans.

Named Executive Officers for 2012

The Named Executive Officers for 2012 are listed on the table below. For periods prior to the spin-off, Messrs. Rankin, Schilling and Butler were employed by NMHG, although they continued to provide services to NACCO and all of its subsidiaries. As a result of the Hyster-Yale spin-off, Messrs Rankin and Butler became employed by NACCO. Therefore, the Named Executive Officers for 2012 include executives who were employed by NMHG for a part of the year, NACCO for a part of the year and two other subsidiaries of the Company, NA Coal and HBB. None of the Named Executive Officers was employed by KC, our other major subsidiary.

Name	Title(s)	2012 Employer
Alfred M. Rankin, Jr. (1)	Chairman, President and Chief Executive Officer — NACCO Chairman — NA Coal, HBB and KC	NMHG/NACCO
Kenneth C. Schilling (2)	Vice President and Controller — NACCO Vice President and Chief Financial Officer — NMHG	NMHG
J.C. Butler, Jr. (3)	Sr. Vice President Finance, Treasurer and Chief Administrative Officer — NACCO Sr. Vice President Project Development & Administration — NA Coal Assistant Secretary — HBB and KC	NMHG/NACCO
Robert L. Benson	President and Chief Executive Officer — NA Coal	NA Coal
Gregory H. Trepp (4)	President and Chief Executive Officer — HBB Chief Executive Officer — KC	HBB
Michael J. Gregory	Vice President - International Operations and Special Projects — NA Coal	NA Coal

(1) Although Mr. Rankin is an officer of NA Coal, HBB and KC, he does not receive any compensation from these subsidiaries or participate in any of their incentive compensation plans.

(2) Mr. Schilling resigned as the principal financial officer of NACCO on September 28, 2012.

(3) Mr. Butler became the principal financial officer of NACCO on September 28, 2012. Although Mr. Butler is an officer of NA Coal, HBB, and KC, he does not receive any compensation from these subsidiaries or participate in any of their incentive compensation plans.

(4)

Although Mr. Trepp is the Chief Executive Officer of KC, he does not receive any compensation from KC or participate in any of its incentive compensation plans.

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Compensation Consultants

The Compensation Committee receives assistance and advice from the Hay Group, an internationally-recognized compensation consulting firm. The Hay Group is engaged by and reports to the Compensation Committee. The Hay Group also provides advice and discusses compensation issues directly with management.

Throughout 2012, the Hay Group prepared, presented and made recommendations regarding substantially all aspects of compensation for our directors and senior management employees, including the Named Executive Officers. For 2012, the Hay Group was engaged to:

- make recommendations regarding Hay point levels, salary midpoints and incentive targets for all new senior management positions and/or changes to current senior management positions;
- make recommendations regarding 2012 salary midpoints, short-term and long-term incentive compensation targets (calculated as a percentage of salary midpoint) and target total compensation for all senior management positions;
- make recommendations regarding 2012 salary midpoints and/or range movement for all other employee positions; and
- evaluate and provide recommendations regarding the compensation program for our non-employee directors.

At the direction of the Compensation Committee, all Hay point recommendations for new senior management positions and/or changes to current positions are determined by the Hay Group through the consistent application of the Hay point methodology, which is a proprietary method that takes into account the know-how, problem solving and accountability requirements of the position.

Representatives of the Hay Group attended one of the Compensation Committee meetings in 2012 by telephone and, during that meeting, consulted with the Compensation Committee in executive session without management present. The Hay Group did not provide any other services to us or the Compensation Committee in 2012. The Compensation Committee has considered and assessed all relevant factors including, but not limited to, those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Exchange Act, that could give rise to a potential conflict of interest with respect to the Hay Group. Based on this review, we are not aware of any conflict of interest that has been raised by the work performed by the Hay Group.

Hay Group's All Industrials Survey - Salary Midpoint

As a starting point for setting target total compensation, the Compensation Committee directed the Hay Group to use their proprietary survey of a broad group of domestic industrial organizations from almost all segments of industry ranging in size from under $150 million to over $5 billion in annual revenues, which we refer to as the All Industrials survey. Organizations that satisfy the consultant's quality assurance controls voluntarily participate in the All Industrials survey by submitting data to the consultant. For 2012, participants in the All Industrials survey included 298 parent organizations and 360 independent operating units representing almost all segments of industry, including the light and heavy manufacturing, consumer products and mining segments.

The Compensation Committee chose this particular survey as its benchmark for the following reasons:

- the use of a broad-based survey reduces volatility and lessens the impact of cyclical upswings or downturns in any one industry that could otherwise skew the survey results in any particular year;
- due to our holding group structure, this survey provides internal consistency in compensation among all of our subsidiaries, regardless of industry; and
- it provides a competitive framework for recruiting employees from outside our industries.

Using its proprietary Hay point methodology, the Hay Group compares positions of similar scope and complexity with the data obtained in the All Industrials survey. The Hay Group then derives a median salary level for each Hay point level, including those positions occupied by the Named Executive Officers, which is targeted at the 50th percentile of the All Industrials survey. We refer to the 50th percentile median target as the salary midpoint. For 2012, the Compensation Committee used:

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- 100% of the salary midpoints recommended by the Hay Group for (i) all positions at HBB and (ii) for NACCO and NMHG employees in Hay salary grades 25 and above, including the Named Executive Officers; and
- 95% of the salary midpoints for all positions at NA Coal.

Because salary midpoints are based on each Hay point level, all of the employees at a particular Hay point level at a particular company generally have the same salary midpoint. This process assures internal equity in pay among the executives across all business units.

Executive officers' compensation levels are set at (or slightly below) the salary midpoint recommended by the Hay Group because the Compensation Committee believes that the use of salary midpoints ensures that the compensation program provides sufficient compensation to attract and retain talented executives and maintain internal pay equity, without overcompensating our executive officers.

The salary midpoint provided by the Hay Group is then used to calculate the total target compensation of all senior management employees, including the Named Executive Officers.

Compensation Policies and Objectives - Total Target Compensation

The guiding principle of the compensation program for senior management employees, including Named Executive Officers, is the maintenance of a strong link between an employee's compensation, individual performance and the performance of the Company or the subsidiary for which the employee has responsibility. The primary objectives of our compensation program are:

- to attract, retain and motivate talented management;
- to reward management with competitive total compensation for achievement of specific corporate and individual goals; and
- to make management long-term stakeholders in the Company.

In addition, due to our holding company structure, the Compensation Committee attempts to maintain consistency in compensation among all of the Company's subsidiaries.

The Compensation Committee establishes comprehensively defined “target total compensation” for each senior management employee following rigorous evaluation standards to ensure internal equity. Target total compensation is determined explicitly in dollar terms as the sum of: (i) salary midpoint, as determined by the Hay Group, (ii) target cash in lieu of perquisites, (iii) target short-term incentives, and (iv) target long-term incentives. The target short-term incentives and long-term incentives are generally determined by multiplying each employee's salary midpoint by a specified percentage of that midpoint, as determined by the Hay Group for each Hay salary grade.

The following table sets forth target total compensation for the Named Executive Officers, as recommended by the Hay Group and initially approved by the Compensation Committee for 2012 before the Hyster-Yale spin-off:

Named Executive Officer	(A) Salary Midpoint ($)(%)		(B) Cash in Lieu of Perquisites ($)(%)		(C) Short-Term Plan Target ($)(%)		(D) Long-Term Plan Target ($)(%)			(A)+(B)+(C)+(D) Target Total Compensation ($)
Alfred M. Rankin, Jr. (1)	$1,001,400	19%	$50,000	1%	$1,101,540	21%	$3,166,928	59%	(2)	$5,319,868
Kenneth C. Schilling (3)	$317,500	49%	$20,000	3%	$127,000	20%	$182,563	28%	(2)	$647,063
J.C. Butler, Jr.	$349,400	43%	$20,000	3%	$157,230	19%	$281,267	35%	(2)	$807,897
Robert L. Benson	$552,600	34%	$35,000	2%	$331,560	20%	$718,380	44%		$1,637,540
Gregory H. Trepp	$581,600	34%	$34,992	2%	$348,960	20%	$756,080	44%		$1,721,632
Michael J. Gregory	$242,800	55%	$16,000	4%	$97,120	22%	$84,980	19%		$440,900

(1) Mr. Rankin's salary midpoint and perquisite allowance were established before the spin-off. The short-term plan target amount shown above is the sum of (i) his $1,001,400 target under a short-term incentive compensation plan sponsored by NMHG, referred to as the NMHG Short-Term Plan, that was established before the spin-off plus (ii) a new post-spin target amount of $100,140 that was approved by the Compensation Committee under the NACCO Industries, Inc. Annual Incentive Compensation Plan (Effective September 28, 2012), referred to as the NACCO

Short-Term Plan,

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which was effective as of the spin-off date. The long-term plan target amount shown on the above table is the amount established by the Compensation Committee at the beginning of 2012 under the NACCO Industries, Inc. Executive Long-Term Incentive Compensation Plan (Amended and Restated Effective March 1, 2012), referred to as the NACCO Long-Term Plan.

(2) The amounts include a 15% increase from the Hay-recommended long-term plan target awards that the Compensation Committee applies each year to account for the immediately taxable nature of the long-term equity plan awards. See “- Long-Term Incentive Compensation - Equity-Based Long-Term Incentive Compensation for Messrs. Rankin, Schilling and Butler” beginning on page 37.

(3) The target amounts shown in the above table for Mr. Schilling are the amounts that were established by the Compensation Committee at the beginning of 2012 before the spin-off. Only 75% of these amounts were earned while Mr. Schilling was the principal financial officer of NACCO. Mr. Schilling's entire 2012 short-term award was paid under the NMHG Short-Term Plan and his entire 2012 long-term award was paid under the Hyster-Yale Materials Handling, Inc. Long-Term Equity Incentive Plan, referred to as the NMHG Long-Term Plan.

In addition to the target total compensation shown on the table above, we provide employees with competitive retirement benefits, with the opportunity for additional profit sharing benefits if a particular business unit (other than NA Coal) attains better than forecasted results.

The design of our compensation program offers opportunities for employees to earn truly superior compensation for outstanding results. It also includes significantly reduced compensation for results that do not meet or exceed the previously established performance targets for the year. In years when we have weaker financial results, payouts under the incentive compensation plans will generally be lower. In years when we have stronger financial results, payouts under the incentive compensation plans will generally be greater. We believe that our program encourages Named Executive Officers to earn incentive pay significantly greater than 100% of target over time by delivering outstanding managerial performance.

In most years, incentive compensation payments made to the Named Executive Officers exceed their base salary plus perquisite allowance for the year. See “- Hay Group's All Industrials Survey - Salary Midpoint” beginning on page 16. Each of the Named Executive Officer's incentive compensation exceeded the sum of his base salary and perquisite allowance for 2012.

Overview of Executive Compensation Methodology

We seek to achieve the foregoing policies and objectives through a mix of base salaries and incentive plans. Base salaries are set at levels appropriate to allow the incentive plans to serve as significant motivating factors. The Compensation Committee carefully reviews each of these components in relation to our performance.

Incentive-based compensation plans are designed to provide significant rewards for achieving or surpassing annual operating and financial performance objectives, as well as to align the compensation interests of the senior management employees, including the Named Executive Officers, with our short-term and long-term interests.

The Compensation Committee views the various components of compensation as related but distinct. While a significant percentage of total target compensation is allocated to incentive compensation as a result of the policies and objectives discussed above, there is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. The Compensation Committee does not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. Rather, the Compensation Committee reviews information provided from the Hay Group All Industrials survey to determine the appropriate level for each component and mix of compensation.

The Compensation Committee reviews and takes into account all elements of executive compensation in setting policies and determining compensation levels. In this process, the Compensation Committee reviews “tally sheets” with respect to target total compensation for the Named Executive Officers and other senior management employees. The tally sheets list each officer's title, Hay points, salary midpoint, base salary, perquisite allowance, short-term and long-term incentive compensation targets and target total compensation for the current year, as well as those that are being proposed for the subsequent year.

In November 2011, the Compensation Committee reviewed the tally sheets for each of our Named Executive Officers to decide whether it should make changes to the 2012 compensation program. The Committee determined that the

overall program continued to be consistent with our compensation objectives and did not make any material changes for 2012.

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Impact of Hyster-Yale Spin-Off on 2012 Compensation: However, as a result of the Hyster-Yale spin-off, the following changes were made to the compensation of Messrs. Rankin, Schilling and Butler:

- Job Duties/Payrolls: Mr. Schilling resigned as the principal financial officer of NACCO on the spin-off date but continued as the principal financial officer of Hyster-Yale after the spin-off. Messrs. Rankin and Butler were transferred from an NMHG payroll to a NACCO payroll as of the spin-off date.
- Base Salary and Perquisite Allowances: The Compensation Committee allocated Mr. Rankin's 2012 base salary and perquisite allowance for periods following the spin-off 60% to NMHG and 40% to NACCO, to reflect the fact that his time was divided between the companies after the spin-off. The pre-spin portion of the salary and perquisite allowance for Messrs. Rankin and Schilling is disclosed in this Proxy Statement and in Hyster-Yale's 2013 proxy statement.
- Short-Term Incentive Compensation: Mr. Schilling retained his 2012 target award under the NMHG Short-Term Plan and received his entire short-term bonus under that plan. As a result of Mr. Schilling's services to NACCO during the first nine months of 2012, 75% of his 2012 short-term award takes into account the performance of NA Coal, HBB and KC for pre-spin service. Mr. Butler's entire 2012 short-term award was paid under the new NACCO Short-Term Plan. 75% of Mr. Butler's 2012 short-term award took into account NMHG performance for pre-spin service. Mr. Rankin's 2012 short-term incentive target award of $1,001,400 under the NMHG Short-Term Plan remained in effect but the NMHG compensation committee used negative discretion to reduce the amount of the actual payment to reflect the post-spin division of his duties between NACCO and NMHG. 75% of that award took into account the performance of NA Coal, HBB and KC for pre-spin service. Mr. Rankin was also granted a separate, pro-rata target award of $100,140 under the NACCO Short-Term Plan for post-spin NACCO service. The pre-spin portion of the short-term awards for Messrs. Rankin and Schilling is disclosed in this Proxy Statement and in Hyster-Yale's 2013 proxy statement.
- Long-Term Incentive Compensation: Mr. Schilling received his entire 2012 long-term award under the NMHG Long-Term Plan. As a result of Mr. Schilling's services to NACCO during the first nine months of 2012, 75% of that award took into account the performance of NA Coal, HBB and KC for pre-spin service. The 2012 long-term incentive target amounts of Messrs. Rankin and Butler were not changed as a result of the spin-off. 75% of their 2012 awards under the NACCO Long-Term Plan took into account NMHG performance for pre-spin service. Mr. Rankin's 2012 long-term incentive target of $3,166,928 under the NACCO Long-Term Plan remained in effect following the spin-off but, as explained in more detail under "-Mr. Rankin Long-Term Incentive Calculation" beginning on page 38, the NACCO Compensation Committee used negative discretion to reduce the amount of the actual payment to reflect the post-spin division of his duties between NACCO and NMHG. The pre-spin portion of the long-term awards for Messrs. Rankin and Schilling is disclosed in this Proxy Statement and in Hyster-Yale's 2013 proxy statement.

Components of Named Executive Officers' Compensation. As discussed above, compensation for senior management employees primarily includes the following components:

- base salary;
- cash in lieu of perquisites;
- short-term incentives; and
- long-term incentives.

Target total compensation is supplemented by retirement benefits, which consist mainly of the qualified plans and nonqualified deferred compensation plans described below, and other benefits, such as health and welfare benefits. In addition, from time to time, the Compensation Committee may award discretionary cash and equity bonuses to employees, including the Named Executive Officers.

Base Salary. The Compensation Committee fixes an annual base salary intended to be competitive in the marketplace to recruit and retain talented senior management employees. Base salary is intended to provide employees with a set amount of money during the year with the expectation that they will perform their responsibilities to the best of their abilities and in accordance with our best interests.

Each year, the Compensation Committee determines the base salary for each senior management employee, including the Named Executive Officers, by taking into account the employee's individual performance for the prior year and the

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relationship of the employee's prior year's base salary to the new salary midpoint for the employee's Hay point level. The Committee also takes into account any other relevant information, including:

- general inflation, salary trends and economic forecasts provided by the Hay Group;
- general budget considerations and business forecasts provided by management; and
- any extraordinary personal or corporate events that occurred during the prior year.

The potential for larger salary increases exists for individuals with lower base salaries relative to their salary midpoint and/or superior performance. The potential for smaller increases or even no increase exists for those individuals with higher base salaries relative to their salary midpoint and/or who have performed poorly during the performance period.

The following table sets forth the salary midpoint, salary range and base salary initially determined for each Named Executive Officer for 2012, as well as the percentage of increase from the 2011 base salary:

Named Executive Officer	Salary Midpoint Determined by the Hay Group ($)	Salary Range (Compared to Salary Midpoint) Determined by the Compensation Committee (%)	Base Salary For 2012 and as a Percentage of Salary Midpoint ($)(%)		Change Compared to 2011 Base Salary (%)
Alfred M. Rankin, Jr. (1)	$1,001,400	80% - 130%	$1,202,010	120%	3.0%
Kenneth C. Schilling (2)	$317,500	80% - 120%	$295,000	93%	6.5%
J.C. Butler, Jr.	$349,400	80% - 120%	$320,000	92%	7.3%
Robert L. Benson	$552,600	80% - 120%	$501,000	91%	8.9%
Gregory H. Trepp	$581,600	80% - 120%	$487,596	84%	6.0%
Michael J. Gregory	$242,800	80% - 120%	$241,691	100%	3.0%

(1) Mr. Rankin earned $901,508 of his base salary through the spin-off date. The unpaid portion of his salary as of the spin-off date ($300,502) was allocated 60% to NMHG and 40% to NACCO to reflect the post-spin division of Mr. Rankin's time between the companies. The $1,021,709 salary amount included in the Summary Compensation Table on page 49 for Mr. Rankin is the sum of his pre-spin salary and his post-spin NACCO salary of $120,201.

(2) The $221,250 salary amount included in the Summary Compensation Table on page 49 for Mr. Schilling is the amount he earned before the spin-off date and his resignation from NACCO.

Cash in Lieu of Perquisites. In addition to providing perquisites to a limited number of employees in unique circumstances, senior management employees are paid a fixed dollar amount of cash in lieu of perquisites. The amount of the perquisite allowance is equal to a flat dollar amount, based on the employee's Hay point level.

The applicable dollar amounts were recommended by the Hay Group based on an analysis of the 2010 data from its proprietary Benefits Report, which contains employee benefits data from a survey conducted by the Hay Group. For the 2010 Benefits Report, the organizations that submitted information included 852 organizations or operating units representing almost all areas of industry, including the light and heavy manufacturing, consumer products and mining segments, as well as other organizations from the health care, service and financial sectors. Consistent with the use of the All Industrials survey, the Compensation Committee determined that the Benefits Report was an appropriate benchmark because using a broad-based survey reduces volatility and lessens the impact of cyclical upswings or downturns in any industry that could otherwise affect the survey results in a particular year.

For this study, the Compensation Committee did not seek identical comparisons. Rather, it merely requested an indication of the cost of perquisites that would represent a reasonable competitive level of perquisites for our various executive positions, which are reflected in the Hay points assigned to each position.

The table below sets forth the 2012 perquisite allowance approved by the Compensation Committee for each of the Named Executive Officers. These amounts were paid in cash ratably throughout the year. This approach satisfied our objective of providing competitive total compensation to its Named Executive Officers while recognizing that many perquisites are largely just another form of compensation.

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Named Executive Officer	2012 Perquisite Allowance ($)
Alfred M. Rankin, Jr. (1)	$50,000
Kenneth C. Schilling (2)	$20,000
J.C. Butler, Jr.	$20,000
Robert L. Benson	$35,000
Gregory H. Trepp	$34,992
Michael J. Gregory	$16,000

(1) Mr. Rankin earned $37,500 of his perquisite allowance through the spin-off date. The unpaid portion of his perquisite allowance as of the spin-off date ($12,500) was allocated 60% to NMHG and 40% to NACCO. The $42,500 perquisite amount included in the Summary Compensation Table on page 49 for Mr. Rankin is the sum of his pre-spin perquisite allowance and his post-spin NACCO perquisite allowance of $5,000.

(2) Mr. Schilling earned $15,000 of his perquisite allowance through the spin-off date and this is the amount reflected in the Summary Compensation Table.

Incentive Compensation of Named Executive Officers

Applicable Incentive Compensation Plans. As described in more detail under the heading “- Compensation Policies and Objectives - Total Target Compensation” begining on page 17, one of the principles of our compensation program is that senior management employees, including Named Executive Officers, are compensated based on the performance of the subsidiary for which the employee has responsibility or, in the case of employees who perform services at NACCO's global headquarters, our performance as a whole.

Due to our holding company structure, this means that the incentive compensation of the senior management employees who are employed by NACCO headquarters is based on the aggregate performance of our three subsidiaries - NA Coal, HBB and KC and, for periods prior to the Hyster-Yale spin-off, the performance of NMHG. However, the incentive compensation of the senior executives who are employed by a subsidiary of the Company is based solely on the performance of that particular subsidiary.

The table below identifies the incentive compensation plans in which the Named Executive Officers participated during 2012.

Name	Incentive Compensation Plans
Alfred M. Rankin, Jr.	NMHG Short-Term Plan (pre-spin) NACCO Short-Term Plan (post-spin) NACCO Long-Term Plan
Kenneth C. Schilling (1)	NMHG Short-Term Plan (pre-spin) NMHG Long-Term Plan (pre-spin)
J.C. Butler, Jr.	NACCO Short-Term Plan NACCO Long-Term Plan
Robert L. Benson	NA Coal Short-Term Plan NA Coal Long-Term Plan
Gregory H. Trepp	HBB Short-Term Plan HBB Long-Term Plan
Michael J. Gregory	NA Coal Short-Term Plan NA Coal Long-Term Plan

(1) The only amounts that are required to be disclosed in this Proxy Statement for Mr. Schilling relate to amounts earned under the NMHG incentive compensation plans for pre-spin service.

Overview. A significant portion of the compensation of each Named Executive Officer is linked directly to the attainment of specific corporate financial and operating targets. The Compensation Committee believes that the Named Executive Officers should have a material percentage of their compensation contingent upon the performance of the Company and/or its subsidiaries, as applicable.

The performance criteria and target performance levels for the incentive plans are established within the

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Compensation Committee's discretion, and are generally based upon management's recommendations as to the performance objectives of the particular business for the year. Two types of performance targets are used in the incentive compensation plans:

- Targets Based on Annual Operating Plans. Certain performance targets are based on forecasts contained in each subsidiary's 2012 annual operating plan. With respect to these targets, there is an expectation that these performance targets will be met during the year. If they are not, the participants will not receive all or a portion of the award that is based on these performance criteria.
- Targets Based on Long-Term Goals. Other performance targets are not based on the 2012 annual operating plans. Rather, they are based on long-term goals established by the Compensation Committee. Because these targets are not based on the annual operating plans, it is possible in any given year that the level of expected performance may be above or below the specified performance target for that year. Return on total capital employed, which we refer to as ROTCE, is an example of a target that is based on long-term goals (see below).

Each Named Executive Officer is eligible to receive a short-term cash incentive payment and a long-term incentive award based on a target incentive amount that is expressed as a percentage of salary midpoint. However, the final payout may be higher or lower than the targeted amount, as explained in further detail below.

Design of Incentive Program: Use of ROTCE and Underlying Performance Metrics. Code Section 162(m) provides that we may not deduct compensation of more than $1 million that is paid to the Named Executive Officers (other than Messrs. Schilling and Butler) unless that compensation consists of “qualified performance-based compensation.” The performance-based exception to Code Section 162(m) requires that deductible compensation be paid under a plan that has been approved by our stockholders. In order to comply with Code Section 162(m) during 2012, we previously obtained stockholder approval of the following incentive compensation plans which provide benefits to the Named Executive Officers, which we collectively refer to as the 162(m) Plans:

- The NACCO Long-Term Plan;
- The NMHG Short-Term Plan;
- The North American Coal Corporation Annual Incentive Compensation Plan, referred to as the NA Coal Short-Term Plan; and
- The Hamilton Beach Brands, Inc. Long-Term Incentive Compensation Plan, referred to as the HBB Long-Term Plan.

See “- Tax and Accounting Implications - Deductibility of Executive Compensation” on page 46 for additional information about our philosophy on structuring our incentive compensation plans for tax purposes.

In order for all or a portion of the incentive compensation payments to the Named Executive Officers to be deductible under Code Section 162(m), the Compensation Committee adopted performance targets under the 162(m) Plans that were designed to meet the requirements for qualified performance-based compensation under Code Section 162(m). For 2012, the Compensation Committee adopted minimum and maximum ROTCE performance targets under each of the 162(m) Plans. In each case, ROTCE is calculated as described below or in the same manner as described below under “- Incentive Compensation of Named Executive Officers - ROTCE Methodology and Explanation,” including the adjustments for non-recurring and special items.

For each 162(m) Plan, we establish a payment pool based on actual results against the ROTCE performance targets. The minimum ROTCE target must be met in order for any payment to be permitted, and any payment pool to be created, under a particular 162(m) Plan. The maximum ROTCE target is used to establish a maximum limit, and a maximum payment pool, for awards that can be paid to each covered employee under Code Section 162(m) under a particular 162(m) Plan for the 2012 performance period. For 2012, ROTCE results were at or above the applicable maximum ROTCE target and resulted in a maximum payment pool of 150% of target under all 162(m) Plans other than the NACCO Long-Term Plan which had a maximum payment pool of 200% except for the portion of the award payable to Mr. Butler that was based on the performance of NA Coal under the NA Coal Long-Term Plan. The ROTCE target used under the NACCO Long-Term Plan for 2012 was also used under the NACCO Short-Term Plan and the NMHG Short-Term Plan for 2012. The NACCO Short-Term Plan is not a 162(m) Plan for 2012 but is being submitted to stockholders at this Annual Meeting for approval so that it may meet the requirements for qualified performance-based compensation under Code Section 162(m) for 2013 and future years.

The Compensation Committee then considered actual results against underlying financial and operating performance

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measures for each of our subsidiaries and exercised "negative discretion," as permitted under Code Section 162(m), to determine the final, actual incentive compensation payment for each participant. These underlying financial and operating performance measures reflect the achievement of our specified business goals for 2012 (for those targets that are based on the annual operating plans) or for future years (for those targets that are based on long-term goals), as further described below.

ROTCE Methodology and Explanation. For 2012, a substantial portion of the short-term incentive compensation and long-term incentive compensation for our employees depended on the extent to which our ROTCE performance met long-term financial objectives. The Compensation Committee views the ROTCE performance targets as stockholder protection rates of return. They reflect the Compensation Committee's belief that our stockholders are entitled to at least a certain rate of ROTCE for each of our subsidiaries and the Company overall. Accordingly, as a measure of protection for our stockholders, performance against the ROTCE rates of return, rather than based on cyclical movements in our stock price, should determine the payouts for a portion of our incentive compensation plans.

The ROTCE targets used for incentive compensation purposes reflect our long-term corporate objectives. They are not based on ROTCE operating targets established by management and contained in our five-year long-range business plan or the long-term subsidiary financial objectives (although there is a connection between them). The ROTCE performance targets that were established to determine the final payments under the 2012 incentive compensation plans represent the financial performance that the Compensation Committee believes we should deliver over the long-term, not the performance expected in the current year or the near-term.

The Compensation Committee considers the following factors together with its general knowledge of each of our industries and businesses, including the historical results of operations and financial positions of the subsidiaries and the Company overall, to determine the ROTCE performance targets for the Company and the subsidiaries:

- forecasts of future operating results and the business models for the next several years (including the annual operating plans for the current fiscal year and our five-year long-range business plans);
- anticipated changes in the industries and businesses that affect ROTCE (e.g., the amount of capital required to generate a projected level of sales); and
- the potential impact a change in the ROTCE performance target would have on the ability to incentivize our employees.

The Compensation Committee reviews these factors annually and, unless the Compensation Committee concludes that changes in these factors warrant an increase or decrease in the ROTCE performance targets, the ROTCE performance targets generally remain the same from year to year. The ROTCE performance targets have been adjusted in the past from time to time. When made, these periodic adjustments generally have reflected:

- a subsidiary's expected ability to take advantage of anticipated changes in industry dynamics over the longer term;
- the anticipated impact of programs (such as layoffs and restructurings) on future profitability of a subsidiary's business;
- the anticipated impact of economic conditions on a subsidiary's business;
- major accounting changes; and
- the anticipated impact over time of changes in a subsidiary's business model on the subsidiary's business.

The ROTCE targets that were used in the 162(m) Plans to establish the minimum and maximum incentive payment pools for purposes of Code Section 162(m), as well as the underlying negative discretion ROTCE targets that were used to determine final payouts for participants under the 162(m) Plans, remained essentially unchanged from the targets that were used in 2011, except that (i) the HBB ROTCE targets were reduced to reflect the economic climate and better incentivize employees and (ii) the NMHG Short-Term Plan used an overall NACCO ROTCE target rather than a NMHG ROTCE target.

After our year-end financial results are finalized, actual ROTCE performances are compared against the ROTCE performance targets and, using the pre-established formulas, used to determine both (i) the maximum payment pool under the 162(m) Plans and the NACCO Short-Term Plan for the year and (ii) the final incentive compensation payouts under the incentive plans for the year. As a result, ROTCE serves as both a metric for tax deductibility to establish maximum potential incentive amounts and as a metric for underlying performance to determine final incentive compensation payout amounts.

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ROTCE is calculated for both of these purposes as follows:
Earnings Before Interest After-Tax after adjustments
divided by
Total Capital Employed after adjustments
Earnings Before Interest After-Tax is equal to the sum of interest expense, net of interest income, less 38% for taxes, plus income from continuing operations. Total Capital Employed is equal to (i) the sum of the average debt and average stockholders' equity less (ii) average consolidated cash. For purposes of the NACCO Short-Term Plan, NACCO Long-Term Plan and NMHG Short-Term Plan, average debt, stockholders' equity and consolidated cash are calculated by taking the sum of the balance at the beginning of the year and the balance at the end of each of the next twelve months divided by thirteen. ROTCE is calculated from the Company or subsidiary financial statements using average debt, average stockholders' equity and average cash based on the sum of the balance at the beginning of the year and the balance at the end of each quarter divided by five, which is then adjusted for any non-recurring or special items.
Following is the calculation of NACCO's consolidated ROTCE for purposes of the NACCO Short-Term Plan, NACCO Long-Term Plan and NMHG Short-Term Plan for 2012:

2012 NACCO income from continuing operations	$42.2	
Plus: 2012 Interest expense, net	5.9	
Less: Income taxes on 2012 interest expense, net at 38%	(2.2	)
Earnings Before Interest After-Tax	$45.9	
2012 Average stockholders' equity (12/31/2011 and each of 2012's quarter ends)	$474.9	
2012 Average debt (12/31/2011 and each of 2012's quarter ends)	162.5	
Less: 2012 Average cash (12/31/2011 and each of 2012's quarter ends)	(144.5	)
Total Capital Employed	$492.9	
ROTCE (Before Adjustments)	9.3	%
Plus: Adjustments to Earnings Before Interest After-Tax	$277.7	
Plus: Adjustments to Total Capital Employed	$7.7	
NACCO Consolidated ROTCE (After Adjustments)	64.6	%

Adjustments to the ROTCE calculation under the incentive compensation plans are non-recurring or special items that are established by the Compensation Committee at the time the ROTCE targets are set. For 2012, these ROTCE adjustments related to (i) the effect of the Hyster-Yale spin-off; (ii) the after-tax impact of subsidiary acquisition, disposition or related costs and expenses and (iii) the following costs or expenses only if they were in excess of the amounts included in the 2012 annual operating plans:

- the after-tax cost of any tangible or intangible asset impairment;
- the after-tax impact of subsidiary restructuring costs including reduction in force charges;
- the after-tax impact of environmental expenses or early lease termination expenses; and
- the after-tax impact of refinancing costs.

The Compensation Committee determined that these non-recurring or special items would be incurred in connection with improving our operations and, as a result, these items should not adversely affect incentive compensation payments, as the actions or events were beneficial to us or were generally not within the employees' control.
We do not disclose the ROTCE performance targets that were established for purposes of the 2012 incentive compensation plans because they would reveal competitively sensitive long-term financial information, as well as our long-range business plans, to both our competitors and our customers. The Compensation Committees expected that all ROTCE targets (with the exception of the ROTCE targets under the KC plans and the consolidated operations ROTCE target under the NA Coal Short-Term Plan) would be met in 2012, but such targets were not so low that the result was guaranteed.

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Short-Term Incentive Compensation

In General. All of our short-term incentive compensation plans, which we refer to as short-term plans, follow the same basic pattern for award determination:

- except for Mr. Rankin's post-spin target award that was granted under the newly established NACCO Short-Term Plan following the Hyster-Yale spin-off, target awards for each executive are equal to a specified percentage of the executive's 2012 salary midpoint, based on the number of Hay points assigned to the position and the Hay Group's recommendations regarding an appropriate level of short-term incentive compensation at that level;
- each short-term plan has a one-year performance period;
- generally, payments under the short-term plans may not exceed 150% of the target award levels;
- payouts are determined after year-end by comparing the Company's or subsidiary's actual performance to the pre-established performance targets that were set by the Compensation Committee;
- the Compensation Committee, in its discretion, may decrease awards;
- for participants other than the Named Executive Officers in the 162(m) Plans, the Compensation Committee, in its discretion, may also increase awards and may approve the payment of awards where business unit performance would otherwise not meet the minimum criteria set for payment of awards, although it rarely does so; and
- awards are paid annually in cash and are immediately vested when paid.

For 2012, the short-term plans were designed to provide target short-term incentive compensation to the Named Executive Officers of between 10% and 100% of salary midpoint, depending on the Named Executive Officer's position.

The table below shows the short-term target awards and payouts approved by the Compensation Committee for each Named Executive Officer for 2012:

Named Executive Officer and Short-Term Plan	(A) 2012 Salary Midpoint	(B) Short-Term Plan Target as a % of Salary Midpoint (%)	(C) = (A) x (B) Short-Term Plan Target ($)	Short-Term Plan Payout as a % of Salary Midpoint (%)	Short-Term Plan Payout ($)
Alfred M. Rankin, Jr. (NMHG Short-Term Plan - pre-spin) (1)	$1,001,400	100%	$1,001,400	72.1%	$722,510
Alfred M. Rankin, Jr. (NACCO Short-Term Plan - post-spin) (1)	$1,001,400	10%	$100,140	9.7%	$97,236
Kenneth C. Schilling (NMHG Short-Term Plan - pre-spin) (2)	$317,500	40%	$127,000	28.8%	$91,345
J.C. Butler, Jr. (NACCO Short-Term Plan)	$349,400	45%	$157,230	46.1%	$161,121
Robert L. Benson (NA Coal Short-Term Plan)	$552,600	60%	$331,560	62.6%	$345,783
Gregory H. Trepp (HBB Short-Term Plan)	$581,600	60%	$348,960	62.3%	$362,220
Michael J. Gregory (NA Coal Short-Term Plan)	$242,800	40%	$97,120	42.9%	$104,084

(1) Mr. Rankin's target award under the NMHG Short-Term Plan was established at the beginning of 2012 before the Hyster-Yale spin-off. Only 75% of Mr. Rankin's payout under the NMHG Short-Term Plan was based on his pre-spin service while NMHG was a subsidiary of NACCO. Therefore, this is the payout amount shown above and

included in the Summary Compensation Table with respect to the NMHG Short-Term Plan. This same amount is also disclosed in Hyster-Yale's 2013 proxy statement. Mr. Rankin's target award under the NACCO Short-Term Plan is equal to 40% of the remaining 25% of his 2012 target award as of the spin-off date (40% of $250,350 equals $100,140). His entire payout under the NACCO Short-Term Plan is reflected in the Summary Compensation Table on page 49.

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(2) The payout amount shown above and in the Summary Compensation Table for Mr, Schilling is equal to the amount earned under the NMHG Short-Term Plan before the spin-off date while NMHG was a subsidiary of NACCO and before Mr. Schilling resigned from NACCO. This same amount is also disclosed in Hyster-Yale's 2013 proxy statement.

As described in more detail below, the Compensation Committee considered the factors described under "- Overview of Executive Compensation Methodology" beginning on page 18 and adopted performance criteria and target performance levels upon which the short-term plan awards were based.

Refer to "- Employment and Severance Agreements and Change in Control Payments" beginning on page 45 for a description of the impact of a change in control on short-term plan awards.

The following tables show the performance criteria established by the Compensation Committee for 2012 under the various short-term incentive plans to determine final incentive compensation payments for the Named Executive Officers. The applicable plan, performance objectives and payout percentages are different for different groups of employees, depending on their category of participation. When reviewing the tables, note the following:

(1) Achievement Percentages. The achievement percentages are based on the formulas contained in underlying performance guidelines adopted by the Compensation Committee. The formulas do not provide for straight-line interpolation from the performance target to the maximum payment target. The minimum achievement percentage is 0% and the maximum achievement percentage is 150%.

(2) ROTCE Performance Factors. ROTCE is calculated as shown beginning on page 23 under "- Incentive Compensation of Named Executive Officers - ROTCE Methodology and Explanation" (including the adjustments for the non-recurring or special items). ROTCE targets and results are not disclosed for the reasons stated in that section.

(3) Maximum Payout Percentage. As required under the 2012 guidelines adopted by the Compensation Committee for the short-term incentive plans, payments to all participants, including the Named Executive Officers, did not exceed 150% of their target awards.

NA Coal Short-Term Incentive Compensation For Messrs. Benson and Gregory. The following table summarizes the performance criteria established by the Compensation Committee for 2012 under the NA Coal Short-Term Plan to determine final incentive compensation payments to Messrs. Benson and Gregory:

Performance Criteria	(A) Weighting	Performance Target	Performance Results	(B) Achievement Percentage(1)	(A) x (B) Payout Factor	
Adjusted Net Income	50%	$34,923,000	$38,007,984	117.7%	58.9%	
Consolidated Operations ROTCE	20%	(1)	(1)	65.0%	13.0%	
New Project Development	30%	(2)	(2)	114.0%	34.2%	
Final Payout Percentage					106.1	%(3)

(1) The NA Coal ROTCE performance factor is based on 2012 ROTCE performance of the Mississippi Lignite Mining Company, the Florida Dragline Operations and NA Coal Royalty Company, each of which require capital investment by NA Coal and which we refer to collectively as the Consolidated Operations. The ROTCE performance target for 2012 was the same as that in effect for 2011. For 2012, the Compensation Committee did not expect the Consolidated Operations ROTCE performance to exceed the target for the NA Coal Short-Term Plan.

(2) This table does not disclose the NA Coal New Project Development goals or targets due to their competitively sensitive nature. The new project development goals are highly specific, task-oriented goals. They identify specific future projects, customers and contracts. However, during 2012, Coyote Creek Mining Company, L.L.C., a subsidiary of NA Coal, entered into a long-term contract to develop a lignite mine in North Dakota and supply approximately 2.5 million tons of lignite annually beginning in May 2016 to the Coyote Station power plant. Also during 2012, NA Coal completed the acquisition of four related companies based in Jasper, Alabama that are involved in the mining of steam and metallurgical coal. NA Coal began production at a mine in 2012 to supply an

activated carbon plant in Louisiana and continued its efforts to bring four new mines currently in the development stage to the production stage. NA Coal continued to research, evaluate and develop specific innovative technologies that will allow low-cost lignite to continue to serve as a viable fuel source option for mine-mouth power generation, to be an option for use in coal-to-

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liquid projects and activated carbon production and to be utilized for other non-fuel applications. Finally, NA Coal sustained its existing international mining efforts in India and continues to explore other mining opportunities, customers and markets abroad.

(3) NA Coal met all of the underlying performance targets established by the Compensation Committee under the NA Coal Short-Term Plan other than the Consolidated Operations ROTCE target, resulting in an initial performance payout factor of 106.1%. This factor was then multiplied by the sum of each participant's 2012 short-term award target, which determined the amount of a maximum payment sub-pool under the NA Coal Short-Term Plan. As required under the negative discretion guidelines adopted by the NA Coal Compensation Committee under the NA Coal Short-Term Plan, the maximum payment sub-pool was then allocated among eligible participants based on the application of a business unit performance factor (which did not apply to Mr. Benson but was 118% for Mr. Gregory) and an individual performance factor (115% for Mr. Benson and 118% for Mr. Gregory). Application of the formula to all participants resulted in (A) a short-term payment percentage of 104.29% for Mr. Benson and a payment of $345,783 (his 2012 short-term target of $331,560 multiplied by 104.29%) and (B) a short-term payment percentage of 107.17% for Mr. Gregory and a payment of $104,084 (his 2012 short-term target of $97,120 multiplied by 107.17%).

HBB Short-Term Incentive Compensation for Mr. Trepp. The following table summarizes the performance criteria established by the Compensation Committee for 2012 under the HBB Short-Term Plan to determine final incentive compensation payments to Mr. Trepp:

Performance Criteria	(A) Weighting	Performance Target	Performance Results	(B) Achievement Percentage(1)	(A) x (B) Payout Factor	
Adjusted Net Income	30%	$21,139,000	$22,454,165	116.4%	34.9%	
Net Sales	30%	$526,476,000	$521,567,465	92.6%	27.8%	
HBB ROTCE	15%	(1)	(1)	132.0%	19.8%	
Operating Profit Percent	25%	(2)	(2)	85.0%	21.3%	
Final Payout Percentage					103.8	%(3)

(1) The 2012 HBB ROTCE target was reduced from the 2011 ROTCE target to reflect the economic climate and to better incentivize employees. For 2012, the HBB Compensation Committee expected the HBB ROTCE performance to exceed the target for the HBB Short-Term Plan.

(2) This table does not disclose the HBB operating profit percent target or result due to the competitively sensitive nature of that information. The operating profit target used for incentive compensation purposes reflects long-term corporate objectives and is not based on the target established by management and contained in HBB's five-year long-range business plan or the long-term HBB financial objectives (although there is a connection between them). The 2012 HBB operating profit percent target was the same as the 2011 target. For 2012, the HBB Compensation Committee did not expect HBB to meet the operating profit percent target.

(3) For 2012, HBB performance resulted in a performance payout factor of 103.8% of short-term incentive compensation target for all participants, including Mr. Trepp, resulting in a payment of $362,220 (his 2012 short-term target of $348,960 multiplied by 103.8%).

NMHG Short-Term Incentive Compensation for Mr. Schilling for Pre-Spin Service. The following table summarizes the performance criteria established by the Compensation Committee for 2012 under the NMHG Short-Term Plan to determine the final incentive compensation payment for Mr. Schilling for pre-spin service. The pre-spin portion of his 2012 short-term award is based on the performance factors shown below that were in effect while NMHG was a subsidiary of NACCO:

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Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Schilling	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
NMHG Adjusted Operating Profit Dollars	30%	82%	24.60%	$94,579,000	$115,106,000	134.2%	33.0%
NMHG Operating Profit Percentage	20%	82%	16.40%	(1)	(1)	78.3%	12.8%
NMHG ROTCE	20%	82%	16.40%	(1)	(1)	150.0%	24.6%
NMHG Market Share - Americas w/o Brazil	12%	82%	9.84%	(1)	(1)	35.3%	3.5%
NMHG Market Share - Brazil	3%	82%	2.46%	(1)	(1)	13.1%	0.3%
NMHG Market Share - Europe, Middle East and Asia (EMEA)	9%	82%	7.38%	(1)	(1)	—%	—%
NMHG Market Share - Asia	2%	82%	1.64%	(1)	(1)	100.0%	1.6%
NMHG Market Share - Pacific	3%	82%	2.46%	(1)	(1)	100.0%	2.5%
NMHG Market Share - Japan	1%	82%	0.82%	(1)	(1)	50.0%	0.4%
NMHG Total							78.7%
HBB Adjusted Net Income	30%	8%	2.40%	$21,139,000	$22,454,165	116.4%	2.8%
HBB ROTCE	15%	8%	1.20%	(2)	(2)	132.0%	1.6%
HBB Operating Profit Percent	25%	8%	2.00%	(2)	(2)	85.0%	1.7%
HBB Net Sales	30%	8%	2.40%	$526,476,000	$521,567,465	92.6%	2.2%
HBB Total							8.3%
KC Adjusted Net Income	30%	2%	0.60%	$2,820,000	$(2,842,136)	—%	—%
KC ROTCE	15%	2%	0.30%	(3)	(3)	—%	—%
KC Operating Profit Percent	25%	2%	0.50%	(3)	(3)	—%	—%
KC Net Sales	30%	2%	0.60%	$236,005,000	$224,695,287	52.1%	0.3%
KC Positive Discretion						10.0%	0.2%
KC Total							0.5 %
NA Coal Adjusted Net Income	50%	8%	4.00%	$34,923,000	$38,007,984	117.7%	4.7%
NA Coal Consolidated Operations ROTCE	20%	8%	1.60%	(2)	(2)	65.0%	1.0%
NA Coal New Project Development	30%	8%	2.40%	(2)	(2)	114.0%	2.7%
NA Coal Total							8.4 %
							95.9 % (4)

Final Pre-Spin Payout
Percentage

(1) NMHG Performance Factors: This table does not disclose the NMHG operating profit percent or market share targets or results due to the competitively sensitive nature of that information. The operating profit percent target used for incentive compensation purposes reflects long-term corporate objectives and is not based on the target established by management and contained in NMHG's five-year long-range business plan or the long-term NMHG financial objectives (although there is a connection between them). The 2012 NMHG operating profit percent target was the same as the 2011 target. For 2012, the NMHG Compensation Committee did not expect NMHG to meet the operating profit percent target or the Brazil and EMEA market share targets.

(2) HBB and NA Coal Performance Factors: Refer to the HBB Short-Term Plan chart and the NA Coal Short-Term Plan chart above for descriptions of the subsidiary targets and the reasons for non-disclosure of certain targets.

(3) KC Performance Factors: This table does not disclose the KC operating profit percent target or results due to the competitively sensitive nature of that information. The operating profit target used for incentive compensation purposes reflects long-term corporate objectives and is not based on the target established by management and contained in KC's five-year long-range business plan or the long-term KC financial objectives (although there is a connection between them). The 2012 KC operating profit percent and ROTCE targets were the same as the 2011 targets. For 2012, the KC Compensation Committee did not expect KC to meet the operating profit percent target or the ROTCE target. Due to the extraordinary effort of management employees in a difficult retail climate, the Compensation Committee increased the KC incentive compensation payments by 10% to better incentivize employees.

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(4) The portion of Mr. Schilling's incentive compensation payment under the NMHG Short-Term Plan for 2012 that is required to be disclosed in this Proxy Statement is calculated as follows: Multiply his pre-spin 2012 salary midpoint by his pre-spin incentive target compensation percentage to determine his target dollar amount: $317,500 multiplied by 40% = $127,000. Allocate the target dollar amount between pre-spin service (75% or $95,250) and post-spin service (25% or $31,750). Multiply the pre-spin service target dollar amount by the applicable payment percentage, based on performance criteria and results for NMHG, NA Coal, HBB and KC, which was 95.9% as shown on the above table: $95,250 multiplied by 95.9% = $91,345. This amount is reflected in our Summary Compensation Table on page 49 and also in Hyster-Yale's 2013 proxy statement.

NACCO Short-Term Incentive Compensation for Mr. Butler. The following tables summarize the performance criteria established by the Compensation Committee for 2012 under the NACCO Short-Term Plan to determine the final incentive compensation payment for Mr. Butler. 75% of his 2012 short-term award is based on pre-spin performance factors and 25% of his 2012 award is based on post-spin performance factors:

Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Butler	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
NMHG Adjusted Operating Profit Dollars	30%	19.25%	5.78%	$94,579,000	$115,106,000	134.2%	7.8%
NMHG Operating Profit Percentage	20%	19.25%	3.85%	(1)	(1)	78.3%	3.0%
NMHG ROTCE	20%	19.25%	3.85%	(1)	(1)	150.0%	5.8%
NMHG Market Share - Americas w/o Brazil	12%	19.25%	2.30%	(1)	(1)	35.3%	0.8%
NMHG Market Share - Brazil	3%	19.25%	0.58%	(1)	(1)	13.1%	0.1%
NMHG Market Share - EMEA	9%	19.25%	1.73%	(1)	(1)	—%	—%
NMHG Market Share - Asia	2%	19.25%	0.39%	(1)	(1)	100.0%	0.4%
NMHG Market Share - Pacific	3%	19.25%	0.58%	(1)	(1)	100.0%	0.6%
NMHG Market Share - Japan	1%	19.25%	0.19%	(1)	(1)	50.0%	0.1%
NMHG Total							18.6 %
HBB Adjusted Net Income	30%	7%	2.10%	$21,139,000	$22,454,165	116.4%	2.4%
HBB ROTCE	15%	7%	1.05%	(1)	(1)	132.0%	1.4%
HBB Operating Profit Percent	25%	7%	1.75%	(1)	(1)	85.0%	1.5%
HBB Net Sales	30%	7%	2.10%	$526,476,000	$521,567,465	92.6%	1.9%
HBB Total							7.2 %
KC Adjusted Net Income	30%	1.75%	0.53%	$2,820,000	$(2,842,136)	—%	—%
KC ROTCE	15%	1.75%	0.25%	(1)	(1)	—%	—%
KC Operating Profit Percent	25%	1.75%	0.44%	(1)	(1)	—%	—%

KC Net Sales	30%	1.75%	0.53%	$236,005,000	$224,695,287	52.1%	0.3%	
KC Positive Discretion						10.0%	0.2%	
KC Total							0.5	%
NA Coal Adjusted Net Income	50%	72%	36.00%	$34,923,000	$38,007,984	117.7%	42.4%	
NA Coal Consolidated Operations ROTCE	20%	72%	14.40%	(1)	(1)	65.0%	9.4%	
NA Coal New Project Development	30%	72%	21.60%	(1)	(1)	114.0%	24.6%	
NA Coal Total							76.4	%
Final Pre-Spin Payout Percentage							102.7	%(2)

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Post-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Post-Spin Weighting for Mr. Butler	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage (1)	(C) x (D) Payout Factor
HBB Adjusted Net Income	30%	20%	6.00%	$21,139,000	$22,454,165	116.4%	7.0%
HBB ROTCE	15%	20%	3.00%	(1)	(1)	132.0%	4.0%
HBB Operating Profit Percent	25%	20%	5.00%	(1)	(1)	85.0%	4.3%
HBB Net Sales	30%	20%	6.00%	$526,476,000	$521,567,465	92.6%	5.6%
HBB Total							20.9 %
KC Adjusted Net Income	30%	5%	1.50%	$2,820,000	$(2,842,136)	—%	—%
KC ROTCE	15%	5%	0.75%	(1)	(1)	—%	—%
KC Operating Profit Percent	25%	5%	1.25%	(1)	(1)	—%	—%
KC Net Sales	30%	5%	1.50%	$236,005,000	$224,695,287	52.1%	0.8%
KC Positive Discretion						10.0%	0.5%
KC Total							1.3 %
NA Coal Adjusted Net Income	50%	75%	37.50%	$34,923,000	$38,007,984	117.7%	44.1%
NA Coal Consolidated Operations ROTCE	20%	75%	15.00%	(1)	(1)	65.0%	9.8%
NA Coal New Project Development	30%	75%	22.50%	(1)	(1)	114.0%	25.7%
NA Coal Total							79.6 %
Final Post-Spin Payout Percentage							101.8 % (2)

(1) HBB, NA Coal, NMHG and KC Performance Factors: Refer to the short-term plan charts above for descriptions of the subsidiary targets and the reason for non-disclosure of certain targets.

(2) Mr. Butler's incentive compensation payment under the NACCO Short-Term Plan for 2012 is calculated as follows:

Calculation for Pre-Spin Service: Multiply Mr. Butler's 2012 salary midpoint by his incentive target compensation percentage to determine his target dollar amount: $349,400 multiplied by 45% = $157,230. Allocate the target dollar amount between pre-spin service (75% or $117,923) and post-spin service (25% or $39,308). Multiply the pre-spin service target dollar amount by the applicable payment percentage, based on performance criteria and results for NMHG, NA Coal, HBB and KC, which was 102.7% as shown on the first table above: $117,923 multiplied by 102.7% = $121,106.

Calculation for Post-Spin Service: Multiply the post-spin service target dollar amount by the applicable payment percentage based on performance criteria and results for NA Coal, HBB and KC, which was 101.8%, as shown on the immediately preceding table: $39,308 multiplied by 101.8% = $40,015.

Calculation of Total 2012 Short-Term Incentive Compensation: Add the pre-spin and post-spin amounts together, resulting in a payment of $161,121 to Mr. Butler for 2012 under the NACCO Short-Term Plan.

Short-Term Incentive Compensation for Mr. Rankin. The 2012 short-term compensation of $819,746 that is reflected in the Summary Compensation Table on page 49 for Mr. Rankin is the sum of (i) his award under the NMHG Short-Term Plan that was earned for pre-spin service while NMHG was a subsidiary of NACCO ($722,510) and (ii)

his award under the NACCO Short-Term Plan for post-spin service ($97,236), both as described in further detail below. His payment under the NMHG Short-Term Plan is also disclosed in Hyster-Yale's 2013 proxy statement.

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NMHG Short-Term Incentive Compensation for Mr. Rankin for Pre-Spin Service. The following table summarizes the performance criteria established by the Compensation Committee for 2012 under the NMHG Short-Term Plan to determine the final, actual incentive compensation payment for Mr. Rankin under the NMHG Short-Term Plan for pre-spin service:

Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Rankin	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
NMHG Adjusted Operating Profit Dollars	30%	55%	16.50%	$94,579,000	$115,106,000	134.2%	22.1%
NMHG Operating Profit Percentage	20%	55%	11.00%	(1)	(1)	78.3%	8.6%
NMHG ROTCE	20%	55%	11.00%	(1)	(1)	150.0%	16.5%
NMHG Market Share - Americas w/o Brazil	12%	55%	6.60%	(1)	(1)	35.3%	2.3%
NMHG Market Share - Brazil	3%	55%	1.65%	(1)	(1)	13.1%	0.2%
NMHG Market Share - EMEA	9%	55%	4.95%	(1)	(1)	—%	—%
NMHG Market Share - Asia	2%	55%	1.10%	(1)	(1)	100.0%	1.1%
NMHG Market Share - Pacific	3%	55%	1.65%	(1)	(1)	100.0%	1.7%
NMHG Market Share - Japan	1%	55%	0.55%	(1)	(1)	50.0%	0.3%
NMHG Total							52.8 %
HBB Adjusted Net Income	30%	20%	6.00%	$21,139,000	$22,454,165	116.4%	7.0%
HBB ROTCE	15%	20%	3.00%	(2)	(2)	132.0%	4.0%
HBB Operating Profit Percent	25%	20%	5.00%	(2)	(2)	85.0%	4.3%
HBB Net Sales	30%	20%	6.00%	$526,476,000	$521,567,465	92.6%	5.6%
HBB Total							20.9 %
KC Adjusted Net Income	30%	5%	1.50%	$2,820,000	$(2,842,136)	—%	—%
KC ROTCE	15%	5%	0.75%	(3)	(3)	—%	—%
KC Operating Profit Percent	25%	5%	1.25%	(3)	(3)	—%	—%
KC Net Sales	30%	5%	1.50%	$236,005,000	$224,695,287	52.1%	0.8%
KC Positive Discretion						10.0%	0.5%
KC Total							1.3 %
NA Coal Adjusted Net Income	50%	20%	10.00%	$34,923,000	$38,007,984	117.7%	11.8%
NA Coal Consolidated Operations ROTCE	20%	20%	4.00%	(2)	(2)	65.0%	2.6%
	30%	20%	6.00%	(2)	(2)	114.0%	6.8%

NA Coal New Project Development		
NA Coal Total	21.2	%
Final Pre-Spin Payout Percentage	96.2	%(4)

(1)-(3). See footnotes under "-NMHG Short-Term Incentive Compensation for Mr. Schilling for Pre-Spin Service" beginning on page 28.
(4). The portion of Mr. Rankin's incentive compensation payment under the NMHG Short-Term Plan for pre-spin service in 2012 that is required to be disclosed in this Proxy Statement and Hyster-Yale's 2013 Proxy Statement is calculated as follows: Multiply his 2012 salary midpoint by his incentive target compensation percentage to determine his target dollar amount: $1,001,400 multiplied by 100% = $1,001,400. Allocate the target dollar amount between pre-spin service (75% or $751,050) and post-spin service (25% or $250,350). Multiply the pre-spin service target dollar amount by the applicable payment percentage, based on performance criteria and results for NMHG, NA Coal, HBB and KC which was 96.2% as shown on the above table: $751,050 multiplied by 96.2% = $722,510.
NACCO Short-Term Incentive Compensation for Mr. Rankin for Post-Spin Service. For 2012, the short-term incentive compensation under the NACCO Short-Term Plan for Mr. Rankin was based solely on performance against specific business objectives of HBB, NA Coal and KC for the year, as identified in each subsidiary's short-term plan. The following table summarizes the performance criteria established by the Compensation Committee for 2012 to determine the final incentive compensation payment for Mr. Rankin under the NACCO Short-Term Plan for post-spin service:

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Post-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Post-Spin Weighting for Mr. Rankin	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
HBB Adjusted Net Income	30%	45%	13.50%	$21,139,000	$22,454,165	116.4%	15.7%
HBB ROTCE	15%	45%	6.75%	(1)	(1)	132.0%	8.9%
HBB Operating Profit Percent	25%	45%	11.25%	(1)	(1)	85.0%	9.6%
HBB Net Sales	30%	45%	13.50%	$526,476,000	$521,567,465	92.6%	12.5%
HBB Total							46.7 %
KC Adjusted Net Income	30%	10%	3.00%	$2,820,000	$(2,842,136)	—%	—%
KC ROTCE	15%	10%	1.50%	(1)	(1)	—%	—%
KC Operating Profit Percent	25%	10%	2.50%	(1)	(1)	—%	—%
KC Net Sales	30%	10%	3.00%	$236,005,000	$224,695,287	52.1%	1.6%
KC Positive Discretion						10.0%	1.0%
KC Total							2.6 %
NA Coal Adjusted Net Income	50%	45%	22.50%	$34,923,000	$38,007,984	117.7%	26.5%
NA Coal Consolidated Operations ROTCE	20%	45%	9.00%	(1)	(1)	65.0%	5.9%
NA Coal New Project Development	30%	45%	13.50%	(1)	(1)	114.0%	15.4%
NA Coal Total							47.8 %
Final Post-Spin Payout Percentage							97.1 % (2)

(1) HBB, NA Coal and KC Performance Factors: Refer to the short-term plan charts above for descriptions of individual subsidiary targets and the reason for non-disclosure of certain targets.
(2) The final payment to Mr. Rankin under the NACCO Short-Term Plan for post-spin services was $97,236 (97.1% multiplied by his NACCO post-spin short-term incentive compensation target of $100,140).

Long-Term Incentive Compensation

In General. The purpose of our long-term incentive compensation plans is to enable senior management employees to accumulate capital through future managerial performance, which the Compensation Committee believes contributes to the future success of our businesses. Our long-term incentive compensation plans generally require long-term commitment on the part of our senior management employees, and cash withdrawals or stock sales are generally not permitted for a number of years. Rather, the awarded amount is effectively invested in the Company for an extended period to strengthen the tie between stockholders' and the Named Executive Officers' long-term interests.

The Compensation Committee believes that awards under our long-term plans promote a long-term focus on our profitability due to the holding periods under the long-term plans. Those individual Named Executive Officers who have a greater impact on our long-term strategy receive a higher percentage of their compensation as long-term compensation. In 2012, only certain executives who are employed by NACCO were entitled to receive equity-based compensation from the Company. The Compensation Committee does not consider a Named Executive Officer's long-term incentive awards for prior periods when determining the value of a long-term incentive award for the current period because it considers those prior awards to represent compensation for past services.

All of the long-term incentive compensation plans, which we refer to as long-term plans, follow the same basic pattern for award determination:

- target awards for each executive are equal to a specified percentage of the executive's 2012 salary midpoint, based on the number of Hay points assigned to the position and the Hay Group's recommendations regarding an appropriate level of long-term incentive compensation at that level;
- each long-term plan has a one-year performance period;
- awards under the long-term plans are determined after year-end by comparing the Company's or subsidiary's actual performance to the pre-established performance targets;
- the Compensation Committee, in its discretion, may decrease awards; and

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- for participants other than the Named Executive Officers in the 162(m) Plans, the Compensation Committee, in its discretion, may also increase awards and may approve the payment of awards where business unit performance would otherwise not meet the minimum criteria set for payment of awards, although it rarely does so.

For 2012, the long-term plans were designed to provide target long-term incentive compensation to the Named Executive Officers of between 35% and 316.25% depending on the Named Executive Officer's position.

The table below shows the long-term target awards and payouts approved by the Compensation Committee for each Named Executive Officer for 2012:

Named Executive Officer and Long-Term Plan	(A) Salary Midpoint ($)	(B) Long-Term Plan Target as a Percentage of Salary Midpoint ($)		(C)=(A) x (B) Long-Term Plan Target ($)		(D) Cash-Denominated Long-Term Plan Payout(4)(5)		(E)=(D)/(A) Cash-Denominated Long-Term Plan Payout as a Percentage of Salary Midpoint (%)	(F) Fair Market Value of Long-Term Plan Payout (4)(5)
Alfred M. Rankin, Jr. (NACCO Long-Term Plan)	$1,001,400	316.25%	(1)	$3,166,928	(2)	$3,197,805	(6)	319.33%	$5,072,288
Kenneth C. Schilling (NMHG Long-Term Plan)	$317,500	57.5%	(1)	$182,563	(3)	$125,968	(6)	39.67%	$200,160
J.C. Butler, Jr. (NACCO Long-Term Plan)	$349,400	80.5%	(1)	$281,267		$602,614		172.47%	$955,853
Robert L. Benson (NA Coal Long-Term Plan)	$552,600	130%		$718,380		$1,917,356		346.97%	N/A
Gregory H. Trepp (HBB Long-Term Plan)	$581,600	130%		$756,080		$612,425		105.30%	N/A
Michael J. Gregory (NA Coal Long-Term Plan)	$242,800	35%		$84,980		$226,812		93.42%	N/A

(1) The target percentages for participants in the NACCO Long-Term Plan and NMHG Long-Term include a 15% increase from the Hay-recommended long-term plan target awards that the Compensation Committee applies each year to account for the immediately taxable nature of the NACCO Long-Term Plan awards. See "- Long-Term Incentive Compensation - Equity-Based Long-Term Incentive Compensation for Messrs. Rankin, Schilling and

Butler" beginning on page 37.

(2) Mr. Rankin's target award under the NACCO Long-Term Plan was established at the beginning of 2012 before the Hyster-Yale spin-off. 75% of the target amount ($2,375,196) is attributable to pre-spin service. The Compensation Committee used negative discretion to allocate the remaining $791,732 for post-spin service 40% to NACCO ($316,693) and 60% to Hyster-Yale ($475,039) to reflect Mr. Rankin's division of duties following the spin-off.

(3) Mr. Schilling received his entire 2012 long-term award under the NMHG Long-Term Plan. The amount shown in column (D) above is the portion of his payout that is attributable to pre-spin service while NMHG was a subsidiary of NACCO.

(4) Awards under the NA Coal and HBB Long-Term Plans are each calculated and paid in dollars. There is no difference between the amount of the cash-denominated awards and the fair market value of the awards under those plans.

(5) Awards under the NACCO Long-Term Plan and the NMHG Long-Term Plan are initially denominated in dollars. The amounts shown in columns (D) and (E) reflect (i) the dollar-denominated awards that were earned by Messrs. Rankin and Butler under the NACCO Long-Term Plan for services performed in 2012 and (ii) the dollar-denominated award that was earned by Mr. Schilling under the NMHG Long-Term Plan for pre-spin services while NMHG was a subsidiary of NACCO. This is the amount that is used by the Compensation Committee when analyzing the total compensation of the Named Executive Officers who receive equity compensation. As described in "- Long-Term Incentive Compensation - Equity-Based Long-Term Incentive Compensation for Messrs. Rankin, Schilling and Butler" beginning on page 37, the dollar-denominated awards are then paid to the participants in a combination of restricted stock and cash. For the Named Executive Officers, 35% of the 2012 award was distributed in cash, to approximate their income tax withholding obligations for the shares, and the remaining 65% was distributed in whole shares of restricted stock. The actual number of shares of stock issued would normally be determined by taking the

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dollar value of the stock component of the award and dividing it by the lower of the average share price during the 2012 performance period or the preceding calendar year. For 2012, however, due to the impact of the Hyster-Yale spin-off on the price of Hyster-Yale stock and NACCO Class A Common, the Compensation Committee defined the "average share price" for this purpose as the lower of (i) the average NACCO Class A Common share price for 2011 which was $91.54 or (ii) $115.37 which is the sum of (A) the average NACCO Class A Common share price for the period from January 1, 2012 through September 28, 2012 plus (B) the average share price of a hypothetical "Hyster-Yale/NACCO composite share" for the last three months of 2012 that was calculated by adding the weekly closing value of one share of NACCO Class A Common plus two shares of Hyster-Yale class A common stock for such time period. The number of shares of NACCO Class A Common and Hyster-Yale stock actually distributed under the long-term equity plans was also adjusted using similar methodology and to reflect the extraordinary dividends paid by NACCO and Hyster-Yale in December, 2012. The amounts shown in column (F) reflect the sum of (i) the cash distributed and (ii) the grant date fair value of the stock that was distributed for the 2012 long-term awards. This amount is computed in accordance with FASB ASC Topic 718 and is the same as the amount that is disclosed in the Summary Compensation Table on page 49. The shares were valued using the date on which the long-term plan awards were approved by the applicable compensation committee. The difference in the amounts disclosed in columns (D) and (F) is due to the fact that the number of shares issued was calculated using a price of $91.54 and the grant date fair value was calculated using the average of the high and low share price when the shares were granted, as well as the adjustments made by the compensation committees in determining the number of shares to be issued as a result of the Hyster-Yale spin-off and the extraordinary dividends.

(6) The portion of the awards for Messrs. Rankin and Schilling that is attributable to pre-spin service while NMHG was a subsidiary of NACCO is also disclosed in Hyster-Yale's 2013 proxy statement.

Due to the nature of the NA Coal and HBB Long-Term Plans, the awards and payments under the plans are described in both the Grants of Plan-Based Awards Table on page 52 and the Nonqualified Deferred Compensation Table on page 56. Also refer to "- Employment and Severance Agreements and Change in Control Payments" beginning on page 45 for a description of the impact of a change in control on long-term plan awards.

The following tables show the performance criteria established by the Compensation Committee for 2012 under the long-term plans to determine final, actual incentive compensation payments for the Named Executive Officers. The applicable plan, performance objectives and payout percentages are different for different groups of employees, depending on their category of participation. When reviewing the tables, please note the following:

(1) Achievement Percentages. The achievement percentages are based on the formulas contained in underlying performance guidelines adopted by the Compensation Committee. The formulas do not provide for straight-line interpolation from the performance target to the maximum payment target. The minimum achievement percentage is 0% and the maximum achievement percentage is 150%.

(2) ROTCE Performance Factors. ROTCE is calculated in the manner as shown beginning on page 23 under "- Incentive Compensation of Named Executive Officers - ROTCE Methodology and Explanation" (including the adjustments for the non-recurring or special items). ROTCE targets and results are not disclosed for the reasons stated in that section.

(3) Maximum Payout Percentages. As required under the 2012 guidelines adopted by the Compensation Committee for the long-term incentive plans, (i) the payment to Mr. Trepp did not exceed 150% of his target award and (ii) the cash-denominated payment to Messrs. Rankin and Schilling under the NACCO Long-Term Plan and/or the NMHG Long-Term Plan did not exceed 200% of their target awards. There is no maximum award limit under the NA Coal Long-Term Plan or with respect to the portion of Mr. Butler's award under the NACCO Long-Term Plan that is attributable to NA Coal's performance under the NA Coal Long-Term Plan.

NA Coal Long-Term Incentive Compensation for Messrs. Benson and Gregory. The NA Coal Long-Term Plan for Years 2006 to 2015 has a ten-year term and is in effect from 2006 through 2015. The plan uses economic value of income of current and new projects as the performance criteria because the NA Coal Compensation Committee believes it is a more accurate reflection of the rate of return in NA Coal's business, where a substantial portion of revenue is based on long-term contracts and projects. As described below, awards under the NA Coal Long-Term Plan

also generally have a holding period of ten years.

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NA Coal Long-Term Plan awards are based on a formula consisting of three component targets: New Project Factor (40%); Annual Factor (30%); and Cumulative Factor (30%). Each of these components is described in detail below.

- New Project Factor. When the plan was established in 2006, the NA Coal Compensation Committee set a target dollar level of the "present value appreciation" that was to be earned by new projects obtained during the entire ten-year plan term. Value appreciation for a new project is determined based on the economics of the project. For example, the present value appreciation will be determined based on the forecasted net income and cost of capital over the life of the contract (which could be 40 years) based on the contract terms, including a present value calculation over the life of the contract. During the year the new project comes into existence, the value appreciation of that project for the ten-year term of the NA Coal Long-Term Plan (or the remainder thereof) is taken into account under the new project factor portion of the NA Coal Long-Term Plan and compared to the target that was initially set by the Committee in 2006.

- Annual Factor. When the plan was established, the NA Coal Compensation Committee listed each NA Coal project that was in effect at that time. Using the existing contractual terms for each project, as shown in NA Coal's five-year business plan that was in effect in 2006 and forecasting the results out for another five years, the Compensation Committee established annual net income targets and forecasted capital expenditure targets for each project for each year from 2006 through 2015. Each year, the Committee compares the actual net income and actual capital charges for each project against these previously established targets to determine whether the pre-established targets have been satisfied.

- Cumulative Factor. When the plan was established, the Compensation Committee used the same five-year business plan and forecasting for the same projects to establish cumulative net income targets and cumulative forecasted capital expenditure targets for the same projects for each and every year during the ten-year term of the plan. Each year, the Committee compares the actual cumulative net income and actual capital charges for each project against these previously established targets to determine whether the pre-established targets have been satisfied.

If the NA Coal Compensation Committee determines in any year, which we refer to as an Adjustment Year, that a new project has provided significantly less net income appreciation than originally expected, then the amount of any prior award previously attributed to that project as the result of a prior year's New Project Factor will reduce the New Project Factor in the Adjustment Year, which we refer to as the New Project Adjustment. If the New Project Adjustment is large enough, it is possible for participants to receive negative awards in a given year.

At the start of each year during the ten-year term of the NA Coal Long-Term Plan, participants are granted dollar denominated award targets. Award targets are based on a percentage of each participating executive's salary midpoint. For 2012, the award target was designed to provide target compensation of 130% of salary midpoint for Mr. Benson and 35% of salary midpoint for Mr. Gregory.

Following the end of the year, final awards for each participant are determined by adjusting the award target by the Annual Factor, the Cumulative Factor and the New Project Factor. In addition, the New Project Adjustment is made, if applicable. The NA Coal Compensation Committee, in its discretion, may also increase or decrease awards under the plan and may approve the payment of awards where business unit performance would otherwise not meet the minimum criteria set for payment of awards.

The awards for Messrs. Benson and Gregory and other eligible NA Coal employees were based on the performance criteria and final performance results shown in the following table:

Performance Criteria	Weighting	Payout Factor
New Project Factor	40%	264.3%
Annual Factor	30%	—%
Cumulative Factor	30%	2.6%
Final Payout Percentage (1)		266.9 %(2)

(1)

This table does not include the performance targets or results due to the competitively sensitive nature of that information. Refer to footnote (2) beginning on page 26 for a description of publicly-known new projects for 2012. The Compensation Committee did not expect that any of the NA Coal performance targets would be met in 2012.

(2) For 2012, Mr. Benson received a long-term award of $1,917,356 (his 2012 long-term target of $718,380 multiplied by 266.9%) and Mr. Gregory received a long-term award of $226,812 (his 2012 long-term target of $84,980 multiplied by 266.9%).

The final awards are then credited to participants' accounts under the NA Coal Long-Term Plan. Account balances are credited with interest based on the average monthly rate of ten-year U.S. Treasury notes. Participants become vested in their accounts at the rate of 20% per year, commencing with the first year in which they are granted an award target. However, participants are automatically 100% vested on the earliest of:

- December 31, 2015;
- a change in control;
- termination of employment on account of death or disability; or
- retirement at or after age 55 with at least ten years of service.

The account balance is payable in cash from general assets of NA Coal (or its applicable subsidiary) upon the earliest of the dates described in the prior paragraph; provided, however, that awards attributable to the Liberty Fuels Kemper County IGCC Project are subject to the special payment rules and conditions described in the plan.

HBB Long-Term Incentive Compensation for Mr. Trepp. Long-term compensation for HBB executives is initially based on HBB's consolidated ROTCE performance, which reflects the Compensation Committee's belief that our stockholders are entitled to at least a certain rate of ROTCE for HBB and that performance against that rate of return should determine the long-term incentive compensation payouts under the HBB Long-Term Plan.

At the beginning of 2012, the Compensation Committee set a consolidated ROTCE performance target and a performance period of one year for the awards under the HBB Long-Term Plan. Because the consolidated ROTCE performance target is based on the stockholder protection rate of return rather than HBB's current-year annual operating plan, it is possible that in any given year the expected actual level of performance for the year could be higher or lower than the consolidated ROTCE performance target for that year.

Consistent with the methodology used for our short-term 162(m) Plans, we establish a payment pool under the HBB Long-Term Plan based on actual results against the maximum ROTCE performance target. For 2012, because ROTCE results were above the maximum consolidated ROTCE performance target, the HBB Long-Term Plan had a maximum payment pool of 150%. The maximum consolidated ROTCE performance target under the HBB Long-Term Plan for 2012 was the same as the target that was in effect in 2011. Although the Compensation Committee expected that the maximum ROTCE target would be met in 2012, the target was not set so low that the result was guaranteed.

The Compensation Committee then considers actual results against underlying financial and operating performance measures for HBB and exercises "negative discretion," as permitted under Code Section 162(m), to determine the final long-term incentive compensation payment for each participant out of the maximum payment pool. These underlying financial and operating performance measures reflect the achievement of specified business goals for 2012, as further described below. For more information about our use of ROTCE performance targets for tax deductibility purposes, see "- Incentive Compensation of Named Executive Officers - Design of Incentive Program: Use of ROTCE and Underlying Performance Metrics" beginning on page 22.

The awards granted under the HBB Long-Term Plan are subject to the following rules:

- The awards are immediately vested as of the grant date of the award (which is the January 1st following the end of the performance period).
- Once granted, awards are not subject to any forfeiture or risk of forfeiture under any circumstances.
- Awards approved by the Compensation Committee for a calendar year are credited to separate sub-accounts established for each participant for each award year. The sub-accounts are credited with interest based on the rate earned by the Vanguard RST fixed income fund under the 401(k) plans. While a participant remains actively employed, additional interest is credited based on the excess (if any) of a ROTCE-based rate over the Vanguard RST fixed income fund rate.
- Each sub-account is paid at the earliest of death, disability, retirement, change in control or on the third anniversary of the grant date of the award.

Due to the nature of the HBB Long-Term Plan, the awards under the plan are described in both the Grants of Plan-

Based Awards Table on page 52 and the Nonqualified Deferred Compensation Table on page 56.
The following table summarizes the performance criteria established by the Compensation Committee for 2012 under the HBB Long-Term Plan to determine Mr. Trepp's final incentive compensation payments:

Performance Criteria	(A) Weighting	Performance Target	Performance Result	(B) Achievement Percentage	(A) x (B) Payout Factor	
Adjusted Standard Margin	15%	(1)	(1)	46.8%	7.0%	
Net Sales	15%	$526,476,000	$521,567,465	85.3%	12.8%	
HBB ROTCE(3)	25%	(2)	(2)	129.5%	32.4%	
Operating Profit Percentage	45%	(2)	(2)	64.0%	28.8%	
Final Payout Percentage					81.0	%(3)

(1) This table does not include the adjusted standard margin target or result due to the competitively sensitive nature of that information. For 2012, the HBB Compensation Committee expected HBB to meet its adjusted standard margin target under the HBB Long-Term Plan.

(2) The ROTCE and operating profit percent targets under the HBB Long-Term Plan were slightly higher than those used under the HBB Short-Term Plan. For 2012, the HBB Compensation Committee did not expect that the operating profit percent target would be met but did expect that the ROTCE target would be met. Refer to the HBB Short-Term Plan chart shown on page 27 for descriptions of the targets and reasons for non-disclosure.

(3) For 2012, Mr. Trepp received a long-term award of $612,425 (his 2012 long-term target of $756,080 multiplied by 81%).

Equity-Based Long-Term Incentive Compensation for Messrs. Rankin, Schilling and Butler. NACCO and Hyster-Yale maintain two types of equity-based long-term incentive compensation plans for certain executives who perform services at their global headquarters:

- Standard Long-Term Equity Plans:

NACCO. The NACCO Long-Term Plan uses the Company's consolidated ROTCE to determine the minimum and maximum payment pools which reflects the Compensation Committee's belief that the Company and its stockholders are entitled to at least a certain rate of ROTCE for the Company overall and that our performance against that rate of return should determine the long-term incentive compensation payouts under the NACCO Long-Term Plan. Although the NACCO Compensation Committee expected that the ROTCE target would be met in 2012, the target was not set so low that the result was guaranteed. For 2012, ROTCE results at or above the maximum consolidated ROTCE performance resulted in a maximum permissible payment of 200% of target for Messrs. Rankin and Butler, except for the portion of Mr. Butler's payout attributable to NA Coal's performance under the NA Coal Long-Term Plan, which is unlimited. The NACCO Compensation Committee then used negative discretion comparing the performance of NACCO's subsidiaries to the performance criteria established under the subsidiary long-term plans to determine the final payouts under the NACCO Long-Term Plan, as shown on the tables below. 75% of the award for Messrs. Rankin and Butler took into account pre-spin NMHG performance while NMHG was a subsidiary of NACCO. The pre-spin portion of Mr. Rankin's award is also disclosed in Hyster-Yale's 2013 proxy statement. Mr. Schilling did not receive a 2012 award under the NACCO Long-Term Plan.

Hyster-Yale. For 2012, the NMHG Long-Term Plan used Hyster-Yale's post-spin consolidated ROTCE to determine the minimum and maximum payment pools. Although the Hyster-Yale compensation committee expected that the ROTCE target would be met in 2012, the target was not set so low that the result was guaranteed. For 2012, ROTCE results at or above the maximum consolidated ROTCE performance resulted in a maximum permissible payment of 200% of target for Mr. Schilling. The Hyster-Yale compensation committee used the performance criteria shown below to determine Mr. Schilling's final pre-spin payout under the NMHG Long-Term Plan. This amount is disclosed on the Summary Compensation Table on page 49 and in Hyster-Yale's 2013 proxy statement.

- Supplemental Long-Term Equity Plans. The NACCO Supplemental Long-Term Plan and the NMHG

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supplemental equity plan give the applicable compensation committee the flexibility to provide discretionary additional equity compensation. The compensation committees did not grant any awards under the supplemental equity plans for services performed in 2012.

Under each of the long-term equity plans, the executive is effectively required to invest the non-cash portion of the payout in NACCO Class A common stock or Hyster-Yale class A common stock, as applicable, for up to ten years. This is because, as discussed below, the shares awarded generally may not be transferred for ten years following the last day of the award year. During the holding period, the ultimate value of the shares is subject to change based upon the value of the shares of stock. The value of the award is enhanced as the value of the stock increases or is reduced as the value of the stock decreases. Thus, the awards provide the executives with an incentive over the ten-year period to increase the value of the applicable company, which is expected to be reflected in the increased value of the stock awarded. As a result of the annual equity grants under the long-term equity plans and the corresponding transfer restrictions, the number of shares of stock that an executive holds generally increases each year. Consequently, NACCO executives will continue to have or accumulate exposure to long-term Company performance notwithstanding any short-term changes in the price of shares of Class A Common. This increased exposure strongly aligns the long-term interests of the Named Executive Officers with those of other stockholders.

Target awards under the long-term equity plans are initially expressed in a dollar amount equal to a percentage of the participant's salary midpoint based on the number of Hay points assigned to the executive's position and the Hay Group's long-term incentive compensation recommendations for that Hay point level. These amounts are then increased by 15% to account for the immediately taxable nature of the long-term equity plan awards. The dollar-denominated payments generally may not exceed 200% of the award target, except for the portion of Mr. Butler's award that is attributable to NA Coal's performance under the NA Coal Long-Term Plan, which is unlimited. The compensation committees retain discretionary authority to increase or decrease the amount of any award that would otherwise be payable to a participant or to approve the payment of awards where performance would otherwise not meet the minimum criteria set for payment of awards (except awards for covered employees under Code Section 162(m) which may only be decreased).

Final awards are paid to the participants in a combination of restricted stock and cash, with the cash amount approximating the income tax withholding obligations of the participants for the stock. For 2012, approximately 65% of each award was distributed in shares of restricted stock and 35% in cash. The actual number of shares of stock issued to a participant is determined by taking the dollar value of the stock component of the award and dividing it by the average share price. For this purpose, the average share price is generally calculated as the lesser of:

- the average closing price of stock on the NYSE at the end of each week during the year preceding the start of the performance period (or such other previous calendar year as determined by the compensation committee no later than the 90th day of the performance period); or
- the average closing price of stock on the NYSE at the end of each week during the performance period.

For 2012 awards, however, a modified calculation was required as a result of the impact of the Hyster-Yale spin-off on the price of NACCO and Hyster-Yale stock following the spin-off. See "Long-Term Incentive Compensation" above.

Awards under the long-term equity plans are fully vested when granted and the participants have all of the rights of a stockholder, including the right to vote, upon receipt of the shares. The participants also have the right to receive dividends that are declared and paid after they receive the award shares. The full amount of each final award, including the fair market value of the award shares on the date of grant, is fully taxable to the participant.

The award shares that are issued are subject to transfer restrictions that generally lapse on the earliest to occur of:

- the date which is ten years after the last day of the performance period;
- the date of the participant's death or permanent disability; or
- five years (or earlier with the approval of the applicable compensation committee) from the date of retirement.

The compensation committees have the right to release the restrictions at an earlier date, but rarely do so.

Mr. Rankin Long-Term Incentive Calculation. The following tables summarize the performance criteria (each of which mirrors the performance criteria that were used under the subsidiary long-term incentive plans) established by the Compensation Committee for 2012 under the NACCO Long-Term Plan to determine the final incentive

compensation payment for Mr. Rankin. 75% of his 2012 long-term award is based on pre-spin performance factors and 25% of his 2012 award is based on post-spin performance factors:

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Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Rankin	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor	
NMHG Operating Profit Percentage	40%	55%	22.00%	(1)	(1)	76.4%	16.8%	
NMHG ROTCE	30%	55%	16.50%	(1)	(1)	150.0%	24.8%	
NMHG Market Share - Americas w/o Brazil	12%	55%	6.60%	(1)	(1)	—%	—%	
NMHG Market Share - Brazil	3%	55%	1.65%	(1)	(1)	—%	—%	
NMHG Market Share - EMEA	9%	55%	4.95%	(1)	(1)	10.0%	0.5%	
NMHG Market Share - Asia	2%	55%	1.10%	(1)	(1)	25.0%	0.3%	
NMHG Market Share - Pacific	3%	55%	1.65%	(1)	(1)	25.0%	0.4%	
NMHG Market Share - Japan	1%	55%	0.55%	(1)	(1)	12.5%	0.1%	
NMHG Total							42.9	%
HBB Adjusted Standard Margin	15%	20%	3.00%	(2)	(2)	46.8%	1.4%	
HBB ROTCE	25%	20%	5.00%	(2)	(2)	129.5%	6.5%	
HBB Operating Profit Percent	45%	20%	9.00%	(2)	(2)	64.0%	5.8%	
HBB Net Sales	15%	20%	3.00%	$526,476,000	$521,567,465	85.3%	2.6%	
HBB Total							16.3	%
KC Adjusted Gross Profit	15%	5%	0.75%	$106,145,000	$95,831,716	—%	—%	
KC ROTCE	25%	5%	1.25%	(1)	(1)	—%	—%	
KC Operating Profit Percent	45%	5%	2.25%	(1)	(1)	—%	—%	
KC Net Sales	15%	5%	0.75%	$236,005,000	$224,695,287	52.1%	0.4%	
K Positive Discretion						10.0%	0.5%	
KC Total							0.9	%
NA Coal Annual Factor	30%	20%	6.00%	(2)	(2)	(2)	—%	
NA Coal Cumulative Factor	30%	20%	6.00%	(2)	(2)	(2)	0.5%	
NA Coal New Project Factor	40%	20%	8.00%	(2)	(2)	(2)	52.9%	
NA Coal Total							53.4	%
Final Pre-Spin Payout Percentage							113.5	%(3)

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Post-Spin Performance Criteria	(A) Initial Weighting Subsidiary Level	(B) Post-Spin Weighting for Mr. Rankin	(C) = (A) x (B) NACCO Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Percentage
HBB Adjusted Standard Margin	15%	45%	6.75%	(2)	(2)	46.8%	3.2%
HBB ROTCE	25%	45%	11.25%	(2)	(2)	129.5%	14.6%
HBB Operating Profit Percent	45%	45%	20.25%	(2)	(2)	64.0%	13.0%
HBB Net Sales	15%	45%	6.75%	$526,476,000	$521,567,465	85.3%	5.8%
HBB Total							36.6 %
KC Adjusted Gross Profit	15%	10%	1.50%	(1)	(1)	—%	—%
KC ROTCE	25%	10%	2.50%	(1)	(1)	—%	—%
KC Operating Profit Percent	45%	10%	4.50%	(1)	(1)	—%	—%
KC Net Sales	15%	10%	1.50%	$236,005,000	$224,695,287	52.1%	0.8%
KC Positive Discretion						10.0%	1.0%
KC Total							1.8 %
NA Coal Annual Factor	30%	45%	13.50%	(2)	(2)	(2)	—%
NA Coal Cumulative Factor	30%	45%	13.50%	(2)	(2)	(2)	1.2%
NA Coal New Project Factor	40%	45%	18.00%	(2)	(2)	(2)	118.9%
NA Coal Total							120.1 %
Final Post-Spin Payout Percentage							158.5 %(3)

(1) NMHG and KC Performance Factors. These tables do not disclose the NMHG performance targets or results or the KC adjusted gross profit, ROTCE or operating profit percent targets or results due to the competitively sensitive nature of that information. For 2012, the KC Compensation Committee did not expect KC to meet any of these targets and the NMHG Compensation Committee did not expect NMHG to meet the operating profit percent target or the Brazil and EMEA market share targets. Due to the extraordinary effort of management employees in a difficult retail climate, the Compensation Committee increased KC incentive compensation payouts by 10% to better incentivize employees.

(2) HBB and NA Coal Performance Factors. See the HBB Long-Term Plan table and the NA Coal Long-Term Plan table for descriptions of individual targets in the HBB and NA Coal Long-Term Plans and reasons for non-disclosure of certain targets and results.

(3) Mr. Rankin's incentive compensation payment under the NACCO Long-Term Plan for 2012 was calculated as follows:

Calculation for Pre-Spin Service: The Compensation Committee increased Mr. Rankin's Hay-recommended long-term incentive target of 275% by 15% (316.25%) to reflect the immediately taxable nature of the long-term equity award. Multiply his 2012 salary midpoint by his adjusted incentive target compensation percentage to determine his target dollar amount: $1,001,400 multiplied by 316.25% = $3,166,928. Allocate the target dollar amount between pre-spin service (75% or $2,375,196) and post-spin service (25% or $791,732). Multiply the pre-spin service target dollar amount by the applicable payment percentage, based on performance criteria and results for NMHG, NA

Coal, HBB and KC, which was 113.5% as shown on the first table above resulting in a cash-denominated amount of $2,695,847 ($2,375,196 multiplied by 113.5%). This amount is also reflected in Hyster-Yale's 2013 proxy statement.
Calculation for Post-Spin Service: Multiply the post-spin target amount by 40% to reflect the portion of time that Mr. Rankin is expected to perform post-spin services for NACCO (40% of $791,732 is $316,693). Then multiply the adjusted post-spin service target dollar amount by the applicable payment percentage based on performance criteria and results for NA Coal, HBB and KC, which was 158.5%, as shown on the immediately preceding table: $316,693 multiplied by 158.5% = $501,958.
Calculation of Total 2012 Long-Term Incentive Compensation: Add the pre-spin and post-spin amounts together, resulting in a cash denominated award of $3,197,805 to Mr. Rankin for 2012 under the NACCO Long-Term Plan. This amount was then paid partially in cash and partially in restricted shares of Class A Common.

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Mr. Schilling Long-Term Incentive Calculation. The following table summarizes the performance factors used under the NMHG Long-Term Plan to determine the final incentive compensation payment for Mr. Schilling for pre-spin service in 2012:

Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Schilling	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
NMHG Operating Profit Percentage	40%	82%	32.80%	(1)	(1)	76.4%	25.1%
NMHG ROTCE	30%	82%	24.60%	(1)	(1)	150.0%	36.9%
NMHG Market Share - Americas w/o Brazil	12%	82%	9.84%	(1)	(1)	—%	—%
NMHG Market Share - Brazil	3%	82%	2.46%	(1)	(1)	—%	—%
NMHG Market Share - EMEA	9%	82%	7.38%	(1)	(1)	10.0%	0.7%
NMHG Market Share - Asia	2%	82%	1.64%	(1)	(1)	25.0%	0.4%
NMHG Market Share - Pacific	3%	82%	2.46%	(1)	(1)	25.0%	0.6%
NMHG Market Share - Japan	1%	82%	0.82%	(1)	(1)	12.5%	0.1%
NMHG Total							63.8 %
HBB Adjusted Standard Margin	15%	8%	1.20%	(2)	(2)	46.8%	0.6%
HBB ROTCE	25%	8%	2.00%	(2)	(2)	129.5%	2.6%
HBB Operating Profit Percent	45%	8%	3.60%	(2)	(2)	64.0%	2.3%
HBB Net Sales	15%	8%	1.20%	$526,476,000	$521,567,465	85.3%	1.0%
HBB Total							6.5 %
KC Adjusted Gross Profit	15%	2%	0.30%	$106,145,000	$95,831,716	—%	—%
KC ROTCE	25%	2%	0.50%	(1)	(1)	—%	—%
KC Operating Profit Percent	45%	2%	0.90%	(1)	(1)	—%	—%
KC Net Sales	15%	2%	0.30%	$236,005,000	$224,695,287	52.1%	0.2%
K Positive Discretion						10.0%	0.2%
KC Total							0.4 %
NA Coal Annual Factor	30%	8%	2.40%	(2)	(2)	(2)	—%
NA Coal Cumulative Factor	30%	8%	2.40%	(2)	(2)	(2)	0.2%
NA Coal New Project Factor	40%	8%	3.20%	(2)	(2)	(2)	21.1%
NA Coal Total							21.3 %
Final Pre-Spin Payout Percentage							92.0 %(3)

(1)-(2). See footnotes under "-Mr. Rankin Long-Term Incentive Calculation" beginning on page 38.

(3). Mr. Schilling's incentive compensation payment under the NMHG Long-Term Plan attributable to pre-spin service for 2012 was calculated as follows: The Compensation Committee increased Mr. Schilling's pre-spin Hay-recommended long-term incentive target of 50% by 15% (57.5%) to reflect the immediately taxable nature of the long-term equity award. Multiply Mr. Schilling's pre-spin 2012 salary midpoint by his adjusted incentive target compensation percentage to determine his pre-spin target dollar amount: $317,500 multiplied by 57.5% = $182,563. Allocate the target dollar amount between pre-spin service (75% or $136,922) and post-spin service (25% or $45,641). Multiply the pre-spin service target dollar amount by the applicable payment percentage, based on pre-spin performance criteria and results for NMHG, NA Coal, HBB and KC, which was 92.0% as shown on the above table: $136,922 multiplied by 92.0% = $125,968. This cash-denominated award was then paid partially in cash and partially in restricted shares of Hyster-Yale Class A common stock. This amount is also reflected in Hyster-Yale's 2013 proxy statement.

Mr. Butler Long-Term Incentive Calculation. The following tables summarize the performance criteria established by the Compensation Committee for 2012 under the NACCO Long-Term Plan to determine the final incentive compensation payment for Mr. Butler. 75% of his 2012 long-term award is based on pre-spin performance factors and 25% of his 2012 award is based on post-spin performance factors:

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Pre-Spin Performance Criteria	(A) Initial Weighting at Subsidiary Level	(B) Pre-Spin Weighting for Mr. Butler	(C)=(A) x (B) Payment Factor	Performance Target	Performance Result	(D) Achievement Percentage	(C) x (D) Payout Factor
NMHG Operating Profit Percentage	40%	19.25%	7.70%	(1)	(1)	76.4%	5.9%
NMHG ROTCE	30%	19.25%	5.78%	(1)	(1)	150.0%	8.7%
NMHG Market Share - Americas w/o Brazil	12%	19.25%	2.31%	(1)	(1)	—%	—%
NMHG Market Share - Brazil	3%	19.25%	0.58%	(1)	(1)	—%	—%
NMHG Market Share - EMEA	9%	19.25%	1.73%	(1)	(1)	10.0%	0.2%
NMHG Market Share - Asia	2%	19.25%	0.39%	(1)	(1)	25.0%	0.1%
NMHG Market Share - Pacific	3%	19.25%	0.58%	(1)	(1)	25.0%	0.1%
NMHG Market Share - Japan	1%	19.26%	0.19%	(1)	(1)	12.5%	—%
NMHG Total							15.0 %
HBB Adjusted Standard Margin	15%	7%	1.05%	(2)	(2)	46.8%	0.5%
HBB ROTCE	25%	7%	1.75%	(2)	(2)	129.5%	2.3%
HBB Operating Profit Percent	45%	7%	3.15%	(2)	(2)	64.0%	2.0%
HBB Net Sales	15%	7%	1.05%	$526,476,000	$521,567,465	85.3%	0.9%
HBB Total							5.7 %
KC Adjusted Net Income	15%	1.75%	0.26%	$106,145,000	$95,831,716	—%	—%
KC ROTCE	25%	1.75%	0.44%	(1)	(1)		

March 9, 2007 By: /s/ F. William Kuethe, Jr.

F. William Kuethe, Jr.
President and Chief Executive Officer

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

Signature	Title	Date
/s/ F. William Kuethe, Jr. F. William Kuethe, Jr.	President, Chief Executive Officer and Director	March 9, 2007
/s/ Michael G. Livingston Michael G. Livingston	Deputy Chief Executive Officer, Executive Vice President, Chief Operating Officer and Director	March 9, 2007
/s/ John E. Porter John E. Porter	Senior Vice President and Chief Financial Officer	March 9, 2007
/s/ John E. Demyan John E. Demyan	Chairman of the Board and Director	March 9, 2007
/s/ Shirley E. Boyer Shirley E. Boyer	Director	March 9, 2007
/s/ Thomas Clocker Thomas Clocker	Director	March 9, 2007
/s/ Norman E. Harrison, Jr. Norman E. Harrison, Jr.	Director	March 9, 2007
/s/ F. W. Kuethe, III F. W. Kuethe, III	Director	March 9, 2007
/s/ Charles Lynch	Director	March 9, 2007

Charles Lynch

/s/ Edward L. Maddox Edward L. Maddox	Director	March 9, 2007
/s/ William N. Scherer, Sr. William N. Scherer, Sr.	Director	March 9, 2007

/s/ Karen B. Thorwarth Karen B. Thorwarth	Director	March 9, 2007
/s/ Mary Lou Wilcox Mary Lou Wilcox	Director	March 9, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Glen Burnie Bancorp and subsidiaries as of December 31, 2006, 2005, and 2004, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Glen Burnie Bancorp and subsidiaries as of December 31, 2006, 2005, and 2004, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Trice Geary & Myers LLC

Salisbury, Maryland
March 2, 2007

F-1

Glen Burnie Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31,	**2006**	2005	2004
	Assets		
Cash and due from banks	**$ 9,005,691**	$ 9,405,148	$ 9,766,710
Interest-bearing deposits in other financial institutions	**342,309**	3,711,524	65,947
Federal funds sold	**3,971,978**	2,333,055	1,541,234
Cash and cash equivalents	**13,319,978**	15,449,727	11,373,891
Investment securities available for sale, at fair value	**95,811,296**	86,128,724	93,278,857
Investment securities held to maturity (fair value **2006 $729,960;** 2005 $1,238,740; 2004 $1,761,894)	**683,363**	1,151,163	1,627,190
Federal Home Loan Bank stock, at cost	**928,000**	918,900	919,000
Maryland Financial Bank stock, at cost	**100,000**	100,000	100,000
Common stock in the Glen Burnie Statutory Trust I	**155,000**	155,000	155,000
Ground rents, at cost	**219,100**	235,700	235,700
Loans, less allowance for credit losses **2006 $1,839,094;** 2005 $2,201,350; 2004 $2,411,894;	**193,336,604**	190,204,998	182,291,292
Premises and equipment, at cost, less accumulated depreciation	**3,406,014**	3,863,275	4,030,777
Accrued interest receivable on loans and investment securities	**1,627,433**	1,451,806	1,484,869
Deferred income tax benefits	**292,131**	264,139	-
Other real estate owned	**50,000**	50,000	50,000
Cash value of life insurance	**6,892,455**	5,681,802	5,483,681
Other assets	**924,227**	905,757	1,281,869
Total assets	**$ 317,745,601**	$ 306,560,991	$ 302,312,126
	Liabilities and Stockholders' Equity		
Liabilities:			
Deposits:			
Noninterest-bearing	**$ 74,729,298**	$ 79,313,921	$ 73,427,366
Interest-bearing	**200,104,159**	185,934,347	188,246,677
Total deposits	**274,833,457**	265,248,268	261,674,043
Short-term borrowings	**545,349**	622,050	541,672
Long-term borrowings	**7,140,170**	7,170,977	7,199,708
Junior subordinated debentures owed to unconsolidated subsidiary trust	**5,155,000**	5,155,000	5,155,000
Dividends payable	**366,580**	339,005	287,938
Accrued interest payable on deposits	**145,642**	83,111	55,980

Accrued interest payable on junior subordinated debentures		**171,518**		171,518		171,518
Deferred income tax liabilities		**-**		-		330,583
Other liabilities		**1,187,372**		1,145,621		1,151,276
Total liabilities		**289,545,088**		279,935,550		276,567,718
Commitments and contingencies						
Stockholders' equity:						
Common stock, par value $1, authorized 15,000,000 shares; issued and outstanding **2006 2,484,633** shares; 2005 2,056,024 shares; 2004 2,041,033 shares;		**2,484,633**		2,056,024		2,041,033
Surplus		**11,719,907**		11,458,465		11,169,283
Retained earnings		**14,312,496**		13,341,097		11,773,915
Accumulated other comprehensive income (loss), net of tax (benefits)		**(316,523)**		(230,145)		760,177
Total stockholders' equity		**28,200,513**		26,625,441		25,744,408
Total liabilities and stockholders' equity	**$**	**317,745,601**	$	306,560,991	$	302,312,126

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	**2006**	2005	2004
Interest income on:			
Loans, including fees	**$ 11,830,676**	$ 11,625,147	$ 11,203,896
U.S. Government agency securities	**3,347,090**	2,413,687	2,216,554
State and municipal securities	**1,653,109**	1,473,550	1,769,813
Corporate trust preferred securities	**374,588**	378,167	358,290
Federal funds sold	**200,418**	113,246	59,461
Other	**249,315**	93,765	53,113
Total interest income	**17,655,196**	16,097,562	15,661,127
Interest expense on:			
Deposits	**4,780,871**	3,091,576	2,611,536
Short-term borrowings	**80,994**	65,906	56,938
Long-term borrowings	**425,470**	427,547	429,484
Junior subordinated debentures	**546,430**	546,430	546,703
Total interest expense	**5,833,765**	4,131,459	3,644,661
Net interest income	**11,821,431**	11,966,103	12,016,466
Provision for credit losses	**62,000**	(50,000)	340,000
Net interest income after provision for credit losses	**11,759,431**	12,016,103	11,676,466
Other income:			
Service charges on deposit accounts	**831,140**	864,823	899,196
Other fees and commissions	**1,026,144**	948,580	859,539
Gains on investment securities, net	**176,453**	102,300	411,478
Income on life insurance	**210,653**	198,121	201,423
Total other income	**2,244,390**	2,113,824	2,371,636
Other expenses:			
Salaries and wages	**4,769,495**	4,620,793	4,404,605
Employee benefits	**1,748,294**	1,788,453	1,891,244
Occupancy	**850,843**	793,903	684,242
Furniture and equipment	**864,151**	885,203	839,485
Other expenses	**2,363,878**	2,536,445	2,539,801
Total other expenses	**10,596,661**	10,624,797	10,359,377
Income before income taxes	**3,407,160**	3,505,130	3,688,725
Federal and state income tax expense	**687,115**	730,389	633,224
Net income	**$ 2,720,045**	$ 2,774,741	$ 3,055,501
	$ 1.10	$ 1.13	$ 1.25

Basic and diluted earnings per share of common stock

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31,	**2006**	2005	2004
Net income	**$ 2,720,045**	$ 2,774,741	$ 3,055,501
Other comprehensive loss, net of tax			
Unrealized holding losses arising during the period (net of deferred tax benefits **2006 $6,826**; 2005 $583,598; 2004 $173,611)	**(10,849)**	(927,530)	(275,926)
Reclassification adjustment for gains included in net income (net of deferred taxes **2006 $47,522**; 2005 $39,508; 2004 $154,291)	**(75,529)**	(62,792)	(245,220)
Total other comprehensive loss	**(86,378)**	(990,322)	(521,146)
Comprehensive income	**$ 2,633,667**	$ 1,784,419	$ 2,534,355

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2006, 2005, and 2004

	Common Stock			Retained	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	Par Value	Surplus	Earnings	(Loss)	Equity
Balances, December 31, 2003	1,689,281	$ 1,689,281	$ 10,861,986	$ 10,115,038	$ 1,281,323	$ 23,947,628
Net income	-	-	-	3,055,501	-	3,055,501
Cash dividends, $.43 per share	-	-	-	(1,059,357)	-	(1,059,357)
Dividends reinvested under dividend reinvestment plan	10,796	10,796	221,159	-	-	231,955
Shares issued under employee stock purchase plan	3,689	3,689	72,673	-	-	76,362
Stock split effected in form of 20% stock dividend	337,267	337,267	-	(337,267)	-	-
Vested stock options, net	-	-	13,465	-	-	13,465
Other comprehensive loss, net of tax	-	-	-	-	(521,146)	(521,146)
Balances, December 31, 2004	2,041,033	2,041,033	11,169,283	11,773,915	760,177	25,744,408
Net income	-	-	-	2,774,741	-	2,774,741
Cash dividends, $.49 per share	-	-	-	(1,207,559)	-	(1,207,559)
Dividends reinvested under dividend reinvestment plan	12,708	12,708	243,407	-	-	256,115
Shares issued under employee stock purchase plan	2,283	2,283	38,584	-	-	40,867
Vested stock options, net	-	-	7,191	-	-	7,191
Other comprehensive loss, net of tax	-	-	-	-	(990,322)	(990,322)
Balances, December 31, 2005	**2,056,024**	**2,056,024**	**11,458,465**	**13,341,097**	**(230,145)**	**26,625,441**

Net income	**-**	**-**	**-**	**2,720,045**	**-**	**2,720,045**
Cash dividends, $.54 per share	**-**	**-**	**-**	**(1,337,545)**	**-**	**(1,337,545)**
Dividends reinvested under dividend reinvestment plan	**15,113**	**15,113**	**229,946**	**-**	**-**	**245,059**
Shares issued under employee stock purchase plan	**2,395**	**2,395**	**31,496**	**-**	**-**	**33,891**
Stock split effected in form of 20% stock dividend	**411,101**	**411,101**	**-**	**(411,101)**	**-**	**-**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(86,378)**	**(86,378)**
Balances, December 31, 2006	**2,484,633**	**$ 2,484,633**	**$ 11,719,907**	**$ 14,312,496**	**$ (316,523)**	**$ 28,200,513**

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	**2006**	2005	2004
Cash flows from operating activities:			
Net income	$ **2,720,045**	$ 2,774,741	$ 3,055,501
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization, and accretion	**571,741**	761,402	828,444
Compensation expense from vested stock options, net	**-**	7,191	13,465
Provision for credit losses	**62,000**	(50,000)	340,000
Provision for unfunded commitments	**-**	50,000	-
Losses on other real estate owned	**-**	-	7,372
Deferred income taxes (benefits), net	**26,357**	28,383	(133,613)
Gains on disposals of assets, net	**(175,634)**	(100,866)	(409,211)
Income on investment in life insurance	**(210,653)**	(198,121)	(201,423)
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(175,627)**	33,063	91,049
Decrease in other assets	**38,161**	238,828	5,663
Increase (decrease) in accrued interest payable	**62,531**	27,131	(11,119)
Increase (decrease) in other liabilities	**41,751**	(5,655)	5,749
Net cash provided by operating activities	**2,960,672**	3,566,097	3,591,877
Cash flows from investing activities:			
Maturities of held to maturity mortgage-backed securities	**468,199**	476,502	952,233
Maturities of other held to maturity investment securities	**-**	-	1,000,000
Maturities of available for sale mortgage-backed securities	**9,331,430**	7,810,035	6,984,287
Maturities of other available for sale investment securities	**4,330,544**	4,111,320	3,229,796
Sales of available for sale debt securities	**22,431,078**	16,951,413	18,345,056
Purchases of available for sale mortgage-backed securities	**(25,365,231)**	(12,488,670)	(18,214,141)
Purchases of other available for sale investment securities	**(20,398,575)**	(10,874,843)	(4,651,079)
(Purchase) sale of FHLB stock	**(9,100)**	100	(22,600)
Purchase of MFB stock	**-**	-	(100,000)
Purchase of life insurance contracts	**(1,000,000)**	-	(500,000)
Increase in loans, net	**(3,193,606)**	(7,863,706)	(9,697,733)
Purchases of premises and equipment	**(131,821)**	(378,774)	(417,426)
Net cash used by investing activities	**(13,537,082)**	(2,256,623)	(3,091,607)
Cash flows from financing activities:			

(Decrease) increase in noninterest-bearing deposits, NOW accounts, money market accounts, and savings accounts, net	**(4,584,623)**	5,886,555	3,778,548
Increase (decrease) in time deposits, net	**14,169,812**	(2,312,330)	987,260
(Decrease) increase in short-term borrowings	**(76,701)**	80,378	(6,060,248)
Repayments of long-term borrowings	**(30,807)**	(28,731)	(26,793)
Cash dividends paid	**(1,309,970)**	(1,156,492)	(1,008,357)
Common stock dividends reinvested	**245,059**	256,115	231,955
Issuance of common stock	**33,891**	40,867	76,362
Net cash provided (used) by financing activities	**8,446,661**	2,766,362	(2,021,273)
(Decrease) increase in cash and cash equivalents	**(2,129,749)**	4,075,836	(1,521,003)
Cash and cash equivalents, beginning of year	**15,449,727**	11,373,891	12,894,894
Cash and cash equivalents, end of year	**$ 13,319,978**	$ 15,449,727	$ 11,373,891

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

Glen Burnie Bancorp and Subsidiaries

Consolidated Statements of Cash Flows
(Continued)

Years Ended December 31,	**2006**	2005	2004
Supplementary Cash Flow Information:			
Interest paid	**$ 5,771,234**	$ 4,104,328	$ 3,655,780
Income taxes paid	**626,374**	741,717	908,812
Total decrease in unrealized depreciation on available for sale securities	**(140,725)**	(1,613,427)	(849,050)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

Principles of Consolidation:

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

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

Use of Estimates:

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

Securities Held to Maturity:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Securities Available for Sale:

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

Other Securities:

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

Loans and Allowance for Credit Losses:

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

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

The allowance for loan losses typically consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either SFAS No 5, Accounting for Contingencies, or SFAS No 114, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using a loss migration analysis that examines loss experience and the related internal gradings of loans charged off. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of concentrations and changes in portfolio mix and volume.

Any unallocated portion of the allowance reflects management’s estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower’s financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio. At December 31, 2006, there was no unallocated component of the allowance reflected in the allowance for credit losses.

Reserve for Unfunded Commitments:

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

Other Real Estate Owned (“OREO”):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other income or expenses. Gains and losses realized from the sale of OREO are included in other income or expenses. No loans were converted to OREO in 2006, 2005, or 2004. The Bank financed no sales of OREO for 2006, 2005, or 2004.

Bank Premises and Equipment:

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

Intangible Assets:

A core deposit intangible asset of **$544,652**, relating to a branch acquisition, has been amortized on the straight-line method over 10 years. Accumulated amortization totaled **$544,652**, $544,652, and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

$503,802 at December 31, 2006, 2005, and 2004, respectively. Amortization expense totaled **$0**, $40,850, and **$**54,465 for the years ended December 2006, 2005, and 2004, respectively.

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Asset*. As of December 31, 2006, 2005, and 2004, certain loans existed which management considered impaired (See Note 4).

Income Taxes:

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

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

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

Credit Risk:

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2006, the Bank had unsecured deposits and Federal funds sold with two separate financial institutions of approximately **$4,073,000**.

Cash and Cash Equivalents:

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

Accounting for Stock Options:

On January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payments*, for accounting and reporting for stock-based compensation plans. SFAS No. 123R defines a fair value at grant date based method of accounting for measuring compensation expense for stock-based plans to be recognized in the statement of income. For 2005 and 2004, the Company applied Accounting Principles Board Opinion (APB) No. 25 and related Interpretations for accounting and reporting for these plans. If compensation cost for these periods had been determined based on the fair value at the grant date for awards under this plan consistent with the methods outlined in SFAS No. 123R, there would be no change in reported net income for the years ending December 31, 2005 and 2004 (See Note 17).

Earnings per share:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

Financial Statement Presentation:

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

Note 2. Restrictions on Cash and Due from Banks

The Federal Reserve requires the Bank to maintain noninterest-bearing cash reserves against certain categories of average deposit liabilities. Such reserves averaged approximately **$5,530,000**, $5,976,000, and $5,684,000 during the years ended December 31, 2006, 2005, and 2004, respectively.

Note 3. Investment Securities

Investment securities are summarized as follows:

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

December 31, 2005		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available for sale:								
U.S. Government agencies	$	11,978,348	$	-	$	476,568	$	11,501,780
State and municipal		29,593,236		634,992		228,381		29,999,847
Corporate trust preferred		4,976,388		475,487		-		5,451,875
Mortgage-backed		39,955,704		26,808		807,290		39,175,222
	$	86,503,676	$	1,137,287	$	1,512,239	$	86,128,724

Held to maturity:								
State and municipal	$	683,073	$	63,670	$	-	$	746,743
Mortgage-backed		468,090		23,907		-		491,997
	$	1,151,163	$	87,577	$	-	$	1,238,740

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

December 31, 2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
U.S. Government agencies	$ 12,511,877	$ 93,242	$ 487,504	$ 12,117,615
State and municipal	35,956,838	1,237,281	88,450	37,105,669
Corporate trust preferred	5,008,127	459,840	-	5,467,967
Mortgage-backed	38,563,539	187,391	163,324	38,587,606
	$ 92,040,381	$ 1,977,754	$ 739,278	$ 93,278,857
Held to maturity:				
State and municipal	$ 682,945	$ 71,933	$ -	$ 754,878
Mortgage-backed	944,245	62,771	-	1,007,016
	$ 1,627,190	$ 134,704	$ -	$ 1,761,894

The gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 are as follows:

Securities available for sale:

	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Obligations of U.S. Government agencies	**$ 2,481,406**	**$ 13,759**	**$ 7,703,031**	**$ 285,875**	**$ 10,184,437**	**$ 299,634**
State and Municipal	**5,855,246**	**20,027**	**9,324,227**	**159,180**	**15,179,473**	**179,207**
Mortgaged-backed	**10,471,563**	**65,694**	**30,440,138**	**817,924**	**40,911,701**	**883,618**
	$ 18,808,215	**$ 99,480**	**$ 47,467,396**	**$ 1,262,979**	**$ 66,275,611**	**$ 1,362,459**

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

Management has the ability and intent to hold the securities classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2006, management also had the ability and intent to hold the securities classified as available for sale for a period of time sufficient for a

recovery of cost. On December 31, 2006, the Bank held 83 investment securities having continuous unrealized loss positions for more than 12 months. Management has determined that all unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2006, management believes the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's consolidated income statement.

Contractual maturities of investment securities at December 31, 2006, 2005, and 2004 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

	Available for Sale		***Held to Maturity***	
December 31, 2006	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	**$ 300,989**	**$ 298,897**	**$ -**	**$ -**
Due over one to five years	**10,355,087**	**10,221,909**	**-**	**-**
Due over five to ten years	**9,938,119**	**9,826,970**	**-**	**-**
Due over ten years	**30,097,647**	**30,672,853**	**683,363**	**729,960**
Mortgage-backed, due in monthly installments	**45,635,133**	**44,790,667**	**-**	**-**
	$ 96,326,975	**$ 95,811,296**	**$ 683,363**	**$ 729,960**

	Available for Sale		*Held to Maturity*	
December 31, 2005	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 500,000	$ 494,687	$ -	$ -
Due over one to five years	11,628,697	11,489,621	-	-
Due over five to ten years	12,395,207	12,265,866	-	-
Due over ten years	22,024,068	22,703,328	683,073	746,743
Mortgage-backed, due in monthly installments	39,955,704	39,175,222	468,090	491,997
	$ 86,503,676	$ 86,128,724	$ 1,151,163	$ 1,238,740

	Available for Sale		*Held to Maturity*	
December 31, 2004	Amortized Cost	Fair Value	Amortized Cost	Fair Value

Due within one year	$ 2,874,617	$ 2,893,275	$ -	$ -
Due over one to five years	7,894,560	8,011,579	-	-
Due over five to ten years	17,111,432	17,210,406	-	-
Due over ten years	25,596,233	26,575,991	682,945	754,878
Mortgage-backed, due in monthly installments	38,563,539	38,587,606	944,245	1,007,016
	$ 92,040,381	$ 93,278,857	$ 1,627,190	$ 1,761,894

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Investment Securities (continued)

Proceeds from sales of available for sale securities prior to maturity totaled **$22,431,078**, $16,951,413, and $18,345,056 for the years ended December 31, 2006, 2005, and 2004, respectively. The Bank realized gains of **$225,438** and losses of **$48,985** on those sales for 2006. The Bank realized gains of $198,360 and losses of $96,060 on those sales for 2005. The Bank realized gains of $483,760 and losses of $72,282 on those sales for 2004. Realized gains and losses were calculated based on the amortized cost of the securities at the date of trade. Income tax expense relating to net gains on sales of investment securities totaled **$68,146**, $39,509, and $158,913 for the years ended December 31, 2006, 2005, and 2004, respectively.

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

Note 4. Loans

Major categories of loans are as follows:

	2006	2005	2004
Mortgage:			
Residential	**$ 68,340,050**	$ 71,841,084	$ 71,038,619
Commercial	**53,164,479**	37,666,243	31,982,864
Construction and land development	**1,609,132**	1,402,203	2,080,178
Demand and time	**5,077,680**	5,932,460	5,617,982
Installment	**67,726,942**	76,385,365	74,902,306
	195,918,283	193,227,355	185,621,949
Unearned income on loans	**(742,585)**	(821,007)	(918,763)
	195,175,698	192,406,348	184,703,186
Allowance for credit losses	**(1,839,094)**	(2,201,350)	(2,411,894)
	$ 193,336,604	$ 190,204,998	$ 182,291,292

The Bank has an automotive indirect lending program where vehicle collateralized loans made by dealers to consumers are acquired by the Bank. The Bank's installment loan portfolio included approximately **$52,539,000**, $60,510,000, and $55,703,000 of such loans at December 31, 2006, 2005, and 2004, respectively.

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

Executive officers, directors, and their affiliated interests enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. They do not involve more than normal risk of collectibility or present other unfavorable terms. At December 31, 2006, 2005, and 2004, the amounts of such loans outstanding totaled **$3,293,148**, $1,970,926, and $1,443,878, respectively. During 2006, loan additions and repayments totaled **$1,849,400** and **$527,178**, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans (continued)

The allowance for credit losses is as follows:

	2006	2005	2004
Balance, beginning of year	**$ 2,201,350**	$ 2,411,894	$ 2,246,395
Provision for credit losses	**62,000**	(50,000)	340,000
Recoveries	**357,803**	461,033	377,213
Loans charged off	**(782,059)**	(621,577)	(551,714)
Balance, end of year	**$ 1,839,094**	$ 2,201,350	$ 2,411,894

Loans on which the accrual of interest has been discontinued totaled **$57,429**, $185,430, and $598,162 at December 31, 2006, 2005, and 2004, respectively. Interest that would have been accrued under the terms of these loans totaled **$10,658**, $15,552, and $46,751 for the years ended December 31, 2006, 2005, and 2004, respectively. Loans past due 90 days or more and still accruing interest totaled **$1,751**, $3,500 and $6,964 at December 31, 2006, 2005 and 2004, respectively.

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

	2006	2005	2004
Loans classified as impaired	**$ 49,441**	$ 185,930	$ 490,656
Allowance for credit losses on impaired loans	**35,423**	93,054	116,160
Average balance of impaired loans	**6,846**	104,906	461,400
Following is a summary of cash receipts on impaired loans and how they were applied:			
Cash receipts applied to reduce principal balance	**$ 9,723**	$ 14,054	$ 27,630
Cash receipts recognized as interest income	**-**	2,790	27,190
Total cash receipts	**$ 9,723**	$ 16,844	$ 54,820

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

No troubled debt restructurings transpired in 2005. The remaining prior investment in troubled debt was not performing under the terms of the modified agreement in the amount of $12,508 as of December 31, 2005.

At December 31, 2004, the recorded investment in new troubled debt restructurings totaled $94,783. The average recorded investment in troubled debt restructurings totaled $96,624 for the year ended December 31, 2004. The allowance for credit losses relating to troubled debt restructurings totaled $31,436 at December 31, 2004. The Bank recognized $8,015 in interest income on troubled debt restructurings for cash payments received in 2004. All prior investments in troubled debt were performing under the terms of the modified agreements, with the exception of one credit relationship classified as impaired in the amount of $173,010 as of December 31, 2004.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Premises and Equipment

A summary of premises and equipment is as follows:

	Useful lives	**2006**	2005	2004
Land		**$ 684,977**	$ 684,977	$ 684,977
Buildings	5-50 years	**4,710,503**	4,672,579	4,437,516
Equipment and fixtures	5-30 years	**5,456,049**	5,426,032	5,248,830
Construction in progress		**26,088**	122,652	298,480
		10,877,617	10,906,240	10,669,803
Accumulated depreciation		**(7,471,603)**	(7,042,965)	(6,639,026)
		$ 3,406,014	$ 3,863,275	$ 4,030,777

Construction in progress at December 31, 2006 relates primarily to a future branch site.

Depreciation expense totaled **$450,278**, $493,484, and $469,633 for the years ended December 31, 2006, 2005, and 2004, respectively. Amortization of software and intangible assets totaled **$97,954**, $138,642, and $167,474 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Bank leases its South Crain Highway, Severna Park, and Linthicum branches. Minimum lease obligations under the South Crain Highway branch are $115,400 per year through September 2009, adjusted annually by the CPI. Minimum lease obligations under the Severna Park branch are $30,000 per year through September 2007. Minimum lease obligations under the Linthicum branch are $92,700 per year through December 2014, adjusted annually on a pre-determined basis, with one ten year extension option. The Bank is also required to pay all maintenance costs under all these leasing arrangements. Rent expense totaled **$236,166**, $200,596, and $125,198 for the years ended December 31, 2006, 2005, and 2004, respectively.

Note 6. Short-term borrowings

Short-term borrowings are as follows:

	2006	2005	2004
Notes payable - U.S. Treasury	**$ 545,349**	$ 622,050	$ 541,672

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Short-term borrowings (continued)

Notes payable to the U.S. Treasury represents Federal treasury tax and loan deposits accepted by the Bank from its customers to be remitted on demand to the Federal Reserve Bank. The Bank pays interest on these balances at a slight discount to the Federal funds rate. This arrangement is secured by investment securities with an amortized cost of approximately **$1,000,000** at December 31, 2006, 2005, and 2004.

The Bank owned 9,280 shares of common stock of the FHLB at December 31, 2006. The Bank is required to maintain an investment of .2% of total assets, adjusted annually, plus 4.5% of total advances, adjusted for advances and repayments. The credit available under this facility is determined at 12% of the Bank's total assets, or approximately $38,000,000 at December 31, 2006. Long-term advances totaled $7,000,000 under this credit arrangement at December 31, 2006 (see Note 7). This credit facility is secured by a floating lien on the Bank's residential mortgage loan portfolio. Average short-term borrowings under this facility approximated **$1,047,000,** $1,482,000 and $3,605,000 for 2006, 2005, and 2004, respectively.

The Bank also has available $5,000,000 in a short-term credit facility, an unsecured line of credit, from another bank for short-term liquidity needs, if necessary. No outstanding borrowings existed under this credit arrangement at December 31, 2006, 2005, and 2004.

Note 7. Long-term Borrowings

Long-term borrowings are as follows:

	2006	2005	2004
Federal Home Loan Bank of Atlanta, convertible advance	**$ 7,000,000**	$ 7,000,000	$ 7,000,000
Mortgage payable-individual, interest at 7%, payments of $3,483, including principal and interest, due monthly through October 2010, secured by real estate	**140,170**	170,977	199,708
	$ 7,140,170	$ 7,170,977	$ 7,199,708

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

At December 31, 2006, the scheduled maturities of long-term borrowings are approximately as follows:

	2006
2007	**$ 33,000**
2008	**35,000**
2009	**38,000**
2010	**7,034,000**

$ 7,140,000

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Note 8. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust

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

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

Note 9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2006	2005	2004
NOW and SuperNOW	**$ 22,274,015**	$ 25,391,363	$ 27,089,844
Money Market	**15,341,221**	16,746,954	20,208,804
Savings	**50,234,238**	55,220,132	57,664,694
Certificates of Deposit, $100,000 or more	**22,380,391**	16,758,682	16,556,548
Other time deposits	**89,874,294**	71,817,216	66,726,787
	$ 200,104,159	$ 185,934,347	$ 188,246,677

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Deposits (continued)

Interest expense on deposits is as follows:

		2006		2005		2004
NOW and SuperNOW	**$**	**52,047**	$	39,315	$	31,465
Money Market		**106,264**		105,166		84,385
Savings		**222,018**		241,845		236,550
Certificates of Deposit, $100,000 or more		**859,707**		490,436		424,710
Other time deposits		**3,540,835**		2,214,814		1,834,426
	$	**4,780,871**	$	3,091,576	$	2,611,536

At December 31, 2006, the scheduled maturities of time deposits are approximately as follows:

		2006
2007	**$**	**77,463,000**
2008		**11,710,000**
2009		**10,543,000**
2010		**7,207,000**
2011		**4,089,000**
2012 and thereafter		**1,243,000**
	$	**112,255,000**

Deposit balances of executive officers and directors and their affiliated interests totaled approximately **$2,308,000**, $1,967,000, and $1,309,000 at December 31, 2006, 2005, and 2004, respectively.

The Bank had no brokered deposits at December 31, 2006, 2005, and 2004.

Note 10. Income Taxes

The components of income tax expense for the years ended December 31, 2006, 2005, and 2004 are as follows:

		2006		2005		2004
Current:						
Federal	**$**	**493,052**	$	635,576	$	660,981
State		**167,706**		66,430		105,856
Total current		**660,758**		702,006		766,837
Deferred income taxes (benefits):						
Federal		**25,655**		18,967		(111,600)
State		**702**		9,416		(22,013)
Total deferred		**26,357**		28,383		(133,613)
Income tax expense	**$**	**687,115**	$	730,389	$	633,224

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (continued)

A reconciliation of income tax expense computed at the statutory rate of 34% to the actual income tax expense for the years ended December 31, 2006, 2005, and 2004 is as follows:

		2006		2005		2004
Income before income taxes	**$**	**3,407,160**	$	3,505,130	$	3,688,725
Taxes computed at Federal income tax rate	**$**	**1,158,434**	$	1,191,745	$	1,254,167
Increase (decrease) resulting from:						
Tax-exempt income		**(610,541)**		(556,922)		(648,864)
State income taxes, net of Federal income tax benefit		**110,686**		43,844		55,336
Other		**28,536**		51,722		(27,415)
Income tax expense	**$**	**687,115**	$	730,389	$	633,224

The components of the net deferred income tax liabilities as of December 31, 2006, 2005, and 2004 are as follows:

		2006		2005		2004
Deferred income tax benefits:						
Accrued deferred compensation and benefit plan obligations	**$**	**-**	$	32,876	$	57,807
Allowance for credit losses		**90,186**		127,467		140,771
Alternative minimum tax credits		**37,678**		-		-
Net unrealized depreciation on investment securities available for sale		**199,155**		144,806		-
Reserve for unfunded commitments		**77,240**		77,240		57,930
Total deferred income tax benefits		**404,259**		382,389		256,508
Deferred income tax liabilities:						
Accumulated depreciation		**42,991**		109,270		76,244
Accumulated securities discount accretion		**69,137**		8,980		32,547
Net unrealized appreciation on investment securities available for sale		**-**		-		478,300
Total deferred income tax liabilities		**112,128**		118,250		587,091
Net deferred income tax benefits (liabilities)	**$**	**292,131**	$	264,139	$	(330,583)

Note 11. Pension and Profit Sharing Plans

The Bank has a money purchase pension plan, which provides for annual employer contributions based on employee compensation, and covers substantially all employees. Contributions under this plan, made from an existing safe harbor accrual as a result of a prior termination of a defined benefit pension plan, totaled $182,581 for the year ended December 31, 2004. Beginning in 2004, the Bank is also accruing additional contributions under this plan. These additional contributions, included in employee benefit expense, totaled **$200,005**, $180,514 and $210,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The Bank is also making additional contributions under

this plan for the benefit of certain employees, whose retirement funds were negatively affected by the termination of a defined benefit pension plan. These additional contributions, included in employee benefit expense,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Pension and Profit Sharing Plans (continued)

totaled **$47,495**, $40,769, and $60,182 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Bank also has a defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code that is funded through a profit sharing agreement and voluntary employee contributions. The plan provides for discretionary employer matching contributions to be determined annually by the Board of Directors. The plan covers substantially all employees. The Bank's contributions to the plan, included in employee benefit expense, totaled **$335,724**, $343,729, and $357,138 for the years ended December 31, 2006, 2005, and 2004, respectively.

Note 12. Post-Retirement Health Care Benefits

The Bank provides health care benefits to employees who retire at age 65 with five years of full time service immediately prior to retirement and two years of participation in the medical benefits plan. In 2001, the Bank amended the plan to include the current Board of Directors and their spouses and the spouses of current retirees. In the first quarter of 2002, the Bank again amended the plan so that all post-retirement healthcare benefits currently provided by the Bank to the above qualified participants terminated on December 31, 2006. The plan was funded only to the extent of the Bank's monthly payments of insurance premiums, which totaled **$50,483**, $62,425, and $122,664 for the years ended December 31, 2006, 2005, and 2004, respectively.

The following table sets forth the financial status of the plan at December 31, 2006, 2005, and 2004:

		2006		2005		2004
Accumulated post-retirement benefit obligation:						
Retirees	**$**	**-**	$	63,489	$	268,168
Unrecognized net gain (loss)		**-**		21,636		(118,489)
Accrued post-retirement benefit cost	**$**	**-**	$	85,125	$	149,679

Net post-retirement benefit (income) expense for the years ended December 31, 2006, 2005, and 2004 includes the following:

		2006		2005		2004
Interest cost	**$**	**3,081**	$	7,685	$	23,854
Amortization of net (gain) loss		**(37,723)**		(9,814)		40,896
Net post-retirement benefit (income) expense	**$**	**(34,642)**	$	(2,129)	$	64,750

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

	2006	2005	2004
Health care cost trend rate	**5.0%**	5.0%	5.0%
Discount rate	**6.5%**	6.5%	6.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. Post-Retirement Health Care Benefits (continued)

If the assumed health cost trend rate were increased to 6% for 2006, 2005, and 2004, the total of the service and interest cost components of net periodic post-retirement health care benefit (income) cost would (decrease) increase by **$0**, ($35), and $220 to **($34,642)**, ($2,094), and $64,970 as of for the years ended December 31, 2006, 2005, and 2004, respectively.

Note 13. Other Benefit Plans

The Bank has life insurance contracts on several officers and is the sole owner and beneficiary of the policies. Cash value totaled **$6,892,455**, $5,681,802, and $5,483,681 at December 31, 2006, 2005, and 2004, respectively. Income on their insurance investment totaled **$210,653**, $198,121, and $201,423 for 2006, 2005, and 2004, respectively.

The Bank has an unfunded grantor trust, as part of a change in control severance plan, covering substantially all employees (See Note 15). Participants in the plan are entitled to cash severance benefits upon termination of employment, for any reason other than just cause, should a "change in control" of the Company occur.

Note 14. Other Operating Expenses

Other operating expenses include the following:

	2006	2005	2004
Professional services	**$ 434,465**	$ 465,905	$ 430,301
Stationery, printing and supplies	**209,385**	246,882	229,806
Postage and delivery	**224,856**	233,403	232,742
FDIC assessment	**33,847**	34,953	36,972
Directors fees and expenses	**207,796**	192,227	194,901
Marketing	**232,258**	240,177	220,899
Data processing	**104,976**	105,994	123,782
Correspondent bank services	**89,924**	87,784	81,668
Telephone	**165,529**	151,440	117,228
Liability insurance	**81,508**	96,832	94,370
Provision for unfunded commitments	**-**	50,000	-
Losses and expenses on real estate owned (OREO)	**922**	681	551
Other ATM expense	**235,116**	228,710	251,688
Other	**343,296**	401,457	524,893
	$ 2,363,878	$ 2,536,445	$ 2,539,801

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Standstill Agreement

During 1998, the Company was pursued by another competing financial institution (the "Institution") in a hostile take-over attempt. As part of a negotiation settlement, the Company and the Institution entered into a standstill agreement through November 2008.

Note 16. Commitments and Contingencies

Financial instruments:

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

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

	2006	2005	2004
Loan commitments:			
Construction and land development	**$ 482,000**	$ 224,000	$ 3,150,000
Other mortgage loans	**528,000**	1,881,400	1,137,500
	$ 1,010,000	$ 2,105,400	$ 4,287,500
Unused lines of credit:			
Home-equity lines	**$ 6,410,947**	$ 6,341,738	$ 6,297,160
Commercial lines	**10,805,449**	7,581,877	10,550,804
Unsecured consumer lines	**809,802**	866,091	836,377
	$ 18,026,198	$ 14,789,706	$ 17,684,341
Letters of credit:	**$ 296,136**	$ 343,320	$ 723,134

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Commitments and Contingencies (continued)

The Bank's exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. As of December 31, 2006, the Bank has accrued **$200,000** as a reserve for losses on unfunded commitments related to these financial instruments with off balance sheet risk, which is included in other liabilities.

Note 17. Stockholders' Equity

Restrictions on dividends:

Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends that exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years. Retained earnings from which dividends may not be paid without prior approval totaled approximately **$9,367,000**, $7,609,000, and $5,633,000 at December 31, 2006, 2005, and 2004, respectively, based on the earnings restrictions and minimum capital ratio requirements noted below.

Employee stock purchase benefit plans:

The Company has a stock-based compensation plan, which is described below. As determined under SFAS No. 123R utilizing the Black-Scholes option pricing model, management of the Company has not recorded any compensation expense for options issued during the year ended December 31, 2006, as there would be no material impact in the reported net income. As determined under APB No. 25, net compensation cost of $7,191, and $13,465 have been recognized in the accompanying consolidated financial statements in 2005 and 2004, respectively (See Note 1).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stockholders' Equity (continued)

	Shares		Grant Price
Outstanding December 31, 2003	-		
Granted on January 7, 2004, expiring December 15, 2004	9,533	$	17.25
Exercised	(4,427)		
Expired	(5,106)	$	17.25
Outstanding December 31, 2004	-		
Granted on April 13, 2005, expiring December 2, 2005	5,683	$	14.92
Exercised	(2,740)		
Expired	(2,943)	$	14.92
Outstanding December 31, 2005	-		
Granted on June 8, 2006, expiring December 11, 2006	**4,755**	**$**	**14.15**
Exercised	**(2,395)**		
Expired	**(2,360)**	**$**	**14.15**
Outstanding December 31, 2006	**-**		

At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **41,050**.

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

Dividend reinvestment and stock purchase plan:

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

During 2006, 2005, and 2004, shares of common stock purchased under the plan totaled **15,113**, 12,708, and 10,796, respectively. At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **150,986**.

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

Stockholder purchase plan:

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

There was no activity under this plan for the years ended December 31, 2006, 2005, and 2004.

At December 31, 2006, shares of common stock reserved for issuance under the plan totaled **261,599.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stockholders’ Equity (continued)

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

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

Regulatory capital requirements:

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2006, 2005, and 2004, that both the Company and Bank meet all capital adequacy requirements to which they are subject.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stockholders' Equity (continued)

A comparison of capital as of December 31, 2006, 2005, and 2004 with minimum requirements is approximately as follows:

	Actual		*For Capital Adequacy Purposes*		*To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
As of December 31, 2006						
Total Capital (to Risk Weighted Assets)						
Company	**$ 35,357,000**	**17.1%**	**$ 16,570,000**	**8.0%**		**N/A**
Bank	**35,240,000**	**17.0%**	**16,564,000**	**8.0%**	**$ 20,705,000**	**10.0%**
Tier I Capital (to Risk Weighted Assets)						
Company	**33,518,000**	**16.2%**	**8,281,000**	**4.0%**		**N/A**
Bank	**33,201,000**	**16.0%**	**8,285,000**	**4.0%**	**12,427,000**	**6.0%**
Tier I Capital (to Average Assets)						
Company	**33,518,000**	**10.3%**	**13,017,000**	**4.0%**		**N/A**
Bank	**33,201,000**	**10.2%**	**13,046,000**	**4.0%**	**16,307,000**	**5.0%**
As of December 31, 2005						
Total Capital (to Risk Weighted Assets)						
Company	$ 34,257,000	17.0%	$ 16,121,000	8.0%		N/A
Bank	33,868,000	16.8%	16,128,000	8.0%	$ 20,160,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	31,856,000	15.8%	8,065,000	4.0%		N/A
Bank	31,467,000	15.6%	8,068,000	4.0%	12,102,693	6.0%
Tier I Capital (to Average Assets)						
Company	31,856,000	10.2%	12,493,000	4.0%		N/A
Bank	31,467,000	10.1%	12,462,000	4.0%	15,578,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Stockholders' Equity (continued)

	Actual		*For Capital Adequacy Purposes*		*To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
As of December 31, 2004						
Total Capital (to Risk Weighted Assets)						
Company	$ 32,416,000	16.4%	$ 15,813,000	8.0%		N/A
Bank	32,004,000	16.2%	15,804,000	8.0%	$ 19,756,000	10.0%
Tier I Capital (to Risk Weighted Assets)						
Company	29,944,000	15.2%	7,880,000	4.0%		N/A
Bank	29,538,000	15.0%	7,877,000	4.0%	11,815,000	6.0%
Tier I Capital (to Average Assets)						
Company	29,944,000	9.9%	12,099,000	4.0%		N/A
Bank	29,538,000	9.7%	12,181,000	4.0%	15,226,000	5.0%

Note 18. Earnings Per Common Share

Earnings per common share are calculated as follows:

	2006	2005	2004
Basic:			
Net income	**$ 2,720,045**	$ 2,774,741	$ 3,055,501
Weighted average common shares outstanding	**2,472,803**	2,456,723	2,442,944
Basic net income per share	**$ 1.10**	$ 1.13	$ 1.25

Diluted earnings per share calculations were not required for 2006, 2005, and 2004 as there were no options outstanding at December 31, 2006, 2005, and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Fair Values of Financial Instruments

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

	2006		2005		2004	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and due from banks	**$ 9,005,691**	**$ 9,005,691**	$ 9,405,148	$ 9,405,148	$ 9,766,710	$ 9,766,710
Interest-bearing deposits in other financial institutions	**342,309**	**342,309**	3,711,524	3,711,524	65,947	65,947
Federal funds sold	**3,971,978**	**3,971,978**	2,333,055	2,333,055	1,541,234	1,541,234
Investment securities available for sale	**95,811,296**	**95,811,296**	86,128,724	86,128,724	93,278,857	93,278,857
Investment securities held to maturity	**683,363**	**729,960**	1,151,163	1,238,740	1,627,190	1,761,894
Federal Home Loan Bank Stock	**928,000**	**928,000**	918,900	918,900	919,000	919,000
Maryland Financial Bank Stock	**100,000**	**100,000**	100,000	100,000	100,000	100,000
Common stock-Statutory Trust I	**155,000**	**155,000**	155,000	155,000	155,000	155,000
Ground rents	**219,100**	**219,100**	235,700	235,700	235,700	235,700
Loans, less allowance for credit losses	**193,336,604**	**192,492,000**	190,204,998	190,206,000	182,291,292	180,500,000
Accrued interest receivable	**1,627,433**	**1,627,433**	1,451,806	1,451,806	1,484,869	1,484,869
Financial liabilities:						
Deposits	**274,833,457**	**273,033,000**	265,248,268	264,846,000	261,674,043	261,826,000
Short-term borrowings	**545,349**	**545,349**	622,050	622,050	541,672	541,672
Long-term borrowings	**7,140,170**	**7,151,651**	7,170,977	7,533,950	7,199,708	8,388,328
Dividends payable	**366,580**	**366,580**	339,005	339,005	287,938	287,938
Accrued interest payable	**145,642**	**145,642**	83,111	83,111	55,980	55,980
Accrued interest payable on junior subordinated	**171,518**	**171,518**	171,518	171,518	171,518	171,518

debentures						
Junior subordinated debentures owed to unconsolidated subsidiary trust	**5,155,000**	**5,155,000**	5,155,000	5,155,000	5,155,000	5,155,000
Unrecognized financial instruments:						
Commitments to extend credit	**19,036,198**	**19,036,198**	16,895,106	16,895,106	21,971,841	21,971,841
Standby letters of credit	**296,136**	**296,136**	343,320	343,320	723,134	723,134

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

Loans:

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

Investment securities:

Estimated fair values are based on quoted market prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Fair Values of Financial Instruments (continued)

Deposits:

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

Other assets and liabilities:

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

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

Note 20. Recently Issued Accounting Pronouncements

In February 2006, the FASB issued Statement No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140*. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*, which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125*, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements.

In March 2006, the FASB issued Statement No. 156 (SFAS 156), *Accounting for Servicing of Financial Assets- an amendment of FASB Statement No. 140*. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity's first fiscal year beginning January 1, 2007. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company feels that this pronouncement will not have a significant impact on the financial statements.

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Recently Issued Accounting Pronouncements (continued)

principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The provisions of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. The Company is currently reviewing this pronouncement.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company feels that this pronouncement will not have a significant impact on the financial statements at the current time.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-5, *Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, questions arose regarding whether "the amount that could be realized" should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that "the amount that could be realized" should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the "amount that could be realized." An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

In 2006, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration (collectively, the agencies), have issued an interagency policy statement on the ALLL and supplemental FAQs. This issuance revises the 1993 policy statement on the ALLL previously issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. The National Credit Union Administration has also joined in issuing the revised guidance.

The agencies believe an assessment of the appropriateness of the ALLL is critical to the safety and soundness of a financial institution. In light of ALLL-related developments since the policy statement was first adopted in 1993, the agencies have revised the previous policy to ensure consistency with generally accepted accounting principles (GAAP) and more recent supervisory guidance. The 1993 policy statement was originally issued to describe the responsibilities of the boards of directors, management and examiners of banks and savings associations regarding the ALLL; factors to be considered in the estimation of the ALLL; and the objectives and elements of an effective loan

review system, including a sound credit grading system. The revised policy statement updates this guidance and also extends it to credit unions and their examiners.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20. Recently Issued Accounting Pronouncements (continued)

This revision reiterates key concepts and requirements included in existing ALLL supervisory guidance and GAAP. Because the ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports, the agencies remind those institutions of their responsibility for developing, maintaining, and documenting a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. To fulfill this responsibility, each institution should ensure that controls are in place to determine consistently the ALLL in accordance with GAAP, the institution's stated policies and procedures, management's best judgment and relevant supervisory guidance.

Consistent with longstanding supervisory guidance, institutions must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Estimates of credit losses should reflect consideration of all significant factors that affect the collectibility of the portfolio as of the evaluation date. Arriving at an appropriate allowance involves a high degree of management judgment and results in a range of estimated losses. Accordingly, prudent, conservative, but not excessive, loan loss allowances that represent management's best estimate from within an acceptable range of estimated losses are appropriate.

Although the revised policy statement reiterates key concepts and requirements in GAAP and existing supervisory guidance on the ALLL, the agencies recognize that institutions may not have sufficient time to complete any enhancements needed to bring their ALLL processes and documentation into full compliance with the revised guidance for year-end 2006 reporting purposes. Nevertheless, these enhancements should be completed in the near term. Management of the Company feels that they are currently in material compliance with this newly revised policy and are reviewing the current ALLL methodology for necessary enhancements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information

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

Balance Sheets

December 31,		**2006**		2005		2004
Assets						
Cash	**$**	**441,919**	$	483,459	$	453,685
Investment in The Bank of Glen Burnie		**32,884,293**		31,237,838		30,339,198
Investment in GBB Properties, Inc.		**265,579**		266,561		262,343
Investment in the Glen Burnie Statutory Trust I		**155,000**		155,000		155,000
Due from subsidiaries		**26,820**		22,888		20,765
Other assets		**120,000**		127,250		132,250
Total assets	**$**	**33,893,611**	$	32,292,996	$	31,363,241
Liabilities and Stockholders' Equity						
Dividends payable	**$**	**366,580**	$	339,005	$	287,938
Accrued interest payable on borrowed funds		**171,518**		171,518		171,518
Other liabilities		**-**		2,032		4,377
Borrowed funds from subsidiary		**5,155,000**		5,155,000		5,155,000
Total liabilities		**5,693,098**		5,667,555		5,618,833
Stockholders' equity:						
Common stock		**2,484,633**		2,056,024		2,041,033
Surplus		**11,719,907**		11,458,465		11,169,283
Retained earnings		**14,312,496**		13,341,097		11,773,915
Accumulated other comprehensive (loss), income, net of (benefits) taxes		**(316,523)**		(230,145)		760,177
Total stockholders' equity		**28,200,513**		26,625,441		25,744,408
Total liabilities and stockholders' equity	**$**	**33,893,611**	$	32,292,996	$	31,363,241

The borrowed funds from subsidiary balance represents the junior subordinated debt securities payable to the wholly-owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled **$5,000,000** at December 31, 2006. (See Note 8).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21. Parent Company Financial Information (continued)

Statements of Income

Years Ended December 31,	**2006**	2005	2004
Dividends and distributions from subsidiaries	**$ 1,350,000**	$ 1,245,000	$ 1,235,000
Other income	**16,430**	16,430	16,430
Interest expense on junior subordinated debentures	**(546,430)**	(546,430)	(546,703)
Other expenses	**(59,453)**	(50,397)	(54,826)
Income before income tax benefit and equity in undistributed net income of subsidiaries	**760,547**	664,603	649,901
Income tax benefit	**227,647**	224,149	225,965
Change in undistributed net income of subsidiaries	**1,731,851**	1,885,989	2,179,635
Net income	**$ 2,720,045**	$ 2,774,741	$ 3,055,501

Statements of Cash Flows

Years Ended December 31,	**2006**	2005	2004
Cash flows from operating activities:			
Net income	**$ 2,720,045**	$ 2,774,741	$ 3,055,501
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease in other assets	**7,250**	5,000	4,932
(Increase) decrease in due from subsidiaries	**(3,932)**	(2,123)	5,893
Decrease in other liabilities	**(2,032)**	(2,345)	(1,859)
Change in undistributed net income of subsidiaries	**(1,731,851)**	(1,885,989)	(2,179,635)
Net cash provided by operating activities	**989,480**	889,284	884,832
Cash flows from financing activities:			
Proceeds from dividend reinvestment plan	**245,059**	256,115	231,955
Proceeds from issuance of common stock	**33,891**	40,867	76,362
Dividends paid	**(1,309,970)**	(1,156,492)	(1,008,357)
Net cash used in financing activities	**(1,031,020)**	(859,510)	(700,040)
(Decrease) increase in cash	**(41,540)**	29,774	184,792
Cash, beginning of year	**483,459**	453,685	268,893
Cash, end of year	**$ 441,919**	$ 483,459	$ 453,685

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22. Quarterly Results of Operations (Unaudited)

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

(Dollars in thousands, except per share amounts)	**2006**			
	Three months ended,			
	December 31	**September 30**	**June 30**	**March 31**
Interest income	**$ 4,542**	**$ 4,492**	**$ 4,447**	**$ 4,174**
Interest expense	**1,609**	**1,538**	**1,480**	**1,206**
Net interest income	**2,933**	**2,954**	**2,967**	**2,968**
Provision for credit losses	**62**	**-**	**-**	**-**
Net securities gains	**106**	**70**	**-**	**-**
Income before income taxes	**903**	**912**	**844**	**748**
Net income	**609**	**772**	**713**	**626**
Net income per share (basic and diluted)	**$ 0.25**	**$ 0.31**	**$ 0.29**	**$ 0.25**

(Dollars in thousands, except per share amounts)	2005			
	Three months ended,			
	December 31	September 30	June 30	March 31
Interest income	$ 4,127	$ 4,094	$ 3,957	$ 3,920
Interest expense	1,133	1,080	989	930
Net interest income	2,994	3,014	2,968	2,990
Provision for credit losses	-	(50)	-	-
Net securities gains	28	26	45	3
Income before income taxes	909	935	819	842
Net income	671	742	674	688
Net income per share (basic and diluted)	$ 0.28	$ 0.30	$ 0.27	$ 0.28

(Dollars in thousands, except per share amounts)	2004			
	Three months ended,			
	December 31	September 30	June 30	March 31
Interest income	$ 3,908	$ 4,065	$ 3,807	$ 3,881
Interest expense	894	928	885	938
Net interest income	3,014	3,137	2,922	2,943
Provision for credit losses	-	140	60	140
Net securities gains	102	41	39	230
Income before income taxes	921	973	883	912
Net income	840	769	706	741
Net income per share (basic and diluted)	$ 0.33	$ 0.32	$ 0.29	$ 0.31