TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
August 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation)

52-1948274

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

24 North Main Street, Berlin, Maryland 21811

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (410) 641-1700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]

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

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

Large accelerated filer ____	Accelerated filer [X]
Non- accelerated filer ____ (Do not check if a smaller reporting company)	Smaller reporting company ____

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

On July 31, 2011, 3,000,508 shares of the registrant's common stock were issued and outstanding.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
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Part I - Financial Information, Item 1 Financial Statements
Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Balance Sheets

	(unaudited) June 30 2011	December 31, 2010
Assets		
Cash and due from banks	$ 19,070,231	$ 14,319,142
Federal funds sold	41,299,150	36,081,862
Interest-bearing deposits	9,581,383	11,650,849
Investment securities available for sale	46,478,368	59,801,920
Investment securities held to maturity (approximate fair value of $43,827,011 and $32,491,819)	43,538,077	32,303,572
Loans, less allowance for loan losses of $1,950,834 and $983,178	239,669,929	237,001,219
Premises and equipment	6,265,346	6,319,854
Other real estate owned	779,500	779,500
Accrued interest receivable	1,378,536	1,224,920
Computer software	137,158	89,521
Bank owned life insurance	5,346,989	5,260,539
Prepaid Expenses	953,044	1,285,266
Other assets	473,025	29,640
	$ 414,970,736	$ 406,147,804
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 81,324,451	$ 76,763,686
Interest-bearing	251,783,187	250,014,068
	333,107,638	326,777,754
Securities sold under agreements to repurchase	5,026,003	4,490,512
Accrued interest payable	116,170	150,299
Deferred income taxes	333,509	383,326
Other liabilities	43,407	151,361
	338,626,727	331,953,252
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,000,508 shares at June 30, 2011, and December 31, 2010	3,000,508	3,000,508
Additional paid-in capital	8,733,438	8,733,438
Retained earnings	63,607,865	61,441,595
	75,341,811	73,175,541
Accumulated other comprehensive income	1,002,198	1,019,011
	76,344,009	74,194,552
	$ 414,970,736	$ 406,147,804

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Income (unaudited)

	For the three months ended June 30 2011	2010
Interest and dividend revenue		
Loans, including fees	$ 3,946,500	$ 4,101,783
U.S. Treasury and government agency securities	248,240	308,680
State and municipal securities	14,510	13,957
Federal funds sold	9,980	16,129
Interest-bearing deposits	14,589	14,015
Equity securities	8,813	10,162
Total interest and dividend revenue	4,242,632	4,464,726
Interest expense		
Deposits	363,530	486,378
Borrowings	5,160	7,291
Total interest expense	368,690	493,669
Net interest income	3,873,942	3,971,057
Provision for loan losses	803,500	180,000
Net interest income after provision for loan losses	3,070,442	3,791,057
Noninterest revenue		
Service charges on deposit accounts	235,866	255,800
ATM and debit card	156,753	144,394
Bank owned life insurance	43,677	42,757
Gain on sale of assets	50	37,003
Loss on other than temporary impairment of investment value	(178,325)	-
Miscellaneous revenue	90,511	146,775
Total noninterest revenue	348,532	626,729
Noninterest expenses		
Salaries	873,440	877,636
Employee benefits	253,060	272,685
Occupancy	190,373	178,414
Furniture and equipment	113,272	106,579
Data processing	60,302	73,169
ATM and debit card	42,521	35,255
Deposit insurance premiums	73,660	67,233
Other operating	423,534	411,929
Total noninterest expenses	2,030,162	2,022,900
Income before income taxes	1,388,812	2,394,886
Income taxes	473,750	871,500
Net income	$ 915,062	$ 1,523,386
Earnings per common share - basic and diluted	$ 0.30	$ 0.51

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Income (unaudited)

	For the six months ended June 30 2011	2010
Interest and dividend revenue		
Loans, including fees	$ 7,837,121	$ 8,061,953
U.S. Treasury and government agency securities	492,758	653,732
State and municipal securities	29,287	26,282
Federal funds sold	24,460	28,085
Interest-bearing deposits	29,264	33,511
Equity securities	16,827	29,006
Total interest and dividend revenue	8,429,717	8,832,569
Interest expense		
Deposits	767,004	986,238
Borrowings	10,561	16,137
Total interest expense	777,565	1,002,375
Net interest income	7,652,152	7,830,194
Provision for loan losses	948,900	601,000
Net interest income after provision for loan losses	6,703,252	7,229,194
Noninterest revenue		
Service charges on deposit accounts	451,361	480,535
ATM and debit card	294,012	266,041
Bank owned life insurance	86,449	84,645
Gain on sale of assets	250	185,239
Loss on other than temporary impairment of investment value	(178,325)	-
Miscellaneous revenue	143,737	248,461
Total noninterest revenue	797,484	1,264,921
Noninterest expenses		
Salaries	1,748,427	1,744,483
Employee benefits	615,655	523,514
Occupancy	413,232	407,256
Furniture and equipment	240,083	231,249
Data processing	127,414	146,395
ATM and debit card	89,161	98,902
Deposit insurance premiums	149,614	145,688
Other operating	759,630	818,863
Total noninterest expenses	4,143,216	4,116,350
Income before income taxes	3,357,520	4,377,765
Income taxes	1,191,250	1,589,000
Net income	$ 2,166,270	$ 2,788,765
Earnings per common share - basic and diluted	$ 0.72	$ 0.93

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

	For the six months ended June 30, 2011	2010
Cash flows from operating activities		
Interest and dividends received	$ 8,404,824	$ 8,847,588
Fees and commissions received	1,085,005	1,124,678
Interest paid	(811,695)	(1,029,565)
Cash paid to suppliers and employees	(3,830,228)	(3,865,268)
Income taxes paid	(1,651,955)	(1,220,956)
	3,195,951	3,856,477
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	1,990,820	5,828,265
Proceeds from maturities of investments available for sale	28,075,000	13,005,000
Purchase of investments available for sale	(15,082,996)	(5,990,653)
Proceeds from maturities of investments held to maturity	7,315,000	16,590,000
Purchase of investments held to maturity	(18,591,635)	(9,938,810)
Loans made, net of principal reductions	(3,617,610)	(10,554,312)
Proceeds from sale of repossessed loan collateral, net of cost of sale	-	60,273
Purchases of premises, equipment, and computer software	(260,425)	(97,105)
Proceeds from sale of premises and equipment	250	72,100
	(171,596)	8,974,758
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(6,520,844)	1,459,136
Other deposits	12,850,730	7,068,132
Securities sold under agreements to repurchase	535,491	(273,189)
Payments on note payable	-	(13,349)
	6,865,377	8,240,730
Net increase in cash and cash equivalents	9,889,732	21,071,965
Cash and cash equivalents at beginning of period	50,531,537	43,489,772
Cash and cash equivalents at end of period	$ 60,421,269	$ 64,561,737

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(unaudited)

	For the six months ended June 30, 2011	2010
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 2,166,270	$ 2,788,765
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	948,900	601,000
Gain on sale of repossessed loan collateral	-	(5,773)
Gain on sale of premises & equipment	(250)	(55,061)
Loss on other than temporary impairment of investment value	178,325	-
Amortization of premiums and accretion of discount, net	128,723	86,131
Depreciation and amortization	267,296	287,557
Decrease (increase) in		
Accrued interest receivable	(153,616)	(71,194)
Cash surrender value of bank owned life insurance	(86,449)	(84,645)
Other assets	(111,163)	525,490
Increase (decrease) in		
Accrued interest payable	(34,129)	(27,190)
Accrued income taxes	-	38,012
Other liabilities	(107,956)	(226,615)
	$ 3,195,951	$ 3,856,477
Composition of cash and cash equivalents		
Cash and due from banks	$ 19,070,231	$ 24,057,111
Federal funds sold	41,299,150	40,376,765
Interest-bearing deposits, except for time deposits	51,888	127,861
	$ 60,421,269	$ 64,561,737

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements conform with accounting principles generally accepted in the United States of America and to the instructions to Form 10-Q. Interim financial statements do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations for these interim periods have been made. These adjustments are of a normal recurring nature. Results of operations for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2011. For further information, refer to the audited consolidated financial statements and related footnotes included in the Company's Form 10-K for the year ended December 31, 2010.

Consolidation has resulted in the elimination of all significant intercompany accounts and transactions.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits except for time deposits. Federal funds are purchased and sold for one-day periods.

Per share data

Earnings per common share are determined by dividing net income by the weighted average number of common shares outstanding for the period, as follows:

	2011	2010
Three months ended June 30	3,000,508	3,000,508
Six months ended June 30	3,000,508	3,000,508

2. Comprehensive Income

Comprehensive income consists of:

	For the six months ended June 30,	
	2011	2010
Net income	$ 2,166,270	$ 2,788,765
Unrealized loss on investment securities available for sale, net of income taxes	(16,813)	(328,534)
Comprehensive income	$ 2,149,457	$ 2,460,231

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

3. Investment Securities
Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
June 30, 2011				
Available for sale				
U.S. Treasury	$ 43,047,248	$ 1,015,172	$ -	$ 44,062,420
State and municipal	290,136	3,895	1,959	292,072
Equity	1,613,512	863,964	353,600	2,123,876
	$ 44,950,896	$ 1,883,031	$ 355,559	$ 46,478,368
Held to maturity				
U.S. Treasury	$ 28,981,222	$ 262,748	$ -	$ 29,243,970
U.S. Government agency	9,000,524	5,252	1,416	9,004,360
State and municipal	5,556,331	22,415	65	5,578,681
	$ 43,538,077	$ 290,415	$ 1,481	$ 43,827,011
December 31, 2010				
Available for sale				
U.S. Treasury	$ 56,150,205	$ 966,157	$ 16,871	$ 57,099,491
State and municipal	365,772	4,031	3,709	366,094
Equity	1,691,841	1,008,745	364,251	2,336,335
	$ 58,207,818	$ 1,978,933	$ 384,831	$ 59,801,920
Held to maturity				
U.S. Treasury	$ 19,487,287	$ 178,407	$ 5,147	$ 19,660,547
U.S. Government agency	7,002,448	13,646	6,850	7,009,244
State and municipal	5,813,837	11,979	3,788	5,822,028
	$ 32,303,572	$ 204,032	$ 15,785	$ 32,491,819

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

3. Investment Securities (Continued)

The table below shows the gross unrealized losses and fair value of securities that are in an unrealized loss position as of June 30, 2011, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U. S. Government Agency	$ 2,998,000	$ 1,416	$ -	$ -	$ 2,998,000	$ 1,416
State and municipal	229,043	2,024	-	-	229,043	2,024
Equity securities	144,996	27,000	259,401	326,600	404,397	353,600
	$ 3,372,039	$ 30,440	$ 259,401	$ 326,600	$ 3,631,440	$ 357,040

The debt securities for which an unrealized loss is recorded are issues of the Federal Home Loan Bank (a U. S. government agency), and general and highly rated revenue obligations of states and municipalities. The Company has the ability and the intent to hold these securities until they are called or mature at face value. Equity securities for which an unrealized loss is recorded are issued by local community banks and bank holding companies. Management believes that these fluctuations in fair value reflect market conditions, and are not indicative of other-than-temporary impairment of the investments.

In the second quarter of 2011, the Company recorded expense of $178,325 related to the other than temporary impairment of value of two equity holdings.

The amortized cost and estimated fair value of debt securities, by contractual maturity and the amount of pledged securities, follow. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2011		December 31, 2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	$ 34,119,913	$ 34,272,965	$ 35,163,533	$ 35,292,775
After one year through five years	7,220,686	7,301,927	19,355,802	19,481,248
After ten years	1,996,785	2,779,600	1,996,642	2,691,562
	$ 43,337,384	$ 44,354,492	$ 56,515,977	$ 57,465,585
Held to maturity				
Within one year	$ 16,520,410	$ 16,565,861	$ 8,758,541	$ 8,789,063
After one year through five years	27,017,667	27,261,150	23,545,031	23,702,756
	$ 43,538,077	$ 43,827,011	$ 32,303,572	$ 32,491,819
Pledged securities	$ 21,073,668	$ 21,252,320	$ 26,567,879	$ 27,558,868

Investments are pledged to secure deposits of federal and local governments. Pledged securities also serve as collateral for securities sold under agreements to repurchase.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. Loans and Allowance for Loan Losses
Major classifications of loans are as follows:

	June 30, 2011	December 31, 2010
Real estate mortgages		
Construction, land development, and land	$ 14,639,007	$ 21,792,060
Residential 1 to 4 family	92,649,098	94,296,749
Commercial properties	117,594,015	102,578,171
Commercial	15,118,015	17,596,451
Consumer	1,620,628	1,720,966
	241,620,763	237,984,397
Allowance for loan losses	1,950,834	983,178
Loans, net	$ 239,669,929	$ 237,001,219

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. The following table details the composition of nonperforming assets:

	June 30, 2011	December 31, 2010
Loans 90 days or more past due and still accruing		
Real estate mortgages		
Construction, land development, and land	$ 344,890	$ -
Residential 1 to 4 family	929,151	-
Commercial properties	1,264,009	684,422
Commercial	-	-
Consumer	-	-
	2,538,050	684,422
Nonaccruing loans		
Real estate mortgages		
Construction, land development, and land	1,421,290	1,171,127
Residential 1 to 4 family	786,510	318,076
Commercial properties	1,865,099	2,610,204
Commercial	-	7,114
Consumer	-	-
	4,072,899	4,106,521
Total nonperforming loans	6,610,949	4,790,943
Other real estate owned	779,500	779,500
Total nonperforming assets	$ 7,390,449	$ 5,570,443
Interest not accrued on nonaccruing loans	$ 196,698	$ 156,805
Interest included in net income on nonaccruing loans, year-to-date	$ -	$ 93,033

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. Loans and Allowance for Loan Losses (continued)

The following is a schedule of transactions in the allowance for loan losses by type of loan. The Company did not acquire any loans with deteriorated credit quality during the periods presented.

	Real estate mortgages						
June 30, 2011	Construction and Land	Residential	Commercial	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Loans charged off	(11,553)	-	-	(2,946)	(9,105)	-	(23,604)
Recoveries	39,072	300	-	400	2,588	-	42,360
Provision charged to operations	197,989	254,000	500,000	53,729	(58,872)	2,054	948,900
Ending balance	$ 460,945	$ 304,902	$ 856,993	$ 246,129	$ 53,839	$ 28,026	$ 1,950,834
Individually evaluated for impairment:							
Balance in allowance	$ 193,672	$ 234,000	$ 850,000	$ -	$ -		$ 1,277,672
Related loan balance	$ 1,421,290	$ 786,510	$ 2,549,520	$ -	$ -		$ 4,757,320
Collectively evaluated for impairment:							
Balance in allowance	$ 267,273	$ 70,902	$ 6,993	$ 246,129	$ 53,839	$ 28,026	$ 673,162
Related loan balance	$ 13,217,717	$ 91,862,588	$ 115,044,495	$ 15,118,015	$ 1,620,628		$ 236,863,443
December 31, 2010							
Beginning balance	$ 145,262	$ 48,034	$ 2,192	$ 380,161	$ 53,638	$ 8,474	$ 637,761
Loans charged off	(100,000)	(190,093)	-	(354,854)	(52,935)	-	(697,882)
Recoveries	-	1,100	-	1,073	29,126	-	31,299
Provision charged to operations	190,175	191,561	354,801	168,566	89,399	17,498	1,012,000
Ending balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Individually evaluated for impairment:							
Balance in allowance	$ -	$ -	$ 330,759	$ -	$ -		$ 330,759
Related loan balance	$ 1,171,127	$ 361,743	$ 2,566,537	$ 7,114	$ -		$ 4,106,521
Collectively evaluated for impairment:							
Balance in allowance	$ 235,437	$ 50,602	$ 26,234	$ 194,946	$ 119,228	$ 25,972	$ 652,419
Related loan balance	$ 20,620,933	$ 93,935,006	$ 100,011,634	$ 17,589,337	$ 1,720,966		$ 233,877,876

June 30, 2010							
Beginning balance	$ 145,262	$ 48,034	$ 2,192	$ 380,161	$ 53,638	$ 8,474	$ 637,761
Loans charged off	-	-	-	(347,873)	(33,745)	-	(381,618)
Recoveries	-	-	-	178	17,386	-	17,564
Provision charged to operations	64,627	43,320	276,681	190,390	13,678	12,304	601,000
Ending balance	$ 209,889	$ 91,354	$ 278,873	$ 222,856	$ 50,957	$ 20,778	$ 874,707
Individually evaluated for impairment:							
Balance in allowance	$ -	$ 58,765	$ 261,213	$ 5,248	$ 1,500		$ 326,726
Related loan balance	$ -	$ 507,967	$ 2,835,471	$ 5,248	$ 2,419		$ 3,351,105
Collectively evaluated for impairment:							
Balance in allowance	$ 209,889	$ 32,589	$ 17,660	$ 217,608	$ 49,457	$ 20,778	$ 547,981
Related loan balance	$ 23,929,493	$ 97,206,208	$ 103,997,846	$ 20,369,317	$ 2,035,919		$ 247,538,783

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. Loans and Allowance for Loan Losses (continued)

The table below shows the relationship of net charged-off loans and the balance in the allowance to gross loans and average loans.

Allowance for Loan Losses

	For six months ended		For the year ended
	June 30		December 31
	2011	2010	2010
Net loans charged off (recovered)	$ (18,756)	$ 364,054	$ 666,583
Balance at end of period	$ 1,950,834	$ 874,707	$ 983,178
Gross loans outstanding at the end of the period	$ 241,620,763	$ 250,889,888	$ 237,984,397
Allowance for loan loses to gross loans outstanding at the end of the period	0.81%	0.35%	0.41%
Average loans outstanding during the period	$ 246,535,270	$ 249,809,716	$ 244,189,000
Annualized net charge-offs as a percentage of average loans outstanding during the period	-0.02%	0.29%	0.27%

Loans are considered past due when either principal or interest is not paid by the date on which payment is due. The following table is an analysis of past due loans by days past due and type of loan.

Age Analysis of Past Due Loans

June 30, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	> 90 Days Past Due and Accruing
Real Estate							
Construction, land development, and land	$ 196,940	$ 235,191	$ 1,100,548	$ 1,532,679	13,106,328	14,639,007	$ 344,890
Residential 1 to 4 family	1,110,673	2,144,183	1,466,324	4,721,180	87,927,918	92,649,098	929,151
Commercial properties	-	36,393	3,129,108	3,165,501	114,428,514	117,594,015	1,264,009
Commercial	-	-	-	-	15,118,015	15,118,015	-
Consumer	24,959	2,618	-	27,577	1,593,051	1,620,628	-
Total	$ 1,332,572	$ 2,418,385	$ 5,695,980	$ 9,446,937	$ 232,173,826	$ 241,620,763	$ 2,538,050
December 31, 2010							
Real Estate							
Construction, land development, and land	$ 474,843	$ 234,719	$ 1,089,719	$ 1,799,281	$ 19,992,779	$ 21,792,060	$ -
Residential 1 to 4 family	1,390,288	336,134	-	1,726,422	92,570,327	94,296,749	-
	-	37,957	2,508,675	2,546,632	100,031,539	102,578,171	684,422

Commercial properties							
Commercial	103,759	7,114	-	110,873	17,485,578	17,596,451	-
Consumer	-	19,415	-	19,415	1,701,551	1,720,966	-
Total	$ 1,968,890	$ 635,339	$ 3,598,394	$ 6,202,623	$ 231,781,774	$ 237,984,397	$ 684,422

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. Loans and Allowance for Loan Losses (continued)

Loans are considered impaired when management considers it unlikely that collection of principal and interest payments will be made according to contractual terms, including principal and interest payments. A performing loan may be categorized as impaired based on knowledge of circumstances that are deemed relevant to loan collection. Not all impaired loans are past due nor are losses expected for every impaired loan. If a loss is expected, an impaired loan may have specific reserves allocated to it in the allowance for loan losses. A schedule of impaired loans at period ends and their average balances for the year follows:

June 30, 2011	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land development, and land	$ 665,632	$ 665,632	$ -	$ 684,802
Residential 1 to 4 family	276,689	276,689	-	279,144
Commercial properties	684,422	684,422	-	684,422
With an allowance recorded				
Construction, land development, and land	755,658	755,658	193,672	760,816
Residential 1 to 4 family	509,821	509,821	234,000	508,074
Commercial properties	1,865,098	1,865,098	850,000	1,887,642
Total:				
Construction, land development, and land	1,421,290	1,421,290	193,672	1,445,618
Residential 1 to 4 family	786,510	786,510	234,000	787,218
Commercial properties	2,549,520	2,549,520	850,000	2,572,064
Total, all categories	$ 4,757,320	$ 4,757,320	$ 1,277,672	$ 4,804,900

December 31, 2010	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land development, and land	$ 1,171,127	$ 1,171,127	$ -	$ 1,194,397
Residential 1 to 4 family	361,743	361,743	-	379,546
Commercial properties	88,488	88,488	-	93,244
Commercial	7,114	7,114	-	8,122
With an allowance recorded				
Commercial properties	2,478,049	2,478,049	330,759	2,484,804
Total:				
Construction, land development, and land	1,171,127	1,171,127	-	1,194,397
Residential 1 to 4 family	361,743	361,743	-	379,546
Commercial properties	2,566,537	2,566,537	330,759	2,578,048
Commercial	7,114	7,114	-	8,122
Total, all categories	$ 4,106,521	$ 4,106,521	$ 330,759	$ 4,160,113

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

4. Loans and Allowance for Loan Losses (continued)

Credit risk is measured based on an internally designed grading scale. The grades correspond to regulatory rating categories of pass, special mention, substandard, and doubtful. Evaluation of grades assigned to individual loans is completed no less than quarterly. Credit quality, as measured by internally assigned grades, is an important component in the calculation of an adequate allowance for loan losses. The following table summarizes loans by credit quality indicator.

	June 30, 2011		December 31, 2010	
Real Estate Credit Risk Profile by Internally Assigned Grade				
Construction, land development, and land				
Pass	$	12,773,074	$	16,063,618
Substandard		444,643		4,557,315
Doubtful				
Less than 90 days past due and accruing		-		761,189
Nonperforming: 90 days or more				
past due and/or non-accruing		1,421,290		409,938
Total	$	14,639,007	$	21,792,060
Residential 1 to 4 family				
Pass	$	87,468,333	$	90,393,936
Special Mention		248,395		-
Substandard		4,145,860		3,584,737
Doubtful				
Less than 90 days past due and accruing		-		292,091
Nonperforming: 90 days or more				
past due and/or non-accruing		786,510		25,985
Total	$	92,649,098	$	94,296,749
Commercial properties				
Pass	$	110,237,582	$	95,620,813
Special Mention		-		-
Substandard		4,806,912		4,347,154
Doubtful				
Less than 90 days past due and accruing		684,422		132,155
Nonperforming: 90 days or more				
past due and/or non-accruing		1,865,099		2,478,049
Total	$	117,594,015	$	102,578,171
Commercial Credit Risk Profile by Internally Assigned Grade				
Pass	$	15,118,015	$	17,589,337
Doubtful				
Less than 90 days past due and accruing		-		7,114
Total	$	15,118,015	$	17,596,451
Consumer Credit Risk Profile by Internally Assigned Grade				
Pass	$	1,620,628	$	1,720,966
Total	$	1,620,628	$	1,720,966

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

5. Loan commitments

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Outstanding loan commitments and letters of credit consist of:

	June 30, 2011	December 31, 2010
Loan commitments and lines of credit		
Construction and land development	$ 4,602,443	$ 8,569,169
Other	20,561,721	21,164,229
	$ 25,164,164	$ 29,733,398
Standby letters of credit	$ 1,299,096	$ 1,590,367

6. Assets Measured at Fair Value

The Company values investment securities classified as available for sale on a recurring basis and other real estate acquired through foreclosure at fair value on a non-recurring basis. The fair value hierarchy established in the Financial Accounting Standards Board Codification Topic 820 titled *Fair Value Measurements* defines three input levels for fair value measurement. Level 1 is based on quoted market prices in active markets for identical assets. Level 2 is based on significant observable inputs other than those in Level 1. Level 3 is based on significant unobservable inputs. The Company values US Treasury securities, government agency securities, and an equity investment in an actively traded public utility under Level 1. Municipal debt securities, equity investments in community banks, and other real estate acquired through foreclosure are valued under Level 2. The Company has no assets measured at fair value on a recurring or non-recurring basis that are valued under Level 3 criteria. No assets were transferred between levels of the fair value hierarchy during this period. At June 30, 2011, values for available for sale investment securities and other real estate owned were established as follows:

	Total	Level 1 Inputs	Level 2 Inputs
Investment securities available for sale (recurring)			
U.S. Treasury	$ 44,062,420	$ 44,062,420	$ -
State and municipal	292,072	-	292,072
Equity	2,123,876	345,928	1,777,948
Other real estate owned (non-recurring)	779,500	-	779,500
	$ 47,257,868	$ 44,408,348	$ 2,849,520

The fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis, and the valuation methods used in estimating the fair value of financial instruments is disclosed in the Company’s Annual Report on Form 10-K. It is not practicable to report quarterly the fair value of financial assets and liabilities measured on a non-recurring basis.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited) (continued)

7. New accounting standards

The following accounting pronouncements have been approved by the Financial Accounting Standards Board but had not become effective as of June 30, 2011. These pronouncements would apply to the Company if the Company or the Bank entered into an applicable activity.

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. Disclosures related to the gross presentation of Level 3 purchases, sales, issuances and settlements of assets and liabilities was required for the Company beginning January 1, 2011 and are included in Note 5.

ASU No. 2010-20, "Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 was effective for the Company with its annual reporting period ended December 31, 2010. Since its adoption, the Company provides more information about the credit quality of its financing receivables (loans), including aging information and credit quality indicators. The disclosures are disaggregated by portfolio segment. ASU No. 2011-01 postpones the effective date for disclosures relating to troubled debt restructures (see below).

ASU No. 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The amendments in ASU 2011-01 temporarily delay the effective date of disclosures about troubled debt restructurings required under ASU 2010-20. These disclosures are required in the first interim or annual period beginning after June 15, 2011.

ASU No. 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The amendments in ASU 2011-02 provide further clarification as to when a loan modification or restructuring is considered a troubled debt restructuring (TDR) for the purpose of achieving more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a TDR, a creditor must conclude that 1) the restructuring constitutes a concession, and 2) the debtor is experiencing financial difficulties. These disclosures are required in the first interim or annual period beginning after June 15, 2011.

The accounting policies adopted by management are consistent with accounting principles generally accepted in the United States of America and are consistent with those followed by peer Banks.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements appear in a number of places in this Report and include all statements regarding the intent, belief or current expectations of the Company, its directors, or its officers with respect to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration and payment of dividends. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein and those factors discussed in detail in the Company's filings with the Securities and Exchange Commission.

The following discussion of the financial condition and results of operations of the Registrant (the Company) should be read in conjunction with the Company's financial statements and related notes and other statistical information included elsewhere herein.

General

Calvin B. Taylor Bankshares, Inc. (Company) was incorporated as a Maryland corporation on October 31, 1995. The Company owns all of the stock of Calvin B. Taylor Banking Company (Bank), a commercial bank that was established in 1890 and incorporated under the laws of the State of Maryland on December 17, 1907. The Bank operates nine banking offices in Worcester County, Maryland and one banking office in Ocean View, Delaware. The Bank's administrative office is located in Berlin, Maryland. The Bank is engaged in a general commercial and retail banking business serving individuals, businesses, and governmental units in Worcester County, Maryland, Ocean View, Delaware, and neighboring counties.

The Company currently engages in no business other than owning and managing the Bank. The Bank employed 86 full time equivalent employees as of June 30, 2011. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State 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 date of the financial statements. These estimates and assumptions may affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Critical Accounting Policies

The Company’s financial condition and results of operations are sensitive to accounting measurements and estimates of inherently uncertain matters. When applying accounting policies in areas that are subjective in nature, management uses its best judgment to arrive at the carrying value of certain assets. One of the most critical accounting policies applied is related to the valuation of the loan portfolio.

The allowance for loan losses (ALLL) represents management’s best estimate of inherent probable losses in the loan portfolio as of the balance sheet date. It is one of the most difficult and subjective judgments. The adequacy of the allowance for loan losses is evaluated no less than quarterly. The determination of the balance of the allowance for loan losses is based on management’s judgments about the credit quality of the loan portfolio as of the review date. It should be sufficient to absorb losses in the loan portfolio as determined by management’s consideration of factors including an analysis of historical losses, specific reserves for non-performing or past due loans, delinquency trends, portfolio composition (including segment growth or shifting of balances between segments, products and processes, and concentrations of credit, both regional and by relationship), lending staff experience and changes, critical documentation and policy exceptions, risk rating analysis, interest rates and the competitive environment, economic conditions in the Bank’s service area, and results of independent reviews, including audits and regulatory examinations.

Financial Condition

Total assets of the Company increased $8.8 million (2.17%) from December 31, 2010 to June 30, 2011. Combined deposits and customer repurchase agreements increased $6.9 million (2.07%) during the same period. Much of the deposit and asset growth from the previous year-end to the end of the second quarter stems from seasonal activity, which is further discussed in the section titled Liquidity.

Average assets and average deposits increased $14.6 million (3.74%) and $14.1 million (4.54%), respectively, from second quarter 2010 to second quarter 2011. Management believes that some of the year-to-year growth in deposits results from continuing market instability due to the slow recovery following the recession of 2008-2009. Consumers often seek the safety of conservatively run community banks when the stock market suffers a significant downturn. Increased deposit insurance limits also give customers a greater sense of security in bank deposits.

Loan Portfolio

During the first half of 2011, the Bank's gross loan portfolio has grown $3.6 million (1.53%). It is typical for the Bank to experience growth in both deposits and loans by the end of the second quarter. By late June, many seasonal merchants have drawn on their working capital lines of credit and, if the tourist season is successful, they are experiencing increased sales. Growth in the loan portfolio has been funded by increased deposit balances. Because loans earn at higher average rates than the cost of funds, this use of available funds has a positive effect on earnings. There is no adverse impact on the Company's ability to meet liquidity demands resulting from increases in the loan portfolio.

The Company makes loans to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region. Since late 2008, the local and regional economies have been adversely affected by a recession of national and international reach. While economists consider that the recession ended in mid-2009, our local economy continues to experience high unemployment and significant declines in property values.

Loan Quality and the Allowance for Loan Losses

The allowance for loan losses (ALLL) represents an amount which management believes to be adequate to absorb identified and inherent losses in the loan portfolio as of the balance sheet date. Valuation of the allowance is completed no less than quarterly. The determination of the allowance is inherently subjective as it relies on estimates of potential loss related to specific loans, the effects of portfolio trends, and other internal and external factors.

The ALLL consists of (i) formula-based reserves comprised of potential losses in the balance of the loan portfolio segmented into homogeneous pools, (ii) specific reserves comprised of potential losses on loans that management has identified as impaired and (iii) unallocated reserves. Unallocated reserves are not associated with a specific portfolio segment or a specific loan, but may be appropriate if properly supported and in accordance with GAAP.

The Company evaluates loan portfolio risk for the purpose of establishing an adequate allowance for loan losses. In determining an adequate level for the formula-based portion of the ALLL, management considers historical loss experience for major types of loans. Homogenous categories of loans are evaluated based on loss experience in the most recent three years. Based on this evaluation, management applies a formula to the current portfolio which gives weight to portfolio size and loss experience for categories of real estate construction loans, other real estate secured loans, other loans to commercial borrowers, and other consumer loans. However, historical data may not be an accurate predictor of loss potential in the current loan portfolio.

Management also evaluates trends in delinquencies, the composition of the portfolio, concentrations of credit, and changes in lending products, processes, or staffing. Management further considers external factors such as the interest rate environment, competition, current local and national economic trends, and the results of recent independent reviews by auditors and banking regulators. The protracted slow-down in the real-estate market has affected both the price and time to market residential and commercial properties. Management closely monitors such trends and the potential effect on the Company. The impact of the current adverse economic conditions is reflected in historically high loan losses and provisions for loan losses in 2009, 2010, and the current year.

Management employs a risk rating system which gives weight to collateral status (secured vs. unsecured), and to the absence or improper execution of critical contract or collateral documents. Unsecured loans and those loans with critical documentation exceptions, as defined by management, are considered to have greater loss exposure. Management incorporates these factors in the formula-based portion of the ALLL. Additionally, consideration is given to those segments of the loan portfolio which management deems to pose the greatest likelihood of loss. A schedule of loans by credit quality indicator (risk rating) can be found in Note 4.

Management believes that in a general economic downturn, such as the region has experienced since mid-2008, the Bank has an increased likelihood of loss in unsecured loans - commercial and consumer, and in secured consumer loans. Reserves for these segments of the portfolio are included in the formula-based portion of the ALLL. As of June 30, 2011, management reserved 125 bp against all unsecured loans, and consumer loans secured by other than real estate. This reserve level was increased during the first quarter of this year in recognition of the prolonged economic challenges to regional, national, and global economies. Additionally, management reserved 10% against overdrawn checking accounts which are a distinct high risk category of unsecured loan. The bank does not offer an approved overdraft loan product, so all overdrawn deposit balances result from unauthorized presentment of items against insufficient funds.

Borrowers whose cash flow is impaired as a result of prevailing economic conditions have also experienced depressed real estate values. Management recognizes that the combination of these circumstances – reduced revenue and depressed collateral values, may increase the likelihood of loss in the Bank’s real estate secured loan portfolio. Management closely monitors conditions that might indicate deterioration of collateral value on significant loans and, when possible, obtains additional collateral as required to limit the Bank’s loss exposure. The Bank expects commercial and consumer mortgage foreclosures to continue in 2011. Foreclosures may result in loan losses, costs to hold real estate acquired in foreclosure, and losses on the sale of real estate acquired in foreclosure. While management is unable to predict the financial consequences of future foreclosure activity, provision for loss on likely loan foreclosures is included in specific reserves in the ALLL.

Historically, the absence or improper execution of a document has not resulted in a loss to the Bank, however, management recognizes that the Bank’s loss exposure is increased until a critical contract or collateral documentation exception is cured. At June 30, 2011, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

The provision for loan losses is a charge to earnings in the current period to maintain the allowance at a level management has determined to be appropriate. The allowance is increased by current period provisions and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Adjustments made to bring the balance in the allowance to the level established by management may result in an increase or decrease to expense. Provisions for loan losses of $803,500 and $948,900 were made for the second quarter of 2011and year-to-date, respectively. This compares to provisions for loan losses of $180,000 and $601,000 for the comparable periods in 2010. The year-to-date increases in the level of the ALLL and the provision for loan loss reflect the consequences of the current economy. As borrowers continue to suffer personal and professional financial hardship, the likelihood of loss on previously performing loans has increased. As management identifies loans with heightened loss potential, a provision for those losses is recorded.

Management considers the June 30, 2011 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. As of June 30, 2011, management has not identified any loans which are anticipated to be wholly charged-off within the next 12 months.

The Bank experienced net recoveries of $6,357 and $27,042 in the second quarters of 2010 and 2011, respectively, and net charge-offs (recoveries) of 364,054 and ($18,756) in 2010 and 2011 years to date, respectively. In 2010, a loss of $347,214 was attributable to a single unsecured commercial line of credit. Management expects loan losses to continue throughout 2011, as reflected in the elevated level of the ALLL. See Note 4 for a schedule of transactions in the allowance for loan losses.

The accrual of interest on a loan is discontinued when principal or interest is ninety days past due or when the loan is determined to be impaired, unless collateral is sufficient to discharge the debt in full and the loan is in process of collection. When a loan is placed in nonaccruing status, any interest previously accrued but unpaid, is reversed from interest income. Interest payments received on nonaccrual loans may be recorded as cash basis income, or as a reduction of principal, depending on management's judgment on a loan by loan basis. Accrual of interest may be restored when all principal and interest are current and management believes that future payments will be received in accordance with the loan agreement.

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. Nonperforming assets increased $1,820,006 (32.67%) from December 31, 2010 to June 30, 2011. While levels of nonaccrual loans and OREO have remained stable, loans past due 90 days or more and still accruing have increased. The five loans in this category are real estate mortgages, which Management closely monitors to assure that collateral is sufficient to discharge the debt to Bank. See Note 4 for additional information about nonperforming assets.

Loans are considered impaired when management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. A performing loan may be categorized as impaired based on knowledge of circumstances that are deemed relevant to loan collection, including deterioration of the borrower's financial condition or devaluation of collateral. Not all impaired loans are past due nor are losses expected for every impaired loan.

Impaired loans may have specific reserves, or valuation allowances, allocated to them in the ALLL. Estimates of loss reserves on impaired loans may be determined based on any of the three following measurement methods which conform to authoritative accounting guidance: (1) the present value of future cash flows, (2) the fair value of collateral, if repayment of the loan is expected to be provided by underlying collateral, or (3) the loan's observable fair value. The Bank selects and applies, on a loan-by-loan basis, the appropriate valuation method. Loans determined to be impaired, but for which no specific valuation allowance is made because management believes the loan is secured with adequate collateral or the Bank will not take a loss on such loan, are grouped with other homogeneous loans for evaluation under formula-based criteria described previously. Impaired loans including nonaccruing loans totaled $4,757,320 and $4,106,521 at June 30, 2011, and December 31, 2010, respectively. See Note 4 for additional information about impaired loans.

Liquidity

Liquidity represents the ability to provide steady sources of funds for loan commitments and investment activities, as well as to provide sufficient funds to cover deposit withdrawals and payment of debt and operating obligations. These funds can be obtained by converting assets to cash or by attracting new deposits. The Company's major sources of liquidity are loan repayments, maturities of short-term investments including federal funds sold, and increases in core deposits. Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds.

Due to its location in a seasonal resort area, the Bank typically experiences a decline in deposits, federal funds sold and investment securities throughout the first quarter of the year when business customers are using their deposits to meet cash flow needs. Beginning late in the second quarter and throughout the third quarter, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives deposits from seasonal business customers, summer residents and tourists.

Average liquid assets (cash and amounts due from banks, interest-bearing deposits in other banks, federal funds sold, and investment securities) compared to average deposits and retail repurchase agreements were 43.84% for the second quarter of 2011 compared to 39.52% for the same quarter of 2010.

The Company has available lines of credit, including overnight federal funds and reverse repurchase agreements, totaling $28,000,000 as of June 30, 2011

Average net loans to average deposits were 75.47% versus 80.16% as of June 30, 2011 and 2010, respectively. Average net loans decreased by 1.59% while average deposits grew by 4.54%. Reductions in the loan portfolio result from low demand. Reductions in the loan portfolio result in increased investment in debt securities or federal funds sold. These investment vehicles are less profitable than loans. The Company will not lower its credit underwriting standards to bolster loan volume, as it considers that the longer term risk does not justify the risk of more aggressive lending. Average deposit balance increases occurred in non-interest and interest-bearing accounts, except time deposits which dropped 5.19%. Management believes that this indicates that depositors are migrating to more liquid types of accounts in order to be able to invest at higher rates should they become available. Neither changes in deposit portfolio composition nor the decrease in outstanding loan balances has a negative impact on the Company's ability to meet liquidity demands.

Interest Rate Sensitivity

The primary objective of asset/liability management is to ensure the steady growth of the Company's primary source of earnings, net interest income. Net interest income can fluctuate with significant interest rate movements. To lessen the impact of these margin swings, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these repricing opportunities at any point in time constitute interest rate sensitivity.

Interest rate sensitivity refers to the responsiveness of interest-bearing assets and liabilities to changes in market interest rates. The rate-sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities at a given time interval. The general objective of gap management is to actively manage rate-sensitive assets and liabilities to reduce the impact of interest rate fluctuations on the net interest margin. Management generally attempts to maintain a balance between rate-sensitive assets and liabilities as the exposure period is lengthened to minimize the overall interest rate risk to the Company.

Interest rate sensitivity may be controlled on either side of the balance sheet. On the asset side, management exercises some control over maturities. Also, loans are written to provide repricing opportunities on fixed rate notes. The Company's investment portfolio, including federal funds sold, provides the most flexible and fastest control over rate sensitivity since it can generally be restructured more quickly than the loan portfolio.

On the liability side, deposit products are structured to offer incentives to attain the maturity distribution desired. Competitive factors sometimes make control over deposits more difficult and, therefore, less effective as an interest rate sensitivity management tool.

The asset mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources, and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

As of June 30, 2011, the Company was cumulatively asset-sensitive for all time horizons. For asset-sensitive institutions, if interest rates should decrease, the net interest margins should decline. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

Results of Operations

Net income for the quarter ended June 30, 2011, was $915,062 ($.30 per share), compared to $1,523,386 ($.51 per share) for the second quarter of 2010, resulting in a decrease of $608,324 or 39.93%. Year to date net income has decreased $622,495 ($.21 per share) from $2,788,765 ($.93 per share) in 2010 to $2,166,270 ($.72 per share) in 2011. The key components of net income are discussed in the following paragraphs.

In the second quarter of 2011 compared to 2010, net interest income decreased $97,115 (2.45%). Net interest income decreased $178,042 (2.27%) in the first six months of 2011 compared to the same period in 2010. The decrease in interest and dividend revenue continues a multi-year trend primarily attributable to extremely low market rates. In 2009, federal funds sold, which are immediately responsive to market rates, saw dramatic revenue declines. Fed funds rates have remained at those historically low levels since then. During 2010 and 2011, the gradual downward repricing of debt securities and certificates of deposit in other banks has caused further erosion of revenues. To offset the interest revenue decreases, management has gradually lowered deposit rates throughout 2009 to present. Interest expense decreased in the second quarter of 2011 by $124,979 (25.32%) relative to the comparable period last year. For the year to date, interest expense is down $224,810 (22.43%) relative to last year. Although average balances of interest-bearing deposits have increased, rate reductions have resulted in reduced expense.

The Company’s net interest income is one of the most important factors in evaluating its financial performance. Management uses interest rate sensitivity analysis to determine the effect of rate changes. Net interest income is projected over a one-year period to determine the effect of an increase or decrease in the prime rate of 100 basis points. If prime were to decrease one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a decrease of approximately 5.5% in net interest income. Conversely, if prime were to increase one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience an increase in net interest income of the same percentage. The sensitivity analysis does not consider the likelihood of these rate changes nor whether management's reaction to this rate change would be to reprice its loans or deposits or both.

The tax-equivalent quarterly yield on interest-earning assets decreased by 46 basis points from 5.13% in second quarter 2010 to 4.67% in 2011. The quarterly yield on interest-bearing liabilities decreased by 23 basis points from .81% in 2010 to .58% in 2011. In combination, these shifts contribute to a decrease in net margin on interest-earning assets of 30 basis points.

The following table presents information including average balances of interest-earning assets and interest-bearing liabilities, the amount of related interest income and interest expense, and the resulting yields by category of interest-earning asset and interest-bearing liability. In this table, dividends and interest on tax-exempt securities and loans are reported on a fully taxable equivalent basis, which is a non-GAAP measure as defined in SEC Regulation G and Item 10 of SEC Regulation S-K. Management believes that these measures provide better yield comparability as a tool for managing net interest income.

Average Balances, Interest, and Yields

	For the quarter ended June 30, 2011			For the quarter ended June 30, 2010		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$ 29,902,034	$ 9,980	0.13%	$ 33,845,165	$ 16,129	0.19%
Interest-bearing deposits	9,671,070	14,589	0.61%	6,881,897	14,015	0.82%
Investment securities	87,883,740	325,299	1.48%	64,660,854	363,879	2.26%
Loans, net of allowance	245,073,007	3,986,438	6.52%	249,022,106	4,136,416	6.66%
Total interest-earning assets	372,529,851	4,336,306	4.67%	354,410,022	4,530,439	5.13%
Noninterest-bearing cash	16,746,991			19,514,507		
Other assets	14,992,871			15,779,339		
Total assets	$ 404,269,713			$ 389,703,868		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$ 61,895,896	48,473	0.31%	$ 55,898,114	56,514	0.41%
Money market	44,549,087	53,840	0.48%	36,311,278	45,091	0.50%
Savings	48,771,823	36,298	0.30%	47,959,025	59,420	0.50%
Other time	94,260,680	224,919	0.96%	99,418,035	325,353	1.31%
Total interest-bearing deposits	249,477,486	363,530	0.58%	239,586,452	486,378	0.81%

Securities sold under agreements to repurchase & federal funds purchased	4,179,561	5,160	0.50%	5,411,273	6,696	0.50%
Borrowed funds	-	-		37,518	595	6.36%
Total interest-bearing liabilities	253,657,047	368,690	0.58%	245,035,243	493,669	0.81%
Noninterest-bearing deposits	75,266,507			71,067,292		
	328,923,554	368,690	0.45%	316,102,535	493,669	0.63%
Other liabilities	104,202			580,806		
Stockholders' equity	75,241,957			73,020,527		
Total liabilities and stockholders' equity	$ 404,269,713			$ 389,703,868		
Net interest spread			4.09%			4.32%
Net interest income		$ 3,967,616			$ 4,036,770	
Net margin on interest-earning assets			4.27%			4.57%
Tax equivalent adjustment in:						
Investment income		$ 53,736			$ 31,080	
Loan income		$ 39,938			$ 34,633	

Provisions for loan losses of $803,500 and $180,000 were recorded during the second quarter of 2011 and 2010, respectively. For the 2011 and 2010 years to date, provisions for loan losses were $948,900 and $601,000, respectively. Net loans charged-off (recovered) were (18,756) and $364,054 during the first half of 2011 and 2010, respectively. Management attributes the continuing need to provide for high potential loan losses to the generally poor state of the economy which has had an adverse effect on certain borrowing customers. See Loan Quality and the Allowance for Loan Losses for a discussion of the provision for loan losses.

Noninterest revenue for the second quarter of 2011is $278,197 (44.39%) lower than the comparable period last year. Noninterest revenue for the year-to-date is $467,437 (36.95%) less than last year. The negative variances in both the quarter and the year-to-date result from non-recurring revenues in 2010 and the recording of a $178,325 other than temporary impairment (OTTI) loss on equity investments in 2011. The 2010 non-recurring revenues were comprised of gains on the sale of old coins with high precious metal content that had been stored in the Bank's vault for decades, as well as gains on the sale of real property to the State of Delaware for road expansion and related right of ways. Management does not expect other OTTI losses in the remainder of 2011 to be of this magnitude. Additionally, the gains in 2010 were substantially all recorded in the first half of the year.

Noninterest expense for the second quarter of 2011 is $7,262 (.36%), more than last year with no notable line item variances. Noninterest expense year-to-date is up $26,866 (.65%), including an increase of $92,141 in employee benefits related primarily to group insurance costs.

Income taxes for the six months ended June 30, 2011are $397,750 (25.03%) lower than the same period last year, on a pre-tax income decrease of $1,020,245 (23.31%).

Plans of Operation

The Bank offers a full range of deposit services including checking, NOW, Money Market, and savings accounts, and time deposits including certificates of deposit. The transaction, savings, and certificate of deposit accounts are tailored to the Bank's principal market areas at rates competitive to those offered in the area. The Bank also offers Individual Retirement Accounts (IRA), Health Savings Accounts, and Education Savings Accounts. All deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount allowed by law, which is currently $250,000 per depositor. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities. The Bank offers individual customers up to $50 million in FDIC insured deposits through the Certificate of Deposit Account Registry Services® network.

The Bank also offers a full range of short- to medium-term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. The Bank originates commercial and residential mortgage loans and real estate construction and acquisition loans. These lending activities are subject to a variety of lending limits imposed by state and federal law. The Bank lends to directors and officers of the Company and the Bank under terms comparable to those offered to other borrowers entering into similar loan transactions. The Board of Directors approves all loans to officers and directors and reviews these loans every six months.

Other bank services include cash management services, 24-hour ATM's, debit cards, safe deposit boxes, travelers' checks, direct deposit of payroll and social security funds, and automatic drafts for various accounts. The Bank offers bank-by-phone and Internet banking services, including electronic bill-payment, to both commercial and retail customers. The Bank offers a remote capture service that enables commercial customers to electronically capture check images and make on-line deposits. The Bank also offers non-deposit products including retail repurchase agreements and discount brokerage services through a correspondent bank.

Capital Resources and Adequacy

Total stockholders' equity increased $2,149,457 from December 31, 2010 to June 30, 2011 This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements.

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and Bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of stockholders' equity less accumulated other comprehensive income. In addition, the Company and the Bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

Tier one risk-based capital ratios of the Company as of June 30, 2011 and December 31, 2010 were 33.1% and 33.0%, respectively. Both are substantially in excess of regulatory minimum requirements.

Website Access to SEC Reports

The Bank maintains an Internet website at www.taylorbank.com. The Company's periodic SEC reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, are accessible through this website. Access to these filings is free of charge. The reports are available as soon as practicable after they are filed electronically with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's principal market risk exposure relates to interest rates on interest-earning assets and interest-bearing liabilities. Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company and the Bank are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management monitors and seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

At June 30, 2011, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 24.71%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Item 4. Controls and procedures

Disclosure controls and procedures are designed and maintained by the Company to ensure that information required to be disclosed in the Company's publicly filed reports is recorded, processed, summarized and reported in a timely manner. Such information must be available to management, including the Chief Executive Officer (CEO) and Treasurer, to allow them to make timely decisions about required disclosures. Even a well-designed and maintained control system can provide only reasonable, not absolute, assurance that its objectives are achieved. Inherent limitations in any system of controls include flawed judgment, errors, omissions, or intentional circumvention of controls.

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2011. Based on that evaluation, the Company's management, including the CEO and Treasurer, has concluded that the Company's disclosure controls and procedures are effective. The projection of an evaluation of controls to future periods is subject to the risk that procedures may become inadequate due to changes in conditions including the degree of compliance with procedures.

Changes in Internal Controls

During the quarter ended on the date of this report, there were no significant changes in the Company's internal control over financial reporting that have had or are reasonably likely to have a material effect on the Company's internal control over financial reporting. As of June 30, 2011, the Company's management, including the CEO and Treasurer, has concluded that the Company's internal controls over financial reporting are effective.

Part II. Other Information

Item 1 Legal Proceedings
Not applicable

Item 1A. Risk Factors
The Company and the Bank are subject to various types of risk during the normal conduct of business. There has been no material change in risk factors or levels of risk as previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Company publicly announced on August 14, 2003, that it would repurchase up to 10% of its outstanding equity stock at that time. As of January 1, 2005, and again on May 18, 2007, this plan was renewed by public announcement, making up to 10% of the Company's outstanding equity stock available for repurchase at the time of each renewal. On January 13, 2010, as part of its capital planning, the Board of Directors voted to temporarily suspend the stock buy-back program. On February 9, 2011, the Board of Directors voted to suspend this program indefinitely.

There is no set expiration date for this program. No other stock repurchase plan or program existed or exists simultaneously, nor has any other plan or program expired during the period covered by this table. Common shares repurchased under this plan are retired. From its inception through December 31, 2009, 239,492 shares were retired under this program. No shares were retired during retired during 2010 or year-to-date 2011.

The following table presents high and low bid information obtained from the Over the Counter Bulletin Board and from other trades known to management of the Company. Because transactions in the Company's common stock are infrequent and are often negotiated privately between the persons involved in those transactions, actual prices may be higher or lower than those included in this table. Additionally, the number of shares traded at high or low prices may vary significantly. There is no established public trading market in the stock, and there is no likelihood that a trading market will develop in the near future.

	2011		2010	
Sales price per share	High	Low	High	Low
First quarter	$ 34.00	$ 26.50	$ 36.00	$ 32.00
Second quarter	$ 28.50	$ 26.00	$ 42.00	$ 29.00
Third quarter			$ 42.00	$ 29.00
Fourth quarter			$ 40.00	$ 26.00

Item 3 Defaults Upon Senior Securities
Not applicable

Item 4 (Removed and Reserved)

Item 5 Other information
There is no information required to be disclosed in a report on Form 8-K during the period covered by this report, which has not been reported.

Item 6 Exhibits and Reports on Form 8-K
a) Exhibits
31. Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32. Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002.

Exhibit 31.1
Rule 13a-14(a) Certification of the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Raymond M. Thompson, certify that:

I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;

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

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

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

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

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

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

Calvin B. Taylor Bankshares, Inc.

Date: <u>July 26, 2011</u>

By: <u>/s/ Raymond M. Thompson</u>
Raymond M. Thompson
Chief Executive Officer

Exhibit 31.2
Rule 13a-14(a) Certification of the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jennifer G. Hawkins, certify that:

I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;

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

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

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

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

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

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

Calvin B. Taylor Bankshares, Inc.

Date: July 26, 2011

By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer (Principal Financial & Accounting Officer)

Exhibit 32
Certification - Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

We, the undersigned, certify that to the best of our knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended June 30, 2010, of Calvin B. Taylor Bankshares, Inc:

(1) The referenced report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Calvin B. Taylor Bankshares, Inc.

Date: July 26, 2011

By: /s/ Raymond M. Thompson
Raymond M. Thompson
Chief Executive Officer

By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer (Principal Financial & Accounting Officer)

SIGNATURES

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

Calvin B. Taylor Bankshares, Inc.

Date: July 26, 2011

By: /s/ Raymond M. Thompson
Raymond M. Thompson
Chief Executive Officer

By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer (Principal Financial & Accounting Officer)