

TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
August 07, 2013

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, 2013
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 No

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 No

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

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 Exchange Act). Yes No

On July 31, 2013, 2,955,828 shares of the registrant's common stock were issued and outstanding.



Calvin B. Taylor Bankshares, Inc. and Subsidiary
 Form 10-Q
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Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Balance Sheets

	(unaudited) June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$39,499,479	\$23,587,107
Federal funds sold	19,045,560	20,842,304
Interest-bearing bank deposits	11,563,182	13,587,889
Investment securities available for sale	51,998,434	74,282,927
Investment securities held to maturity (approximate fair value of \$69,922,239 and \$65,931,275)	69,937,811	65,792,282
Loans, less allowance for loan losses of \$902,491 and \$780,493	237,385,520	227,346,558
Premises and equipment	5,851,097	5,988,294
Other real estate owned	574,300	1,440,900
Accrued interest receivable	1,295,775	1,152,721
Computer software	162,678	126,820
Bank owned life insurance	7,818,753	7,690,815
Prepaid Expenses	332,286	781,417
Other assets	249,006	273,040
Total assets	\$445,713,881	\$442,893,074
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$102,459,888	\$96,697,061
Interest-bearing	259,111,543	263,857,994
Total deposits	361,571,431	360,555,055
Securities sold under agreements to repurchase	5,590,828	5,230,572
Accrued interest payable	33,879	46,789
Deferred income taxes	36,809	62,582
Other liabilities	63,787	118,266
Total Liabilities	367,296,734	366,013,264
Stockholders' equity		
Common stock, par value \$1 per share authorized 10,000,000 shares, issued and outstanding 2,959,828 shares at June 30, 2013, and 2,978,554 shares at December 31, 2012	2,959,828	2,978,554
Additional paid-in capital	7,735,533	8,216,785
Retained earnings	67,086,435	64,885,625
Total tier 1 capital	77,781,796	76,080,964
Accumulated other comprehensive income	635,351	798,846
Total stockholders' equity	78,417,147	76,879,810
Total liabilities and stockholders' equity	\$445,713,881	\$442,893,074

The accompanying notes are an integral part of these financial statements.

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

	For the three months ended June 30,	
	2013	2012
Interest and dividend revenue		
Loans, including fees	\$ 3,562,941	\$ 3,648,304
U.S. Treasury and government agency securities	141,860	175,017
State and municipal securities	7,803	12,172
Federal funds sold and due from banks	13,339	9,689
Interest-bearing bank deposits	9,785	13,239
Equity securities	9,480	8,203
Total interest and dividend revenue	3,745,208	3,866,624
Interest expense		
Deposits	117,893	239,839
Borrowings	1,930	3,054
Total interest expense	119,823	242,893
Net interest income	3,625,385	3,623,731
Provision for loan losses	64,000	105,000
Net interest income after provision for loan losses	3,561,385	3,518,731
Noninterest revenue		
Service charges on deposit accounts	179,214	200,122
ATM and debit card	179,169	172,594
Increase in cash surrender value of bank owned life insurance	64,522	65,230
Gain (loss) on disposition of assets	1,175	(6,331)
Gain (loss) on sale and revaluation of other real estate owned and repossessed assets	(171,958)	108
Miscellaneous	114,821	114,181
Total noninterest revenue	366,943	545,904
Noninterest expenses		
Salaries	915,711	901,051
Employee benefits	269,513	298,421
Occupancy	176,380	173,280
Furniture and equipment	92,930	107,908
Data processing	58,336	67,466
ATM and debit card	73,094	69,548
Deposit insurance premiums	49,840	48,111
Other operating	414,962	427,609
Total noninterest expenses	2,050,766	2,093,394
Income before income taxes	1,877,562	1,971,241
Income taxes	689,500	707,200
Net income	\$ 1,188,062	\$ 1,264,041

Earnings per common share – basic and diluted	\$ 0.40	\$ 0.42
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) of available for sale investment securities arising during the period, net of taxes of (\$25,773) and \$22,367	(76,305)	51,027
Comprehensive income	\$ 1,111,757	\$ 1,315,068

The accompanying notes are an integral part of these financial statements.

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

	For the six months ended June 30,	
	2013	2012
Interest and dividend revenue		
Loans, including fees	\$ 7,088,443	\$ 7,242,125
U.S. Treasury and government agency securities	292,331	360,355
State and municipal securities	16,645	25,252
Federal funds sold and due from banks	24,643	18,207
Interest-bearing bank deposits	21,516	26,474
Equity securities	16,781	13,504
Total interest and dividend revenue	7,460,359	7,685,917
Interest expense		
Deposits	248,060	513,675
Borrowings	3,686	5,874
Total interest expense	251,746	519,549
Net interest income	7,208,613	7,166,368
Provision for loan losses	409,000	297,500
Net interest income after provision for loan losses	6,799,613	6,868,868
Noninterest revenue		
Service charges on deposit accounts	360,133	393,544
ATM and debit card	332,884	329,890
Increase in cash surrender value of bank owned life insurance	127,938	121,124
Gain (loss) on disposition of assets	1,075	(12,583)
Gain (loss) on sale and revaluation of other real estate owned and repossessed assets	(171,958)	108
Miscellaneous	194,785	199,619
Total noninterest revenue	844,857	1,031,702
Noninterest expenses		
Salaries	1,831,900	1,794,950
Employee benefits	567,445	598,618
Occupancy	374,092	362,295
Furniture and equipment	216,122	229,607
Data processing	114,716	133,350
ATM and debit card	158,263	140,980
Deposit insurance premiums	101,484	96,630
Other operating	827,637	922,418
Total noninterest expenses	4,191,659	4,278,848
Income before income taxes	3,452,811	3,621,722
Income taxes	1,252,000	1,301,000
Net income	\$ 2,200,811	\$ 2,320,722

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Earnings per common share – basic and diluted	\$ 0.74	\$ 0.77
Other comprehensive income (loss), net of tax		
Unrealized gains (losses) of available for sale investment securities arising during the period, net of taxes of (\$82,615) and \$12,887	(163,495)	17,894
Comprehensive income	\$ 2,037,316	\$ 2,338,616

The accompanying notes are an integral part of these financial statements.

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

	For the six months ended June 30,	
	2013	2012
Cash flows from operating activities		
Interest and dividends received	\$ 7,387,380	\$ 7,615,508
Fees and commissions received	893,397	745,124
Interest paid	(264,656)	(537,023)
Cash paid to suppliers and employees	(3,559,501)	(3,861,841)
Income taxes paid	(1,180,292)	(1,186,396)
Net cash from operating activities	3,276,328	2,775,372
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	2,025,356	(3,031,180)
Proceeds from maturities of investments available for sale	27,000,000	32,100,000
Purchase of investments available for sale	(4,990,652)	(28,216,980)
Proceeds from maturities of investments held to maturity	21,225,000	22,895,000
Purchase of investments held to maturity	(25,411,571)	(28,222,158)
Loans made, net of principal reductions	(10,447,962)	(8,820,409)
Proceeds from sale of real property and equipment	1,075	-
Purchases of premises, equipment, and computer software	(137,242)	(236,094)
Proceeds from sale of other real estate owned and repossessed assets, net	699,292	55,985
Purchase of bank owned life insurance	-	(2,000,000)
Net cash from investing activities	9,963,296	(15,475,836)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(4,362,276)	(467,707)
Other deposits	5,378,652	18,251,009
Securities sold under agreements to repurchase	360,256	1,234,662
Common shares repurchased	(499,979)	(113,543)
Net cash from financing activities	876,653	18,904,421
Net increase in cash and cash equivalents	14,116,277	6,203,957
Cash and cash equivalents at beginning of period	44,443,301	52,689,223
Cash and cash equivalents at end of period	\$ 58,559,578	\$ 58,893,180

The accompanying notes are an integral part of these financial statements.

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

	For the six months ended June 30,	
	2013	2012
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 2,200,811	\$ 2,320,722
Adjustments to reconcile net income to net cash provided by operating activities		
Premium amortization and discount accretion	70,076	61,082
Provision for loan losses	409,000	297,500
Depreciation and amortization	238,581	250,615
Loss on disposition of investment securities	-	4,026
Loss (gain) on disposition of premises, equipment, and software	(1,075)	8,557
Loss (gain) on sale of other real estate owned and repossessed assets	171,958	(108)
Decrease (increase) in		
Accrued interest receivable	(143,054)	(131,492)
Cash surrender value of bank owned life insurance	(127,938)	(121,124)
Other assets	453,651	90,821
Increase (decrease) in		
Accrued interest payable	(12,910)	(17,307)
Accrued and deferred income taxes	71,708	114,604
Other liabilities	(54,480)	(102,524)
Net cash from operating activities	\$ 3,276,328	\$ 2,775,372
Composition of cash and cash equivalents		
Cash and due from banks	\$ 39,499,479	\$ 23,299,860
Federal funds sold	19,045,560	35,580,082
Interest-bearing bank deposits, except for time deposits	14,539	13,238
Total cash and cash equivalents	\$ 58,559,578	\$ 58,893,180

The accompanying notes are an integral part of these financial statements.

IndexCalvin 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, 2013 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2013. 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, 2012.

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:

	2013	2012
Three months ended June 30	2,963,706	2,993,971
Six months ended June 30	2,967,689	2,994,938

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Notes to Consolidated Financial Statements (unaudited) (continued)

2. Investment Securities

Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
June 30, 2013				
Available for sale				
U.S. Treasury	\$49,063,102	\$833,464	\$53,177	\$49,843,389
State and municipal	397,401	7,300	32	404,669
Equity	1,566,913	587,071	403,608	1,750,376
	\$51,027,416	\$1,427,835	\$456,817	\$51,998,434
Held to maturity				
U.S. Treasury	\$53,985,246	\$65,960	\$12,336	\$54,038,870
U.S. government agency	10,000,000	1,080	51,470	9,949,610
State and municipal	5,952,565	3,989	22,795	5,933,759
	\$69,937,811	\$71,029	\$86,601	\$69,922,239
December 31, 2012				
Available for sale				
U.S. Treasury	\$71,098,759	\$1,078,755	\$4,174	\$72,173,340
State and municipal	400,126	4,155	844	403,437
Equity	1,566,913	532,832	393,595	1,706,150
	\$73,065,798	\$1,615,742	\$398,613	\$74,282,927
Held to maturity				
U.S. Treasury	\$51,979,332	\$126,149	\$661	\$52,104,820
U.S. government agency	9,000,000	3,600	1,800	9,001,800
State and municipal	4,812,950	12,049	344	4,824,655
	\$65,792,282	\$141,798	\$2,805	\$65,931,275

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Notes to Consolidated Financial Statements (unaudited) (continued)

2. 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, 2013, 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. Treasury	\$ 27,992,970	\$ 65,513	\$ -	\$ -	\$ 27,992,970	\$ 65,513
U. S. government agency	5,948,530	51,470	-	-	5,948,530	51,470
State and municipal	3,019,544	22,827	-	-	3,019,544	22,827
Equity securities	17,428	19,268	728,652	384,340	746,080	403,608
	\$ 36,978,472	\$ 159,078	\$ 728,652	\$ 384,340	\$ 37,707,124	\$ 543,418

The debt securities in unrealized loss positions are issues of the U.S. Treasury, Federal Home Loan Bank (a U. S. government agency), and highly rated general 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. Fluctuations in fair value reflect market conditions and are not indicative of an other-than-temporary impairment (OTTI) of the investment.

Equity securities for which an unrealized loss is recorded are issues of six community banks or bank holding companies located in the same general geographic area as the Company. Management believes that these fluctuations in fair value reflect market conditions and are not indicative of an other-than-temporary impairment of the investment as of June 30, 2013. Management continues to monitor the financial condition of the issuers.

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, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	\$ 18,039,664	\$ 18,062,751	\$ 41,027,015	\$ 41,048,970
After one year through five years	29,423,441	29,383,427	28,474,650	28,519,007
After five through ten years	1,997,398	2,801,880	1,997,220	3,008,800
	\$ 49,460,503	\$ 50,248,058	\$ 71,498,885	\$ 72,576,777
Held to maturity				
Within one year	\$ 36,779,538	\$ 36,819,938	\$ 30,318,940	\$ 30,346,374
After one year through five years	33,158,273	33,102,301	35,473,342	35,584,901
	\$ 69,937,811	\$ 69,922,239	\$ 65,792,282	\$ 65,931,275
Pledged securities	\$ 25,734,563	\$ 25,776,761	\$ 24,796,570	\$ 24,894,038

Investments are pledged to secure deposits of federal and local governments. Pledged securities also serve as collateral for repurchase agreements entered into with our customers.

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Notes to Consolidated Financial Statements (unaudited) (continued)

3. Loans and Allowance for Loan Losses

Major classifications of loans are as follows:

	June 30, 2013	December 31, 2012
Real estate mortgages		
Construction, land development, and land	\$ 17,750,026	\$ 13,819,207
Residential 1 to 4 family, 1st liens	84,498,742	81,794,242
Residential 1 to 4 family, subordinate liens	1,877,389	1,932,743
Commercial properties	117,136,942	115,655,467
Commercial	15,087,087	12,946,639
Consumer	1,937,825	1,978,753
Total Loans	238,288,011	228,127,051
Allowance for loan losses	902,491	780,493
Loans, net	\$ 237,385,520	\$ 227,346,558

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 (other real estate owned). The following table details the composition of nonperforming assets:

	June 30, 2013	December 31, 2012
Loans 90 days or more past due and still accruing		
Real estate mortgages		
Residential 1 to 4 family	\$ 384,129	\$ -
Commercial properties	684,422	684,422
Total loans 90 or more days past due and still accruing	1,068,551	684,422
Nonaccruing loans		
Nonaccruing loans - current		
Real estate mortgages		
Construction, land development, and land	-	550,614
Residential 1 to 4 family	-	237,527
Total nonaccruing loans - current	-	788,141
Nonaccruing loans - past due 30 days or more		
Real estate mortgages		
Construction, land development, and land	322,415	325,966
Residential 1 to 4 family	1,101,800	668,794
Commercial properties	870,064	890,967
Total nonaccruing loans - past due 30 days or more	2,294,279	1,885,727
Total nonaccruing loans	2,294,279	2,673,868
Total nonperforming loans	3,362,830	3,358,290
Other real estate owned	574,300	1,440,900
Total nonperforming assets	\$ 3,937,130	\$ 4,799,190

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Interest not accrued to income on nonaccruing loans	\$ 64,112	\$ 178,546
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Interest income of \$106,934 was recognized on a cash-basis during the 6 months ended June 30, 2013 related to the full payoff of a nonaccrual loan. No interest income was recognized on a cash-basis on nonaccruing loans during the year ended December 31, 2012. Other than previously noted, payments received on non-accruing loans were applied as reductions of principal.

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Notes to Consolidated Financial Statements (unaudited) (continued)

3. 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.

June 30, 2013	Real estate mortgages						Total
	Construction and Land	Residential	Commercial	Commercial	Consumer	Unallocated	
Beginning balance	\$ 119,036	\$ 161,984	\$ 250,781	\$ 168,033	\$ 55,595	\$ 25,064	\$ 780,493
Loans charged off	-	(237,380)	(45,685)	(178)	(9,016)	-	(292,259)
Recoveries	-	1,980	-	600	2,677	-	5,257
Provision charged to operations	(24,400)	275,031	99,055	43,607	10,398	5,309	409,000
Ending balance	\$ 94,636	\$ 201,615	\$ 304,151	\$ 212,062	\$ 59,654	\$ 30,373	\$ 902,491
Individually evaluated for impairment:							
Balance in allowance	\$-	\$-	\$-	\$-	\$-		\$-
Related loan balance	\$ 322,415	\$ 4,322,563	\$ 5,729,426	\$-	\$-		\$ 10,374,404
Collectively evaluated for impairment:							
Balance in allowance	\$ 94,636	\$ 201,615	\$ 304,151	\$ 212,062	\$ 59,654	\$ 30,373	\$ 902,491
Related loan balance	\$ 17,427,611	\$ 82,053,568	\$ 111,407,516	\$ 15,087,087	\$ 1,937,825		\$ 227,913,607
December 31, 2012							
Beginning balance	\$ 160,392	\$ 42,064	\$ 193,570	\$ 197,353	\$ 60,487	\$ 18,395	\$ 672,261
Loans charged off	(45,081)	(239,043)	(206,707)	(18,559)	(14,253)	-	(523,643)
Recoveries	-	16,843	-	103	9,229	-	26,175
Provision charged to operations	3,725	342,120	263,918	(10,864)	132	6,669	605,700
Ending balance	\$ 119,036	\$ 161,984	\$ 250,781	\$ 168,033	\$ 55,595	\$ 25,064	\$ 780,493

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Individually evaluated for impairment:							
Balance in allowance	\$-	\$-	\$-	\$-	\$-		\$-
Related loan balance	\$878,029	\$4,116,048	\$6,307,478	\$-	\$-		\$11,301,555

Collectively evaluated for impairment:							
Balance in allowance	\$119,036	\$161,984	\$250,781	\$168,033	\$55,595	\$25,064	\$780,493
Related loan balance	\$12,941,178	\$79,610,937	\$109,347,989	\$12,946,639	\$1,978,753		\$216,825,496

June 30, 2012							
Beginning balance	\$160,392	\$42,064	\$193,570	\$197,353	\$60,487	\$18,395	\$672,261
Loans charged off	(45,081)	(172,884)	-	(363)	(8,110)	-	(226,438)
Recoveries	-	15,000	-	3	4,982	-	19,985
Provision charged to operations	51,570	227,150	30,220	(18,702)	(7,597)	14,859	297,500
Ending balance	\$166,881	\$111,330	\$223,790	\$178,291	\$49,762	\$33,254	\$763,308

Individually evaluated for impairment:							
Balance in allowance	\$-	\$-	\$-	\$-	\$-		\$-
Related loan balance	\$922,369	\$3,721,732	\$6,902,721	\$-	\$-		\$11,546,822

Collectively evaluated for impairment:							
Balance in allowance	\$166,881	\$111,330	\$223,790	\$178,291	\$49,762	\$33,254	\$763,308
Related loan balance	\$13,336,112	\$81,045,617	\$114,853,707	\$14,308,510	\$1,729,588		\$225,273,534

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Notes to Consolidated Financial Statements (unaudited) (continued)

3. 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.

	For six months ended June 30		For the year ended December 31			
	2013	2012	2012			
Net loans charged off	\$ 287,002	\$ 206,453	\$ 497,468			
Allowance for loan losses at the end of the period	\$ 902,491	\$ 763,308	\$ 780,493			
Gross loans outstanding at the end of the period	\$ 238,288,011	\$ 236,820,356	\$ 228,127,051			
Allowance for loan losses to gross loans outstanding at the end of the period	0.38	%	0.32	%	0.34	%
Average loans outstanding during the period	\$ 235,184,159	\$ 232,737,626	\$ 229,923,000			
Annualized net charge-offs as a percentage of average loans outstanding during the period	0.25	%	0.18	%	0.22	%

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 the recorded investment in past due loans by days past due and type of loan.

	30-59 Days Past Due	60-89 Days Past Due	Greater than		Current	Total Loans	90 Days Past Due or Greater and Accruing
			90 Days Past Due	Total Past Due			
June 30, 2013 Real estate mortgages Construction, land development, and land	\$-	\$322,415	\$-	\$322,415	\$17,427,611	\$17,750,026	\$ -
Residential 1 to 4 family, 1st lien	586,624	414,109	1,235,110	2,235,843	82,262,899	84,498,742	384,129
	-	-	-	-	1,877,389	1,877,389	-

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Residential 1 to 4 family, subordinate								
Commercial properties	-	-	1,554,486	1,554,486	115,582,456	117,136,942	684,422	
Commercial	-	-	-	-	15,087,087	15,087,087	-	
Consumer	1,290	-	-	1,290	1,936,535	1,937,825	-	
Total	\$587,914	\$736,524	\$2,789,596	\$4,114,034	\$234,173,977	\$238,288,011	\$ 1,068,551	

December 31, 2012

Real estate mortgages

Construction, land development, and land	\$327,415	\$-	\$-	\$327,415	\$13,491,792	\$13,819,207	\$ -	
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Residential 1 to 4 family, 1st lien

	2,325,354	783,618	648,693	3,757,665	78,036,577	81,794,242	-	
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Residential 1 to 4 family, subordinate

	-	-	-	-	1,932,743	1,932,743	-	
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Commercial properties

	519,766	-	1,575,389	2,095,155	113,560,312	115,655,467	684,422	
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Commercial

	-	-	-	-	12,946,639	12,946,639	-	
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Consumer

	17,441	1,544	-	18,985	1,959,768	1,978,753	-	
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Total	\$3,189,976	\$785,162	\$2,224,082	\$6,199,220	\$221,927,831	\$228,127,051	\$ 684,422	
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Notes to Consolidated Financial Statements (unaudited) (continued)

3. 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:

	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
June 30, 2013						
Real estate mortgages						
Construction, land development, and land	\$322,415	\$322,415	\$-	\$-	\$324,915	\$ -
Residential 1-4 family, 1st liens	4,386,770	4,206,769	-	-	4,316,965	55,010
Residential 1-4 family, subordinate liens	115,794	115,794	-	-	116,622	2,932
Commercial properties	6,839,426	5,729,426	-	-	5,758,569	157,892
Total	\$11,664,405	\$10,374,404	\$-	\$-	\$10,517,071	\$ 215,834
December 31, 2012						
Real estate mortgages						
Construction, land development, and land	\$878,029	\$878,029	\$-	\$-	\$921,869	\$ -
Residential 1-4 family, 1st liens	4,158,599	3,998,598	-	-	4,082,975	182,756
Residential 1-4 family, subordinate liens	117,451	117,450	-	-	118,983	6,055
Commercial properties	7,417,477	6,307,478	-	-	6,468,862	348,590
Total	\$12,571,556	\$11,301,555	\$-	\$-	\$11,592,689	\$ 537,401
June 30, 2012						
Real estate mortgages						
Construction, land development, and land	\$922,369	\$922,369	\$-	\$-	\$944,039	\$ -
Residential 1-4 family, 1st liens	3,707,772	3,602,772	-	-	3,657,443	81,071
Residential 1-4 family, subordinate liens	118,960	118,960	-	-	119,738	3,024
Commercial properties	8,012,721	6,902,721	-	-	6,925,772	184,686
Total	\$12,761,822	\$11,546,822	\$-	\$-	\$11,646,992	\$ 268,781

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Notes to Consolidated Financial Statements (unaudited) (continued)

3. Loans and Allowance for Loan Losses (continued)

Credit quality 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. Pass credits are secured or unsecured loans with satisfactory payment history and supporting documentation. Special mention loans are those with satisfactory payment history that have a defect in supporting documentation which is defined by the Bank as a critical defect. This may include missing financial data or improperly executed collateral documents. Substandard credits are those with a weakness that may jeopardize repayment, such as deteriorating collateral value, or for which the borrower's ability to meet payment obligations is questionable. Doubtful credits are loans in which the borrower's ability to repay the loan in full is improbable and some loss is expected. Loans graded as doubtful are most likely to result in the loss of principal or loss of revenue due to placement in nonaccrual status. Included in substandard and doubtful credits are loans on which terms have been modified by a reduction of interest rate and/or payment amount in order to enable a distressed borrower to service the debt. Management evaluates loans graded as doubtful individually and provides for anticipated losses through adjustment of the allowance for loan losses and charges to current earnings.

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 the recorded investment in loans by credit quality indicator.

	June 30, 2013	December 31, 2012
Real Estate Credit Risk Profile by Internally Assigned Grade		
Construction, land development, and land		
Pass	\$ 17,427,611	\$ 12,941,178
Doubtful		
Nonperforming: 90 days or more past due and/or non-accruing	322,415	878,029
Total	\$ 17,750,026	\$ 13,819,207