TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
May 04, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2012
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation or organization)

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] 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 [X] 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 [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 Exchange Act). Yes ____ No [X]

On April 30, 2012, 2,994,823 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) March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 22,859,955	$ 22,135,410
Federal funds sold	32,750,638	30,541,229
Interest-bearing deposits	10,573,835	10,548,467
Investment securities available for sale	48,181,783	49,096,875
Investment securities held to maturity (approximate fair value of $53,569,077 and $60,866,303)	53,402,628	60,624,239
Loans, less allowance for loan losses of $772,866 and $672,261	233,769,686	227,534,139
Premises and equipment	6,122,188	6,124,349
Other real estate owned	1,659,260	1,715,138
Accrued interest receivable	1,109,841	1,173,678
Computer software	142,002	143,383
Bank owned life insurance	7,492,290	5,436,395
Prepaid expenses	821,041	1,031,426
Other assets	12,053	123,436
Total assets	$ 418,897,200	$ 416,228,164
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 80,741,674	$ 83,136,325
Interest-bearing	255,950,422	252,920,179
Total deposits	336,692,096	336,056,504
Securities sold under agreements to repurchase	5,212,976	3,998,168
Accrued interest payable	84,067	90,079
Deferred income taxes	145,915	223,583
Other liabilities	29,240	136,371
Total Liabilities	342,164,294	340,504,705
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 2,995,723 shares at March 31, 2012, and 2,996,323 shares at December 31, 2011	2,995,723	2,996,323
Additional paid-in capital	8,626,933	8,640,433
Retained earnings	64,357,911	63,301,231
Total tier 1 capital	75,980,567	74,937,987
Accumulated other comprehensive income	752,339	785,472
Total stockholders' equity	76,732,906	75,723,459
Total liabilities and stockholders' equity	$ 418,897,200	$ 416,228,164

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

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

	For the three months ended March 31, 2012	2011
Interest and dividend revenue		
Loans, including fees	$ 3,593,821	$ 3,890,621
U.S. Treasury and government agency securities	185,338	244,518
State and municipal securities	13,080	14,777
Federal funds sold	8,518	14,480
Interest-bearing deposits	13,235	14,675
Equity securities	5,301	8,014
Total interest and dividend revenue	3,819,293	4,187,085
Interest expense		
Deposits	273,836	403,474
Borrowings	2,820	5,401
Total interest expense	276,656	408,875
Net interest income	3,542,637	3,778,210
Provision for loan losses	192,500	145,400
Net interest income after provision for loan losses	3,350,137	3,632,810
Noninterest revenue		
Service charges on deposit accounts	193,422	215,495
ATM and debit card	157,296	137,259
Increase in cash surrender value of bank owned life insurance	55,894	42,772
Gain (loss) on sale of assets	(6,360)	200
Gain (loss) on sale and revaluation of other real estate owned	108	-
Miscellaneous	70,496	53,226
Total noninterest revenue	470,856	448,952
Noninterest expenses		
Salaries	893,899	874,987
Employee benefits	300,197	362,595
Occupancy	189,015	222,859
Furniture and equipment	121,699	126,811
Data processing	65,884	67,112
ATM and debit card	71,432	46,640
Deposit insurance premiums	48,519	75,954
Other operating	479,867	336,096
Total noninterest expenses	2,170,512	2,113,054
Income before income taxes	1,650,481	1,968,708
Income taxes	593,800	717,500
Net income	$ 1,056,681	$ 1,251,208

Earnings per common share - basic and diluted	$	0.35	$	0.42
Other comprehensive income, net of tax				
Unrealized losses of available for sale investment securities arising during the period, net of taxes of $9,480 and $136,226		(33,134)		(217,190)
Comprehensive income	$	1,023,547	$	1,034,018

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

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

	For the three months ended March 31, 2012	2011
Cash flows from operating activities		
Interest and dividends received	$ 3,914,601	$ 4,295,782
Fees and commissions received	425,608	434,290
Interest paid	(282,835)	(427,015)
Cash paid to suppliers and employees	(1,941,819)	(1,803,524)
Income taxes paid	(555,000)	(51,955)
Net cash from operating activities	1,560,555	2,447,578
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	(25,038)	993,330
Proceeds from maturities of investments available for sale	17,100,000	23,575,000
Purchase of investments available for sale	(16,233,316)	(8,985,881)
Proceeds from maturities of investments held to maturity	19,895,000	65,000
Purchase of investments held to maturity	(12,699,065)	(11,452,495)
Loans made, net of principal reductions	(6,428,047)	(7,949,680)
Proceeds from sale of other real estate and repossessed assets, net	55,986	-
Purchases of premises, equipment, and computer software	(128,091)	(175,437)
Proceeds from sale of real property and equipment	-	200
Purchase of bank owned life insurance	(2,000,000)	-
Net cash from investing activities	(462,571)	(3,929,963)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	911,181	(3,481,121)
Other deposits	(275,589)	3,188,406
Securities sold under agreements to repurchase	1,214,808	82,289
Common shares repurchased	(14,100)	-
Net cash from financing activities	1,836,300	(210,426)
Net increase in cash and cash equivalents	2,934,284	(1,692,811)
Cash and cash equivalents at beginning of period	52,689,223	50,531,537
Cash and cash equivalents at end of period	$ 55,623,507	$ 48,838,726

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

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

	For the three months ended March 31, 2012		2011	
Reconciliation of net income to net cash provided by operating activities				
Net income	$	1,056,681	$	1,251,208
Adjustments to reconcile net income to net cash provided by operating activities				
Provision for loan losses		192,500		145,400
Loss (gain) on sale of other real estate and repossessed assets		(108)		-
Premium amortization and discount accretion		31,472		68,599
Depreciation and amortization		125,273		133,323
Loss (gain) on disposition of premises, equipment and computer software		6,360		-
Decrease (increase) in				
Accrued interest receivable		63,836		40,097
Cash surrender value of bank owned life insurance		(55,895)		(42,773)
Other assets		214,780		311,229
Increase (decrease) in				
Accrued interest payable		(6,179)		(18,140)
Accrued income taxes		106,988		665,545
Other liabilities		(175,153)		(106,910)
Net cash from operating activities	$	1,560,555	$	2,447,578
Composition of cash and cash equivalents				
Cash and due from banks	$	22,859,955	$	17,051,016
Federal funds sold		32,750,638		31,656,196
Interest-bearing deposits, except for time deposits		12,914		131,514
Total cash and cash equivalents	$	55,623,507	$	48,838,726

The accompanying notes are an integral part of these 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 with 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 three months ended March 31, 2012 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2012. 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, 2011.

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:

	2012	2011
Three months ended March 31	2,995,905	3,000,508

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

2. Investment Securities

Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2012				
Available for sale				
U.S. Treasury	$ 45,026,637	$ 1,030,299	$ 16,026	$ 46,040,910
State and municipal	404,311	3,661	4,605	403,367
Equity	1,602,843	552,856	418,193	1,737,506
	$ 47,033,791	$ 1,586,816	$ 438,824	$ 48,181,783
Held to maturity				
U.S. Treasury	$ 38,985,623	$ 184,363	$ 24,526	$ 39,145,460
U.S. Government agency	8,000,000	200	8,800	7,991,400
State and municipal	6,417,005	17,514	2,302	6,432,217
	$ 53,402,628	$ 202,077	$ 35,628	$ 53,569,077
December 31, 2011				
Available for sale				
U.S. Treasury	$ 46,013,913	$ 1,149,257	$ 4,231	$ 47,158,939
State and municipal	289,515	2,890	-	292,405
Equity	1,602,843	557,360	514,672	1,645,531
	$ 47,906,271	$ 1,709,507	$ 518,903	$ 49,096,875
Held to maturity				
U.S. Treasury	$ 44,993,821	$ 246,352	$ 5,402	$ 45,234,771
U.S. Government agency	9,500,004	1,556	16,310	9,485,250
State and municipal	6,130,414	18,079	2,211	6,146,282
	$ 60,624,239	$ 265,987	$ 23,923	$ 60,866,303

Calvin B. Taylor Bankshares, Inc. and Subsidiary
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 March 31, 2012, 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	$ 28,980,130	$ 40,552	$ -	$ -	$ 28,980,130	$ 40,552
U. S. Government Agency	5,991,200	8,800	-	-	5,991,200	8,800
State and municipal	967,781	6,907	-	-	967,781	6,907
Equity securities	494,210	81,787	249,594	336,406	743,804	418,193
	$ 36,433,321	$ 138,046	$ 249,594	$ 336,406	$ 36,682,915	$ 474,452

The debt securities for which an unrealized loss is recorded are issues of the U. S. Treasury, 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 intends 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 of the investments.

The equity securities for which an unrealized loss is recorded are issues of community banks and bank holding companies located in the same general geographic area as the Company. During 2011, the Company recorded expense of $188,994 related to the other than temporary impairment of two equity holdings. 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.

	March 31, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	$ 29,009,812	$ 29,046,110	$ 32,099,999	$ 32,167,588
After one year through five years	14,424,133	14,466,567	12,206,498	12,288,356
After ten years	1,997,003	2,931,600	1,996,931	2,995,400
	$ 45,430,948	$ 46,444,277	$ 46,303,428	$ 47,451,344
Held to maturity				
Within one year	$ 21,100,960	$ 21,180,470	$ 27,304,678	$ 27,382,951
After one year through five years	32,301,668	32,388,607	33,319,561	33,483,352
	$ 53,402,628	$ 53,569,077	$ 60,624,239	$ 60,866,303
Pledged securities	$ 21,361,719	$ 21,480,910	$ 22,739,753	$ 22,905,072

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)

3. Loans and Allowance for Loan Losses

Major classifications of loans are as follows:

	March 31, 2012	December 31, 2011
Real estate mortgages		
Construction, land development, and land	$ 13,489,253	$ 13,162,460
Residential 1 to 4 family, 1st liens	86,312,539	85,772,367
Residential 1 to 4 family, subordinate liens	2,011,288	2,015,355
Commercial properties	116,838,314	113,010,943
Commercial	14,182,421	12,507,978
Consumer	1,708,737	1,737,297
Total loans	234,542,552	228,206,400
Allowance for loan losses	772,866	672,261
Loans, net	$ 233,769,686	$ 227,534,139

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:

	March 31, 2012	December 31, 2011
Loans 90 days or more past due and still accruing		
Real estate mortgages		
Construction, land development, and land	$ 232,085	$ -
Commercial properties	684,422	684,422
Total	916,507	684,422
Nonaccruing loans		
Real estate mortgages		
Construction, land development, and land	608,123	965,708
Residential 1 to 4 family	249,367	-
Total current	857,490	965,708
Real estate mortgages		
Construction, land development, and land	335,891	255,081
Residential 1 to 4 family	666,783	1,214,516
Commercial properties	922,467	932,966
Total past due 30 days or more	1,925,141	2,402,563
Total nonaccruing loans	2,782,631	3,368,271
Total nonperforming loans	3,699,138	4,052,693
Other real estate owned	1,659,260	1,715,138
Total nonperforming assets	$ 5,358,398	$ 5,767,831
Interest not accrued to income on nonaccruing loans	$ 42,201	$ 118,643

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

3. Loans and Allowance for Loan Losses (continued)

No interest income was recognized on a cash-basis on non-accruing loans during the periods presented in the table above. Payments received on non-accruing loans were applied as reductions of principal.

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						
March 31, 2012	Construction and Land	Residential	Commercial	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 160,392	$ 42,064	$ 193,570	$ 197,353	$ 60,487	$ 18,395	$ 672,261
Loans charged off	(45,081)	(58,526)	-	(363)	(5,118)	-	(109,088)
Recoveries	-	15,000	-	-	2,193	-	17,193
Provision charged to operations	82,500	115,000	858	(20,000)	(12,500)	26,642	192,500
Ending balance	$ 197,811	$ 113,538	$ 194,428	$ 176,990	$ 45,062	$ 45,037	$ 772,866
Individually evaluated for impairment:							
Balance in allowance	$ -	$ -	$ -	$ -	$ -		$ -
Related loan balance	$ 944,538	$ 915,627	$ 1,606,888	$ -	$ -		$ 3,467,053
Collectively evaluated for impairment:							
Balance in allowance	$ 197,811	$ 113,538	$ 194,428	$ 176,990	$ 45,062	$ 45,037	$ 772,866
Related loan balance	$ 12,544,715	$ 87,408,200	$ 115,231,426	$ 14,182,421	$ 1,708,737		$ 231,075,499
December 31, 2011							
Beginning balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Loans charged off	(227,197)	(353,238)	(865,683)	(18,492)	(19,650)	-	(1,484,260)
Recoveries	39,072	300	-	410	6,261	-	46,043
Provision charged to operations	113,080	344,400	702,260	20,489	(45,352)	(7,577)	1,127,300
Ending balance	$ 160,392	$ 42,064	$ 193,570	$ 197,353	$ 60,487	$ 18,395	$ 672,261
Individually evaluated for impairment:							
Balance in allowance	$ -	$ -	$ -	$ -	$ -		$ -
Related loan balance	$ 1,220,789	$ 1,188,260	$ 1,617,388	$ -	$ -		$ 4,026,437
Collectively evaluated for impairment:							

Balance in allowance	$ 160,392	$ 42,064	$ 193,570	$ 197,353	$ 60,487	$ 18,395	$ 672,261
Related loan balance	$ 11,941,671	$ 86,599,462	$ 111,393,555	$ 12,507,978	$ 1,737,297		$ 224,179,963
March 31, 2011							
Beginning balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Loans charged off	-	-	-	(2,945)	(7,193)	-	(10,138)
Recoveries	-	150	-	284	1,418	-	1,852
Provision charged to operations	35,000	-	117,500	44,899	(41,353)	(10,646)	145,400
Ending balance	$ 270,437	$ 50,752	$ 474,493	$ 237,184	$ 72,100	$ 15,326	$ 1,120,292
Individually evaluated for impairment:							
Balance in allowance	$ 110,509	$ -	$ 350,000	$ -	$ -		$ 460,509
Related loan balance	$ 1,525,626	$ 823,350	$ 2,569,507	$ -	$ -		$ 4,918,483
Collectively evaluated for impairment:							
Balance in allowance	$ 159,928	$ 50,752	$ 124,493	$ 237,184	$ 72,100	$ 15,326	$ 659,783
Related loan balance	$ 17,929,910	$ 91,435,551	$ 114,625,008	$ 15,457,291	$ 1,559,548		$ 241,007,308

Calvin B. Taylor Bankshares, Inc. and Subsidiary
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.

Allowance for Loan Losses

	For three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
Net loans charged off	$ 91,895	$ 8,286	$ 1,438,217
Balance at end of period	$ 772,866	$ 1,120,292	$ 672,261
Gross loans outstanding at the end of the period	$ 234,542,552	$ 245,925,791	$ 228,206,400
Allowance for loan losses to gross loans outstanding at the end of the period	0.33%	0.46%	0.29%
Average gross loans outstanding during the period	$ 230,408,444	$ 240,422,747	$ 237,757,026
Annualized net charge-offs as a percentage of average gross loans outstanding during the period	0.16%	0.01%	0.60%

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

March 31, 2012	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due Or Greater	Total Past Due	Current	Total Loans	> 90 Days Past Due and Accruing
Real Estate							
Construction, land development, and land	$ 336,415	$ -	$ 232,085	$ 568,500	$ 12,920,753	$ 13,489,253	$ 232,085
Residential 1 to 4 family, 1st lien	1,488,879	438,227	666,260	2,593,366	83,719,173	86,312,539	-
Residential 1 to 4 family, subordinate	-	9,359	-	9,359	2,001,929	2,011,288	-
Commercial properties	-	618,608	1,606,888	2,225,496	114,612,818	116,838,314	684,422
Commercial	109,655	-	-	109,655	14,072,766	14,182,421	-
Consumer	2,103	22,265	-	24,368	1,684,369	1,708,737	-
Total	$ 1,937,052	$ 1,088,459	$ 2,505,233	$ 5,530,744	$ 229,011,808	$ 234,542,552	$ 916,507

December 31, 2011							
Real Estate							
Construction, land development, and land	$ -	$ 232,655	$ 255,081	$ 487,736	$ 12,674,724	$ 13,162,460	$ -
Residential 1 to 4 family, 1st lien	177,908	827,281	968,570	1,973,759	83,798,608	85,772,367	-
Residential 1 to 4 family, subordinate	-	-	-	-	2,015,355	2,015,355	
Commercial properties	627,117	32,953	1,617,388	2,277,458	110,733,485	113,010,943	684,422
Commercial	-	-	-	-	12,507,978	12,507,978	-
Consumer	-	2,302	-	2,302	1,734,995	1,737,297	-
Total	$ 805,025	$ 1,095,191	$ 2,841,039	$ 4,741,255	$ 223,465,145	$ 228,206,400	$ 684,422

Calvin B. Taylor Bankshares, Inc. and Subsidiary
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:

March 31, 2012	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
With no related allowance recorded				
Construction, land development, and land	$ 944,538	$ -	$ 958,313	$ -
Residential 1 to 4 family, 1st liens	915,627	-	928,971	-
Commercial properties	1,606,888	-	1,612,138	13,224
Total, all categories	$ 3,467,053	$ -	$ 3,499,421	$ 13,224
December 31, 2011				
With no related allowance recorded				
Construction, land development, and land	$ 1,220,789	$ -	$ 1,322,323	$ -
Residential 1 to 4 family, 1st liens	1,214,516	-	1,329,911	-
Commercial properties	1,617,388	-	2,072,269	44,469
Total, all categories	$ 4,052,693	$ -	$ 4,724,503	$ 44,469

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

3. 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.

	March 31, 2012	December 31, 2011
Real Estate Credit Risk Profile by Internally Assigned Grade		
Construction, land development, and land		
Pass	$ 12,544,715	$ 11,941,671
Doubtful		
Nonperforming: 90 days or more past due and/or non-accruing	944,538	1,220,789
Total	$ 13,489,253	$ 13,162,460
Residential 1 to 4 family		
Pass	$ 84,302,698	$ 83,934,669
Substandard	3,105,503	2,638,537
Doubtful		
Less than 90 days past due	249,366	-
Nonperforming: 90 days or more past due and/or non-accruing	666,260	1,214,516
Total	$ 88,323,827	$ 87,787,722
Commercial properties		
Pass	$ 109,149,505	$ 106,062,119
Substandard	6,081,920	5,331,436
Doubtful		
Nonperforming: 90 days or more past due and/or non-accruing	1,606,889	1,617,388
Total	$ 116,838,314	$ 113,010,943
Commercial Credit Risk Profile by Internally Assigned Grade		
Pass	$ 14,182,421	$ 12,507,978
Total	$ 14,182,421	$ 12,507,978
Consumer Credit Risk Profile by Internally Assigned Grade		
Special Mention	$ 2,463	$ -
Pass	1,706,274	1,737,297
Total	$ 1,708,737	$ 1,737,297

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

3. Loans and Allowance for Loan Losses (continued)

The modification or "restructuring" of terms on a loan is considered a "troubled debt" restructuring if it is done to accommodate a borrower who is experiencing financial difficulties. The lender may forgive principal, lower the interest rate or payment amount, or may modify the payment due dates or maturity date of a loan for a troubled borrower.

At the time of restructuring, the Company may reduce the outstanding principal balance of a loan by recording a loss through the allowance for loan losses. There were no losses recorded as part of a restructure in the three months ended March 31, 2012 or the year ended December 31, 2011. Some troubled debt restructurings have resulted in losses due to payment default or principal reductions recorded as losses through the allowance for loan losses subsequent to restructuring. Other restructured loans have been collected with no loss of principal or have been returned to their original contractual terms.

The following table details information about troubled debt restructurings during the periods presented.

	At the time of restructuring			Subsequent to restructuring		
March 31, 2012	Number of contracts	Balance prior to restructuring	Balance after restructuring	Number of defaults	Defaults on restructures	Other principal reductions
Real Estate						
Residential 1-4 family, 1st liens	1	$ 337,727	$ 337,727	0	$ -	$ -
Commercial properties	1	604,997	604,997	0	-	-
Total	2	$ 942,724	$ 942,724	0	$ -	$ -
December 31, 2011						
Real Estate						
Residential 1-4 family, 1st liens	4	$ 1,554,683	$ 1,554,683	0	$ -	$ -
Commercial properties	1	517,998	517,998	0	-	-
Total	5	$ 2,072,681	$ 2,072,681	0	$ -	$ -

Troubled debt restructurings with outstanding principal balances as of March 31, 2012 were as follows:

	Number of contracts	Current balance	Paying as agreed under modified terms	Past due 30 days or more or non-accruing
Real Estate				
Construction, land development, and land	1	$ 336,415	$ -	$ 336,415
Residential 1 to 4 family	15	$ 3,393,879	1,927,254	1,466,625
Commercial properties	9	$ 6,246,907	4,737,174	1,509,733
Total	25	$ 9,977,201	$ 6,664,428	$ 3,312,773

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

4. 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:

	March 31, 2012	December 31, 2011
Loan commitments and lines of credit		
Construction and land development	$ 2,486,000	$ 1,999,670
Other	17,392,039	22,346,026
	$ 19,878,039	$ 24,345,696
Standby letters of credit	$ 1,492,487	$ 1,486,677

5. Assets Measured at Fair Value on a Recurring Basis

The Company values investment securities classified as available for sale on a recurring basis. The fair value hierarchy established in the Financial Accounting Standards Board accounting standards codification topic 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 and equity investments in community banks are valued under Level 2. The Company has no assets measured at fair value on a recurring basis that are valued under Level 3 criteria. At March 31, 2012, values for available for sale investment securities measured at fair value on a recurring basis were established as follows:

	Total	Level 1 Inputs	Level 2 Inputs
Measured on a recurring basis			
Investment securities available for sale	$ 48,181,783	$ 46,440,078	$ 1,741,705

The Company values impaired loans and other real estate acquired through foreclosure at fair value on a non-recurring basis under Level 2. The Company has no assets measured at fair value on a non-recurring basis that are valued under Level 1 or Level 3 criteria. At March 31, 2012, values for impaired loans and other real estate owned measured at fair value on a non-recurring basis were established as follows:

	Total	Level 1 Inputs	Level 2 Inputs
Measured on a non-recurring basis			
Impaired loans	$ 3,467,053	$ -	$ 3,467,053
Other real estate owned	1,659,260	-	1,659,260
	$ 5,126,313	$ -	$ 5,126,313

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)

6. New accounting standards

The following accounting pronouncements have been approved by the Financial Accounting Standards Board but had not become effective as of March 31, 2012. These pronouncements would apply to the Company if the Company or the Bank entered into an applicable activity.

ASU No. 2011-11, "*Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities,*" amends Balance Sheet (Topic 210), to require an entity to disclose both gross and net information about both financial instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The financial instruments and transactions would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and lending arrangements. ASU 2011-11 is effective for annual and interim periods beginning on January 1, 2013, and is not expected to have a significant impact on the Company's financial statements.

ASU No. 2011-05, "*Comprehensive Income (Topic 220) - Presentation of Comprehensive Income.*" ASU 2011-05 amends Topic 220, "*Comprehensive Income,*" to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments. An entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "*Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,*" as further discussed below. ASU 2011-05 was adopted early by the Company and applied to the financial statements for the period ended December 31, 2011.

ASU No. 2011-12 "*Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05*." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to further deliberate whether to require presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12.

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 1. 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 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 90 full time equivalent employees as of March 31, 2012. 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 $2.7 million (0.64%) from December 31, 2011 to March 31, 2012. Combined deposits and customer repurchase agreements increased $1.9 million (0.54%) during the same period. Much of the deposit and asset growth from the previous year-end to the end of the first quarter stems from continuing market instability as a prolonged general economic recession is followed by a sluggish recovery. 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.

Average assets and average deposits increased $8.9 million and $7.3 million, respectively, from first quarter 2011 to first quarter 2012.

Loan Portfolio

From December 31, 2011 to March 31, 2012 the gross loan portfolio has grown $6.3 million (2.77%). Growth in the loan portfolio has been funded by reductions in the investment portfolio. Because loans earn at higher average rates than investments, this shift has a positive effect on earnings. There is no adverse impact on the Company's ability to meet liquidity demands resulting from recent 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.

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 five years, applied to the current portfolio. This formulation gives weight to portfolio size and loss experience for categories of real-estate secured loans (i.e. real estate – construction and real estate – mortgage), 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. Since the beginning of the current adverse economic conditions in late 2007, the Company has experienced historically high loan losses and provisions for loan losses. Management expects additional loan losses in 2012.

Management also 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 late 2007, the Bank's greatest likelihood of loss is 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 March 31, 2012, management reserved 135 bp against unsecured loans, and consumer loans secured by other than real estate. The reserve has been increased 10 bp since March 31, 2011 due to the continued uncertainty of regional, national, and global economic recovery. Additionally, management reserved 10% against overdrawn checking accounts which are a distinct high risk category of unsecured loan.

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 foreclosed on mortgages during 2009, 2010, and 2011 and expects additional foreclosures in 2012. 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, the provision for loss on likely loan foreclosures is considered 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 March 31, 2012, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

In determining an adequate level for the specific reserve portion of the ALLL, management reviews the current portfolio giving particular consideration to problem loans. The allowance may include reserves for specific loans identified as impaired during management's loan review or the Company's independent loan review or internal audit functions. For significant problem loans, management's review consists of evaluation of the current financial strengths of the borrowers and guarantors, the related collateral, and the effects of economic conditions. Management prepares a Watch List of troubled loans for review by the Board of Directors at their monthly meeting.

The provision for loan losses is a decrease or increase to earnings in the current period to bring the allowance to a level established by application of management's allowance methodology. The allowance is also increased by recoveries of amounts previously charged-off and decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. A provision of $192,500 was made in the first quarter of 2012 while a provision of $145,400 was made in the comparable period in 2011. The level of the ALLL increased by $100,605 during the 1st quarter primarily due to an increase in the mortgage loan portfolio and the historical loss experience applied to that portfolio. As the recession continues and borrowers' suffer personal and professional financial hardship, the likelihood of loss on previously performing loans remains high. As Management identifies loans with heightened loss potential, a provision for those losses is recorded.

Management considers the March 31, 2012 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. As of March 31, 2012, management has identified a loan of approximately $2,500 which is anticipated to be fully charged-off within the next 12 months. 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.

The Bank experienced net charge-offs of $91,895 and $8,286 in the first quarters of 2012 and 2011, respectively. The higher net charge-offs are a result of short sales and restructurings completed during the quarter. Management expects loan losses to continue throughout 2012 similar to levels experienced in 2011. 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 (including accrued interest) 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 other real estate owned, which is real estate acquired in foreclosure and held for sale. Nonperforming assets decreased $409,433 (7.1%) from December 31, 2011 to March 31, 2012 as a result of short sales completed in the quarter. 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. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, although management may categorize a performing loan as impaired based on knowledge of the borrower's financial condition, devaluation of collateral, or other circumstances that are deemed relevant to loan collection. 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. If, after applying one of these methods, management believes that the Bank will not take a loss on a specific loan, that loan is grouped with other homogeneous loans for evaluation under formula-based criteria described previously. Impaired loans including nonaccruing loans totaled $3,467,053 and $4,052,693 at March 31, 2012, and December 31, 2011, 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. This trend is not evident in the first quarter of 2012 as current deposits levels are comparable with deposits as of December 31, 2011. The Bank has experienced a decrease in investment securities during the first quarter as funds were needed to support loan portfolio growth. Management expects that beginning late in the second quarter and throughout the third quarter, liquidity levels will rise 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 49.26% for the first quarter of 2012 compared to 45.26% for the same quarter of 2011.

The Company has available lines of credit, including overnight federal funds and reverse repurchase agreements, totaling $28,000,000 as of March 31, 2012.

Average net loans to average deposits were 69.34% versus 73.89% as of March 31, 2012 and 2011, respectively. Average net loans decreased by 4.04% while average deposits grew by 2.26%. Deposit increases were generally reinvested in overnight federal funds sold and investment securities. Average deposit balance increases occurred in all categories of deposits except time deposits. When market interest rates are very low, as they have been since late 2008, investors may prefer to remain more liquid by moving funds into NOW or money market accounts. This allows them to be able to act on an opportunity for higher earnings without waiting for a time deposit to mature. Resulting changes in deposit portfolio composition do not have 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 desired maturity distributions and repricing opportunities. 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 deposit product pricing and offerings.

As of March 31, 2012, 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 three months ended March 31, 2012, was $1,056,681 or $0.35 per share, compared to $1,251,208 or $0.42 per share for the first quarter of 2011. This represents a decrease of $194,527 or 15.55% from the prior year. The key components of net income are discussed in the following paragraphs.

For the first quarter of 2012 compared to 2011, net interest income decreased $235,573 (6.24%). While balances of interest-bearing assets and liabilities increased, lower yields caused overall reductions in both interest revenues and expense. Although average total interest-earning assets increased $2.9 million (0.77%), decreased rates offset revenue increases attributable to volume. Average interest-bearing liabilities increased $2.1 million (0.84%) while experiencing lower related expense, again due to rate reductions.

The tax-equivalent quarterly yield on interest-earning assets decreased by 46 basis points from 4.62% for first quarter 2011 to 4.16% in 2012. The quarterly yield on interest-bearing liabilities decreased by 22 basis points from 0.65% in 2011 to 0.43% in 2012. In combination, these shifts contribute to a decrease in net margin on interest-earning assets of 32 basis points.

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 or repricing within that period were fully adjusted for the rate change, the Company would experience a decrease of approximately 4.8% in net interest income. Conversely, if prime were to increase one hundred basis points, and all assets and liabilities maturing or repricing 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 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 March 31, 2012			For the quarter ended March 31, 2011		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$ 35,168,307	$ 8,518	0.10%	$ 33,530,469	$ 14,480	0.18%
Interest-bearing deposits	10,563,682	13,235	0.50%	10,941,834	14,675	0.54%
Investment securities	100,149,832	224,119	0.90%	88,884,897	289,164	1.32%
Loans, net of allowance	229,711,615	3,635,241	6.36%	239,372,627	3,930,946	6.66%
Total interest-earning assets	375,593,436	3,881,113	4.16%	372,729,827	4,249,265	4.62%
Noninterest-bearing cash	19,552,083			15,298,687		
Other assets	16,592,674			14,810,421		
Total assets	$ 411,738,193			$ 402,838,935		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$ 60,323,780	31,434	0.21%	$ 59,716,925	51,333	0.35%
Money market	50,571,367	45,945	0.37%	44,655,962	54,071	0.49%
Savings	51,582,444	30,633	0.24%	47,721,463	40,663	0.35%
Other time	89,444,016	165,824	0.75%	97,753,213	257,407	1.07%
Total interest-bearing deposits	251,921,607	273,836	0.44%	249,847,563	403,474	0.65%
Securities sold under agreements to repurchase & federal funds purchased	4,529,077	2,820	0.25%	4,472,621	5,401	0.49%
Total interest-bearing liabilities	256,450,684	276,656	0.43%	254,320,184	408,875	0.65%
Noninterest-bearing deposits	79,369,574			74,127,013		
	335,820,258	276,656	0.33%	328,447,197	408,875	0.50%
Other liabilities	162,104			346,740		
Stockholders' equity	75,755,831			74,044,998		
Total liabilities and stockholders' equity	$ 411,738,193			$ 402,838,935		
Net interest spread			3.73%			3.97%
Net interest income		$ 3,604,457			$ 3,840,390	
Net margin on interest-earning assets			3.86%			4.18%
Tax equivalent adjustment in:						
Investment income		$ 20,400			$ 21,855	
Loan income		$ 41,420			$ 40,325	

Provisions for loan losses of $192,500 and $145,400 were recorded during the three months ended March 31, 2012 and 2011, respectively. Net loans charged-off were $91,895 and $8,286 during the first quarters of 2012 and 2011, respectively. Management expects additional losses to occur during 2012, and those losses may be significant. Provisions for anticipated losses are included in the ALLL. The increase in loan losses from first quarter 2011 to 2012 is a result of short sales and a restructuring completed during the quarter. See Loan Quality and the Allowance for Loan Losses for a discussion of the provision for loan losses.

Noninterest revenue for the first quarter of 2012 is $21,904 (4.9%) higher than the comparable period last year due primarily to the incremental income from an additional investment made in bank owned life insurance and increased debit card fees from higher customer usage. These increases were partially offset by a decrease in service charge revenue of $22,073 (10.2%) which is substantially due to declining fees resulting from lower volume of items presented against insufficient funds.

Noninterest expense for the first quarter of 2012 is $57,458 (2.7%) higher than the previous year. Decreases in employee benefits, occupancy costs, and deposit insurance premiums were offset by an increase of $143,711 (42.8%) in other operating expenses. Increases in other operating costs are attributable to higher professional fees associated with loan collection efforts and service contract termination fees.

The decrease in income taxes for the quarter ended March 31, 2012 is proportionate to the decline in income before income taxes. The Company's effective tax rate is approximately 36.0%.

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. 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 (CDARS).

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 ATMs, debit cards, safe deposit boxes, 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's commercial customers can subscribe to a remote capture service that enables them to electronically capture check images and make on-line deposits. The Bank also offers non-deposit investment products including retail repurchase agreements.

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Capital Resources and Adequacy

Total stockholders’ equity increased $1,009,447 (1.3%) from December 31, 2011 to March 31, 2012. This increase is attributable to comprehensive income of $1,023,547 for the 3 months ended March 31, 2012 less stock repurchases of $14,100 recorded during the same period.

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 common stockholders' equity – common stock, additional paid-in capital, and retained earnings. In addition, the Company and the Bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to average 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 March 31, 2012 and December 31, 2011 were 34.2% and 35.0%, 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 March 31, 2012, the Company’s interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 20.3%, 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 or 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 March 31, 2012. 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 March 31, 2012, 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, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table presents information about the Company's repurchase of its equity securities during the calendar quarter ended on the date of this report.

Period	(a) Total Number of Shares	(b) Average Price Paid per Share	(c) Total number of Shares Purchased as Part of a Publicly Announced Program	(d) Maximum number of Shares that may yet be Purchased Under the Program
January	600	23.50	600	295,265
February	-	-	-	295,265
March	-	-	-	295,265
Totals	600	23.50	600	

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 and again on February 9, 2011, as part of its capital planning, the Board of Directors voted to suspend the stock buy-back program. On September 14, 2011, the Board reinstated this program and the Company publicly announced that it would repurchase up to 10% of its outstanding equity at that time (300,050 shares).

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 March 31, 2012, 244,277 shares were retired under this program with 600 of those shares being retired during the quarter ended March 31, 2012. As of March 31, 2012, 295,265 shares are available to repurchase under the reinstated program announced on September 14, 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.

	2012		2011	
Sales price per share	High	Low	High	Low
First quarter	$ 24.50	$ 22.35	$ 34.00	$ 26.50
Second quarter			$ 28.50	$ 26.00
Third quarter			$ 32.00	$ 21.00
Fourth quarter			$ 25.50	$ 22.10

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

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

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: April 30, 2012

By: /s/ Raymond M. Thompson
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 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: April 30, 2012

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

Exhibit 31.2Exhibit 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 March 31, 2012, 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: April 30, 2012

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: April 30, 2012

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

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