

TAYLOR CALVIN B BANKSHARES INC  
Form 10-Q  
August 03, 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 June 30, 2012  
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation)

52-1948274

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

24 North Main Street, Berlin, Maryland 21811

(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 July 31, 2012, 2,986,043 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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Part I - Financial Information, Item 1 Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Balance Sheets

	(unaudited) June 30, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 23,299,860	\$ 22,135,410
Federal funds sold	35,580,082	30,541,229
Interest-bearing deposits	13,580,301	10,548,467
Investment securities available for sale	45,232,754	49,096,875
Investment securities held to maturity (approximate fair value of \$66,055,779 and \$60,866,303)	65,898,173	60,624,239
Loans, less allowance for loan losses of \$763,308 and \$672,261	236,057,048	227,534,139
Premises and equipment	6,099,524	6,124,349
Other real estate owned	1,659,260	1,715,138
Accrued interest receivable	1,305,170	1,173,678
Computer software	145,130	143,383
Bank owned life insurance	7,557,520	5,436,395
Prepaid Expenses	795,253	1,031,426
Other assets	204,326	123,436
<b>Total assets</b>	<b>\$ 437,414,401</b>	<b>\$ 416,228,164</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 94,624,037	\$ 83,136,325
Interest-bearing	259,215,770	252,920,179
<b>Total deposits</b>	<b>353,839,807</b>	<b>336,056,504</b>
Securities sold under agreements to repurchase	5,232,830	3,998,168
Accrued interest payable	72,772	90,079
Deferred income taxes	286,613	223,583
Other liabilities	33,847	136,371
<b>Total Liabilities</b>	<b>359,465,869</b>	<b>340,504,705</b>
<b>Stockholders' equity</b>		
Common stock, par value \$1 per share authorized 10,000,000 shares, issued and outstanding 2,991,543 shares at June 30, 2012, and 2,996,323 shares at December 31, 2011	2,991,543	2,996,323
Additional paid-in capital	8,531,670	8,640,433
Retained earnings	65,621,953	63,301,231
<b>Total tier 1 capital</b>	<b>77,145,166</b>	<b>74,937,987</b>
Accumulated other comprehensive income	803,366	785,472
<b>Total stockholders' equity</b>	<b>77,948,532</b>	<b>75,723,459</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 437,414,401</b>	<b>\$ 416,228,164</b>

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

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

	For the three months ended	
	June 30	
	2012	2011
Interest and dividend revenue		
Loans, including fees	\$ 3,648,304	\$ 3,946,500
U.S. Treasury and government agency securities	175,017	248,240
State and municipal securities	12,172	14,510
Federal funds sold	9,689	9,980
Interest-bearing deposits	13,239	14,589
Equity securities	8,203	8,813
Total interest and dividend revenue	3,866,624	4,242,632
Interest expense		
Deposits	239,839	363,530
Borrowings	3,054	5,160
Total interest expense	242,893	368,690
Net interest income	3,623,731	3,873,942
Provision for loan losses	105,000	803,500
Net interest income after provision for loan losses	3,518,731	3,070,442
Noninterest revenue		
Service charges on deposit accounts	200,122	235,866
ATM and debit card	172,594	156,753
Increase in cash surrender value of bank owned life insurance	65,230	43,677
Gain (loss) on disposition of assets	(6,223)	50
Loss on other than temporary impairment of investment value	-	(178,325)
Miscellaneous	98,745	90,511
Total noninterest revenue	530,468	348,532
Noninterest expenses		
Salaries	901,051	873,440
Employee benefits	298,421	253,060
Occupancy	173,280	190,373
Furniture and equipment	107,908	113,272
Data processing	67,466	60,302
ATM and debit card	69,548	42,521
Deposit insurance premiums	48,111	73,660
Other operating	412,173	423,534
Total noninterest expenses	2,077,958	2,030,162
Income before income taxes	1,971,241	1,388,812
Income taxes	707,200	473,750

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Net income	\$	1,264,041	\$	915,062
Earnings per common share - basic and diluted	\$	0.42	\$	0.30
Other comprehensive income, net of tax				
Unrealized gains (losses) of available for sale investment securities arising during the period, net of taxes of \$22,367 and \$86,409				
		51,027		200,377
Comprehensive income	\$	1,315,068	\$	1,115,439

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

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

	For the six months ended	
	June 30	
	2012	2011
Interest and dividend revenue		
Loans, including fees	\$ 7,242,125	\$ 7,837,121
U.S. Treasury and government agency securities	360,355	492,758
State and municipal securities	25,252	29,287
Federal funds sold	18,207	24,460
Interest-bearing deposits	26,474	29,264
Equity securities	13,504	16,827
Total interest and dividend revenue	7,685,917	8,429,717
Interest expense		
Deposits	513,675	767,004
Borrowings	5,874	10,561
Total interest expense	519,549	777,565
Net interest income	7,166,368	7,652,152
Provision for loan losses	297,500	948,900
Net interest income after provision for loan losses	6,868,868	6,703,252
Noninterest revenue		
Service charges on deposit accounts	393,544	451,361
ATM and debit card	329,890	294,012
Increase in cash surrender value of bank owned life insurance	121,124	86,449
Gain (loss) on disposition of assets	(12,475)	250
Loss on other than temporary impairment of investment value	-	(178,325)
Miscellaneous	169,241	143,737
Total noninterest revenue	1,001,324	797,484
Noninterest expenses		
Salaries	1,794,950	1,748,427
Employee benefits	598,618	615,655
Occupancy	362,295	413,232
Furniture and equipment	229,607	240,083
Data processing	133,350	127,414
ATM and debit card	140,980	89,161
Deposit insurance premiums	96,630	149,614
Other operating	892,040	759,630
Total noninterest expenses	4,248,470	4,143,216
Income before income taxes	3,621,722	3,357,520
Income taxes	1,301,000	1,191,250



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Net income	\$	2,320,722	\$	2,166,270
Earnings per common share - basic and diluted	\$	0.77	\$	0.72
Other comprehensive income, net of tax				
Unrealized gains (losses) of available for sale investment securities arising during the period, net of taxes of \$12,887 and \$49,817		17,894		(16,813)
Comprehensive income	\$	2,338,616	\$	2,149,457

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

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

	For the six months ended	
	June 30,	
	2012	2011
Cash flows from operating activities		
Interest and dividends received	\$ 7,615,508	\$ 8,404,824
Fees and commissions received	745,124	1,085,005
Interest paid	(537,023)	(811,695)
Cash paid to suppliers and employees	(3,861,841)	(3,830,228)
Income taxes paid	(1,186,396)	(1,651,955)
Net cash from operating activities	2,775,372	3,195,951
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	(3,031,180)	1,990,820
Proceeds from maturities of investments available for sale	32,100,000	28,075,000
Purchase of investments available for sale	(28,216,980)	(15,082,996)
Proceeds from maturities of investments held to maturity	22,895,000	7,315,000
Purchase of investments held to maturity	(28,222,158)	(18,591,635)
Loans made, net of principal reductions	(8,820,409)	(3,617,610)
Proceeds from sale of other real estate and repossessed assets, net	55,985	-
Purchases of premises, equipment, and computer software	(236,094)	(260,425)
Proceeds from sale of real property and equipment	-	250
Purchase of bank owned life insurance	(2,000,000)	-
Net cash from investing activities	(15,475,836)	(171,596)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(467,707)	(6,520,844)
Other deposits	18,251,009	12,850,730
Securities sold under agreements to repurchase	1,234,662	535,491
Common shares repurchased	(113,543)	-
Net cash from financing activities	18,904,421	6,865,377
Net increase in cash and cash equivalents	6,203,957	9,889,732
Cash and cash equivalents at beginning of period	52,689,223	50,531,537
Cash and cash equivalents at end of period	\$ 58,893,180	\$ 60,421,269



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

	For the six months ended	
	June 30,	
	2012	2011
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 2,320,722	\$ 2,166,270
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	297,500	948,900
Loss (gain) on sale of other real estate and repossessed assets	(108)	-
Loss from other than temporary impairment of investment value	-	178,325
Premium amortization and discount accretion	61,082	128,723
Depreciation and amortization	250,615	267,296
Loss on disposition of investment securities	4,026	-
Loss (gain) on disposition of fixed assets	8,557	(250)
Decrease (increase) in		
Accrued interest receivable	(131,492)	(153,616)
Cash surrender value of bank owned life insurance	(121,124)	(86,449)
Other assets	90,821	349,542
Increase (decrease) in		
Accrued interest payable	(17,307)	(34,129)
Accrued and deferred income taxes	114,604	(460,705)
Other liabilities	(102,524)	(107,956)
Net cash from operating activities	\$ 2,775,372	\$ 3,195,951
Composition of cash and cash equivalents		
Cash and due from banks	\$ 23,299,860	\$ 19,070,231
Federal funds sold	35,580,082	41,299,150
Interest-bearing deposits, except for time deposits	13,238	51,888
Total cash and cash equivalents	\$ 58,893,180	\$ 60,421,269

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

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements conform with accounting principles generally accepted in the United States of America and to the instructions to Form 10-Q. Interim financial statements do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations for these interim periods have been made. These adjustments are of a normal recurring nature. Results of operations for the six months ended June 30, 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 June 30		2,993,971	3,000,508
Six months ended June 30		2,994,938	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
June 30, 2012				
Available for sale				
U.S. Treasury	\$ 42,009,625	\$ 1,139,879	\$ 6,615	\$ 43,142,889
State and municipal	402,925	4,131	3,170	403,886
Equity	1,598,817	552,888	465,726	1,685,979
	\$ 44,011,367	\$ 1,696,898	\$ 475,511	\$ 45,232,754
Held to maturity				
U.S. Treasury	\$ 52,979,905	\$ 154,744	\$ 7,088	\$ 53,127,561
U.S. Government agency	7,000,000	1,400	1,700	6,999,700
State and municipal	5,918,268	11,737	1,487	5,928,518
	\$ 65,898,173	\$ 167,881	\$ 10,275	\$ 66,055,779
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 June 30, 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	\$ 30,968,800	\$ 13,703	\$ -	\$ -	\$ 30,968,800	\$ 13,703
U. S. Government Agency	1,998,300	1,700	-	-	1,998,300	1,700
State and municipal	1,381,391	4,657	-	-	1,381,391	4,657
Equity securities	349,214	54,786	347,057	410,940	696,271	465,726
Total	\$ 34,697,705	\$ 74,846	\$ 347,057	\$ 410,940	\$ 35,044,762	\$ 485,786

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

In the second quarter of 2011, the Company recorded expense of \$178,325 related to the other than temporary impairment (OTTI) of value of two equity investments. In the current quarter, one of the two equity investments ceased business operations and as a result the remaining carrying value of \$4,026 was recorded as a loss. The OTTI related to the failed investment was \$110,994, recorded in the second and third quarters of 2011. OTTI of \$78,000 remains, associated with another equity holding.

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, 2012		December 31, 2011	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	\$ 23,004,906	\$ 23,014,789	\$ 32,099,999	\$ 32,167,588
After one year through five years	17,410,569	17,462,386	12,206,498	12,288,356
After ten years	1,997,075	3,069,600	1,996,931	2,995,400
	\$ 42,412,550	\$ 43,546,775	\$ 46,303,428	\$ 47,451,344

Held to maturity



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Within one year	\$	29,229,182	\$	29,276,201	\$	27,304,678	\$	27,382,951
After one year								
through five years		36,668,991		36,779,578		33,319,561		33,483,352
	\$	65,898,173	\$	66,055,779	\$	60,624,239	\$	60,866,303
Pledged securities	\$	20,591,268	\$	20,696,491	\$	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:

	June 30, 2012	December 31, 2011
Real estate mortgages		
Construction, land development, and land	\$ 14,258,481	\$ 13,162,460
Residential 1 to 4 family, 1st liens	82,783,813	85,772,367
Residential 1 to 4 family, subordinate liens	1,983,536	2,015,355
Commercial properties	121,756,428	113,010,943
Commercial	14,308,510	12,507,978
Consumer	1,729,588	1,737,297
Total Loans	236,820,356	228,206,400
Allowance for loan losses	763,308	672,261
Loans, net	\$ 236,057,048	\$ 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. The following table details the composition of nonperforming assets:

	June 30, 2012	December 31, 2011
Loans 90 days or more past due and still accruing		
Real estate mortgages		
Construction, land development, and land	\$ 233,411	\$ -
Commercial properties	684,422	684,422
Total	917,833	684,422
Nonaccruing loans		
Real estate mortgages		
Construction, land development, and land	588,954	965,708
Residential 1 to 4 family, 1st liens	246,127	-
Total current	835,081	965,708
Real estate mortgages		
Construction, land development, and land	333,414	255,081
Residential 1 to 4 family, 1st liens	614,138	1,214,516
Commercial properties	911,967	932,966
Total past due 30 days or more	1,859,519	2,402,563
Total nonaccruing loans	2,694,600	3,368,271
Total nonperforming loans	3,612,433	4,052,693
Other real estate owned	1,659,260	1,715,138
Total nonperforming assets	\$ 5,271,693	\$ 5,767,831

Interest income not recognized on nonaccruing loans was \$91,386 for the six months ended June 30, 2012 and \$118,643 for the 12 months ended December 31, 2011.

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Calvin B. Taylor Bankshares, Inc. and Subsidiary  
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.

	Real estate mortgages							
June 30, 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)	(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	\$ 860,264	\$ 1,596,388	\$ -	\$ -	\$ -	\$ 3,379,021	
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	\$ 83,907,085	\$ 120,160,040	\$ 14,308,510	\$ 1,729,588	\$ -	\$ 233,441,335	
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

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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
June 30, 2011														
Beginning balance	\$	235,437	\$	50,602	\$	356,993	\$	194,946	\$	119,228	\$	25,972	\$	983,178
Loans charged off	(11,553)	-	-	-	(2,946)	(9,105)	-	-	-	-	-	-	(23,604)	
Recoveries	39,072	300	-	-	400	2,588	-	-	-	-	-	-	42,360	
Provision charged to operations	197,989	254,000	500,000	53,729	(58,872)	2,054							948,900	
Ending balance	\$	460,945	\$	304,902	\$	856,993	\$	246,129	\$	53,839	\$	28,026	\$	1,950,834
Individually evaluated for impairment:														
Balance in allowance	\$	193,672	\$	234,000	\$	850,000	\$	-	\$	-	\$		\$	1,277,672
Related loan balance	\$	1,421,290	\$	786,510	\$	2,549,520	\$	-	\$	-	\$		\$	4,757,320
Collectively evaluated for impairment:														
Balance in allowance	\$	267,273	\$	70,902	\$	6,993	\$	246,129	\$	53,839	\$	28,026	\$	673,162
Related loan balance	\$	13,217,717	\$	91,862,588	\$	115,044,495	\$	15,118,015	\$	1,620,628	\$		\$	236,863,443

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 six months ended		For the year ended
	June 30 2012	2011	
Net loans charged off (recovered)	\$ 206,453	\$ (18,756)	\$ 1,438,217
Balance at end of period	\$ 763,308	\$ 1,950,834	\$ 672,261
Gross loans outstanding at the end of the period	\$ 236,820,356	\$ 241,620,763	\$ 228,206,400
Allowance for loan losses to gross loans outstanding at the end of the period	0.32%	0.81%	0.29%
Average loans outstanding during the period	\$ 232,737,626	\$ 246,535,270	\$ 237,757,026
Annualized net charge-offs as a percentage of average loans outstanding during the period	0.18%	-0.02%	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

June 30, 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 or Greater and Accruing
Real Estate							
Construction, land development, and land	\$ 333,415	\$ -	\$ 233,411	\$ 566,826	\$ 13,691,655	\$ 14,258,481	\$ 233,411
Residential 1 to 4 family, 1st lien	772,482	1,933,473	583,324	3,289,279	79,494,534	82,783,813	-
Residential 1 to 4 family, subordinate	-	-	-	-	1,983,536	1,983,536	-
Commercial properties	-	519,766	1,596,389	2,116,155	119,640,273	121,756,428	684,422
Commercial	-	-	-	-	14,308,510	14,308,510	-

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Consumer	-	19,276	-	19,276	1,710,312	1,729,588	-
Total	\$ 1,105,897	\$ 2,472,515	\$ 2,413,124	\$ 5,991,536	\$ 230,828,820	\$ 236,820,356	\$ 917,833

December 31,  
2011

Real Estate

Construction, land  
development,

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

	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
June 30, 2012				
With no related allowance recorded				
Construction, land development, and land	\$ 922,369	\$ -	\$ 934,454	\$ -
Residential 1 to 4 family	860,264	-	921,820	-
Commercial properties	1,596,388	-	1,606,888	17,620
Total	\$ 3,379,021	\$ -	\$ 3,463,162	\$ 17,620
December 31, 2011				
With no related allowance recorded				
Construction, land development, and land	\$ 1,220,789	\$ -	\$ 1,322,323	\$ -
Residential 1 to 4 family	1,214,516	-	1,329,911	-
Commercial properties	1,617,388	-	2,072,269	44,469
Total	\$ 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.

	June 30, 2012	December 31, 2011
Real Estate Credit Risk Profile by Internally Assigned Grade		
Construction, land development, and land		
Pass	\$ 13,336,112	\$ 11,941,671
Doubtful		
Less than 90 days past due	588,954	-
Nonperforming: 90 days or more past due and/or non-accruing	333,415	1,220,789
Total	\$ 14,258,481	\$ 13,162,460
Residential 1 to 4 family		
Pass	\$ 81,213,154	\$ 83,934,669
Substandard	2,693,931	2,638,537
Doubtful		
Less than 90 days past due	246,126	-
Nonperforming: 90 days or more past due and/or non-accruing	614,138	1,214,516
Total	\$ 84,767,349	\$ 87,787,722
Commercial properties		
Pass	\$ 114,853,706	\$ 106,062,119
Substandard	5,306,334	5,331,436
Doubtful		
Nonperforming: 90 days or more past due and/or non-accruing	1,596,388	1,617,388
Total	\$ 121,756,428	\$ 113,010,943
Commercial Credit Risk Profile by Internally Assigned Grade		
Pass	\$ 14,299,274	\$ 12,507,978
Special Mention	9,236	-
Total	\$ 14,308,510	\$ 12,507,978
Consumer Credit Risk Profile by Internally Assigned Grade		
Pass	\$ 1,718,076	\$ 1,737,297
Special Mention	11,512	-
Total	\$ 1,729,588	\$ 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 six months ended June 30, 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. During the six months ended June 30, 2012 there were no restructures that defaulted within 12 months of the restructuring date

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

	At the time of restructuring			Within 12 months of restructuring		
	Number of contracts	Balance prior to restructuring	Balance after restructuring	Number of defaults	Defaults on restructures	Other principal reductions
June 30, 2012						
Real Estate						
Residential 1-4 family, 1st liens	1	\$ 337,727	\$ 337,727	-	\$ -	\$ -
Commercial properties	1	604,997	604,997	-	-	-
Total	2	\$ 942,724	\$ 942,724	-	\$ -	\$ -
December 31, 2011						
Real Estate						
Residential 1-4 family, 1st liens	5	\$ 1,851,393	\$ 1,851,393	-	\$ -	\$ -
Commercial properties	1	517,998	517,998	-	-	-
Total	6	\$ 2,369,391	\$ 2,369,391	-	\$ -	\$ -

Troubled debt restructurings with outstanding principal balances as of June 30, 2012 were as follows:

Total	Paying as agreed under modified terms		Past due 30 days or more or non-accruing	
	Number of	Current	Number of	Current

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	contracts	Balance	contracts	Balance	contracts	Balance
Real Estate						
Construction, land development, and land	1	\$ 333,415	-	\$ -	1	\$ 333,415
Residential 1 to 4 family	14	3,107,597	11	1,629,106	3	1,478,491
Commercial properties	9	6,218,300	7	4,786,567	2	1,431,733
Total	24	\$ 9,659,312	18	\$ 6,415,673	6	\$ 3,243,639

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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:

	June 30, 2012		December 31, 2011
Loan commitments and lines of credit			
Construction and land development	\$ 2,010,250	\$	1,999,670
Other	22,048,911		22,346,026
	\$ 24,059,161	\$	24,345,696
Standby letters of credit	\$ 1,456,162	\$	1,486,677

#### 5. Assets Measured at Fair Value

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 June 30, 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					
U.S. Treasury	\$ 43,142,889	\$	43,142,889	\$	-
State and municipal	403,886		-		403,886
Equity	1,685,979		422,224		1,263,755
Total assets measured on a recurring basis	\$ 45,232,754	\$	43,565,113	\$	1,667,641

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 June 30, 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					

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Impaired loans	\$	3,379,021	\$	-	\$	3,379,021
Other real estate owned		1,659,260		-		1,659,260
Total assets measured on a non-recurring basis	\$	5,038,281	\$	-	\$	5,038,281

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.

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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 and adopted by the Company as of June 30, 2012. These pronouncements would apply to the Company, upon the effective dates noted, 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. The Company's financial statements include a single continuous statement of comprehensive income that includes the components of net income and the components of other comprehensive income.

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 I. Financial Information

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

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

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

General

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

The Company currently engages in no business other than owning and managing the Bank. The Bank employed 93 full time equivalent employees as of June 30, 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 \$21.2 million (5.09%) from December 31, 2011 to June 30, 2012. Combined deposits and customer repurchase agreements increased \$19.0 million (5.59%) during the same period. Much of the deposit and asset growth from the previous year-end to the end of the second quarter stems from seasonal activity, which is further discussed in the section titled Liquidity.

Average assets and average deposits increased \$15.7 million (3.90%) and \$13.4 million (4.11%), respectively, from second quarter 2011 to second quarter 2012. Management believes the year-to-year growth in deposits results, to some extent, from continuing economic uncertainty due to the slow recovery following the recession of 2008-2009. Depositors often seek the safety of conservatively run, well capitalized community banks when the financial markets are perceived to be unstable. Increased deposits may also indicate economic recovery within the Bank's resort service area; however, depositors are not spending or investing the funds as they remain uncertain about continued recovery. This is also evident in the lack of demand for loans and is consistent with trends in the banking industry. Increased deposit insurance limits also give customers a greater sense of security in bank deposits.

### Loan Portfolio

During the first half of 2012, the Bank's gross loan portfolio has grown \$8.6 million (3.77%). It is typical for the Bank to experience growth in both deposits and loans by the end of the second quarter. By late June, many seasonal merchants in the resort area have drawn on their working capital lines of credit and, if the tourist season is successful, they are experiencing increased sales and thus deposits. Growth of the loan portfolio was primarily driven by an \$8.7 million (7.74%) increase in commercial real estate loans due mainly from refinances. Residential mortgages decreased by \$3.0 million (3.48%) which was offset by increases in construction and development loans and non-real estate commercial loans. Increased deposit balances were more than sufficient to cover growth in the loan portfolio. Because loans earn higher average rates than the Bank's cost of funds, this use of available funds has a positive effect on earnings. There is no adverse impact on the Company's ability to meet liquidity demands resulting from increases in the loan portfolio.

The Company makes loans to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region. While the Bank has experienced loan growth in the first half of 2012, the overall demand for loans remains suppressed due to the slow recovery of the national, regional, and local economies.

### 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, 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 of 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 this trend to continue in 2012.

Management employs a risk rating system which gives weight to collateral status (secured vs. unsecured), and to the absence or improper execution of critical contract or collateral documents. Unsecured loans and those loans with critical documentation exceptions, as defined by management, are considered to have greater loss exposure. Management incorporates these factors in the formula-based portion of the ALLL. Additionally, consideration is given to those segments of the loan portfolio which management deems to pose the greatest likelihood of loss. A schedule of loans by credit quality indicator (risk rating) can be found in Note 3.

Management believes that in a general economic downturn, such as the region has experienced since late 2007, the Bank has an increased likelihood of loss in unsecured loans - commercial and consumer, and in secured consumer loans. Reserves for these segments of the portfolio are included in the formula-based portion of the ALLL. As of June 30, 2012, management reserved 135 bp against all unsecured loans, and consumer loans secured by other than real estate. The reserve has been increased 10 bp since June 30, 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 loans.

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, 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 June 30, 2012, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

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 for loan losses of \$105,000 was recorded in the 2<sup>nd</sup> quarter of 2012 which resulted in \$297,500 recorded year-to-date. This compares to a provision for loan losses of \$803,500 in the 2<sup>nd</sup> quarter of 2011 which resulted in \$948,900 recorded for the six months ended June 30, 2011. The provision of \$105,000 recorded this quarter is mainly associated with a charge-off on a collateral dependent real estate loan. 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 June 30, 2012 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. As of June 30, 2012, management has not identified any loans which are anticipated to be wholly charged-off within the next 12 months.

The Bank experienced net charge-offs (recoveries) of \$114,558 and (\$27,042) in the 2nd quarters of 2012 and 2011, respectively, and year-to-date net charge-offs (recoveries) of 206,453 and (\$18,756) in 2012 and 2011, respectively. The higher net charge-offs in 2012 are the result of short sales during the 1st quarter and a charge-off on a collateral dependent loan in the 2nd quarter. Management expects loan losses to continue throughout the remainder of 2012. Refer to Note 3 for a schedule of transactions in the allowance for loan losses.

The accrual of interest on a loan is discontinued when principal or interest is ninety days past due or when the loan is determined to be impaired, unless collateral is sufficient to discharge the debt in full and the loan is in process of collection. When a loan is placed in nonaccruing status, any interest previously accrued but unpaid, is reversed from interest income. Interest payments received on nonaccrual loans may be recorded as cash basis income, or as a reduction of principal, depending on management's judgment on a loan by loan basis. All nonaccrual loan payments received in 2012 were recorded as reductions of principal. Accrual of interest may be restored when all principal and interest are current and management believes that future payments will be received in accordance with the loan agreement.

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. Nonperforming assets decreased \$496,138 (8.60%) from December 31, 2011 to June 30, 2012, primarily as a result of decreases in nonaccrual loans from short sales and charge-offs during the same period. Refer to Note 3 for additional information about nonperforming assets.

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

Impaired loans may have specific reserves, or valuation allowances, allocated to them in the ALLL. Estimates of loss reserves on impaired loans may be determined based on any of the three following measurement methods which conform to authoritative accounting guidance: (1) the present value of future cash flows, (2) the fair value of collateral, if repayment of the loan is expected to be provided by the sale of the underlying collateral (i.e. collateral dependent), or (3) the loan's observable fair value. The Bank selects and applies, on a loan-by-loan basis, the appropriate valuation method. Upon identification of a loss on a collateral dependent loan, the loss amount is recorded as a charge-off consistent with regulatory guidance. During the 2<sup>nd</sup> quarter of 2012, a charge-off of \$105,000 was recorded related to a collateral dependent real estate loan. Loans determined to be impaired, but for which no specific valuation allowance is made because management believes the loan is secured with adequate collateral or the Bank will not take a loss on such loan, are grouped with other homogeneous loans for evaluation under formula-based criteria described previously. Impaired loans including nonaccruing loans decreased \$673,672 (16.62%) from \$4,052,693 at December 31, 2011 to \$3,379,021 and at June 30, 2012, primarily as the result of short sales and charge-offs noted previously. Refer to Note 3 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 1st quarter of the year when business customers are using their deposits to meet cash flow needs. This trend is not evident in 2012 as deposits levels at the end of the 1st quarter were comparable with deposits as of December 31, 2011. Refer to the Financial Condition section above for further discussion of deposit activity. Beginning late in the second quarter and throughout the third quarter, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives deposits from seasonal business customers, summer residents and tourists. Consistent with historical 2nd quarter trends, deposits have increased by \$17.1 million (5.09%) since March 31, 2012.

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 49.00% for the 2nd quarter of 2012 compared to 43.84% for the same quarter of 2011. The increased liquidity during this period is the result of a decrease in the loan portfolio and the redeployment of those funds into liquid assets. No significant changes in liquidity have occurred since the prior quarter.

The Company has available lines of credit, including overnight federal funds and reverse repurchase agreements, totaling \$28,000,000 as of June 30, 2012.

Average net loans to average deposits were 69.30% versus 75.47% as of June 30, 2012 and 2011, respectively. Average net loans decreased by 4.40% while average deposits grew by 4.11%. Reductions in the loan portfolio result from low demand and refinances attributable to record low interest rates. Reductions in the loan portfolio result in increased investment in debt securities or federal funds sold. These investment vehicles are less profitable than loans. The Company will not lower its credit underwriting standards to bolster loan volume. Average deposit balance increases occurred in non-interest and interest-bearing accounts, except average time deposits which decreased 6.18%. Management believes this trend indicates that depositors are migrating to more liquid types of accounts in order to be able to invest at higher rates should they become available. The continued increase in overall deposits indicates that there are signs of economic recovery within the Bank's resort service, however, depositors are not spending or investing the funds as they remain uncertain about continued recovery. Neither changes in deposit portfolio composition nor the decrease in outstanding loan balances has a negative impact on the Company's ability to meet liquidity demands.

## Interest Rate Sensitivity

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

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

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

On the liability side, deposit products are structured to offer incentives to attain the 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 June 30, 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 quarter ended June 30, 2012, was \$1,264,041 (\$0.42 per share), compared to \$915,062 (\$0.30 per share) for the second quarter of 2011, resulting in an increase of \$348,979 or 38.14%. Year to date net income has increased \$154,452 (\$0.05 per share) from \$2,166,270 (\$0.72 per share) in 2011 to \$2,320,722 (\$0.77 per share) in 2012. The key components of net income are discussed in the following paragraphs.

In the second quarter of 2012 compared to 2011, net interest income decreased \$250,211 (6.46%). Net interest income decreased \$485,784 (6.35%) in the first six months of 2012 compared to the same period in 2011. Average interest-bearing assets and liabilities have increased compared to the 2<sup>nd</sup> quarter of 2011; however these volume increases have been more than offset by lower rates, resulting in reductions in both interest revenue and expense.

The tax-equivalent quarterly yield on interest-earning assets decreased by 55 bps from 4.67% for the 2<sup>nd</sup> quarter 2011 to 4.12% in the same period in 2012. The quarterly tax-equivalent yield on interest-bearing liabilities decreased 20 bps from 0.58% in 2011 to 0.38% in the same period in 2012. In combination, these shifts contribute to a decrease in net interest margin compared to interest-earning assets of 41 bps.

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 5.2% 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.

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

Average Balances, Interest, and Yields

	For the quarter ended June 30, 2012			For the quarter ended June 30, 2011		
	Average balance	Interest	Yield	Average balance	Interest	Yield
<b>Assets</b>						
Federal funds sold	\$ 31,749,315	\$ 9,689	0.12%	\$ 29,902,034	\$ 9,980	0.13%
Interest-bearing deposits	11,292,739	13,239	0.47%	9,671,070	14,589	0.61%
Investment securities	106,388,646	215,861	0.82%	87,883,740	325,299	1.48%
Loans, net of allowance	234,295,102	3,690,774	6.34%	245,073,007	3,986,438	6.52%
Total interest-earning assets	383,725,802	3,929,563	4.12%	372,529,851	4,336,306	4.67%
Noninterest-bearing cash	18,645,311			16,746,991		
Other assets	17,646,715			14,992,871		
Total assets	\$ 420,017,828			\$ 404,269,713		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing deposits</b>						
NOW	\$ 61,978,185	27,977	0.18%	\$ 61,895,896	48,473	0.31%
Money market	51,704,383	36,704	0.29%	44,549,087	53,840	0.48%
Savings	52,902,467	26,134	0.20%	48,771,823	36,298	0.30%
Other time	88,439,830	149,024	0.68%	94,260,680	224,919	0.96%
Total interest-bearing deposits	255,024,865	239,839	0.38%	249,477,486	363,530	0.58%
Securities sold under agreements to repurchase & federal funds purchased	4,910,434	3,054	0.25%	4,179,561	5,160	0.50%
Borrowed funds	-	-		-	-	
Total interest-bearing liabilities	259,935,299	242,893	0.38%	253,657,047	368,690	0.58%
Noninterest-bearing deposits	83,072,469			75,266,507		
	343,007,768	242,893	0.28%	328,923,554	368,690	0.45%
Other liabilities	148,774			104,202		
Stockholders' equity	76,861,286			75,241,957		
Total liabilities and stockholders' equity	\$ 420,017,828			\$ 404,269,713		
Net interest spread			3.74%			4.09%
Net interest income		\$ 3,686,670			\$ 3,967,616	
Net margin on interest-earning assets			3.86%			4.27%
<b>Tax equivalent adjustment in:</b>						
Investment income		\$ 20,469			\$ 53,736	
Loan income		\$ 42,470			\$ 39,938	





Provisions for loan losses of \$105,000 and \$803,500 were recorded during the second quarter of 2012 and 2011, respectively. For the 2012 and 2011 years to date, provisions for loan losses were \$297,500 and \$948,900, respectively. Net loans charged-off (recovered) were \$206,453 and (\$18,756) during the first half of 2012 and 2011, respectively. The quarterly and year-to-date provisions for loan losses in 2012 are significantly less than the prior year amounts during these periods due to specific reserves recorded on several impaired loans during the first half of 2011. The increase in year-to-date loan losses from 2011 to 2012 is a result of short sales and a charge-off on a collateral dependent loan during the 1<sup>st</sup> half of 2012. Management expects additional losses to occur during 2012, and those losses may be significant. Provisions for anticipated losses are included in the ALLL. Refer to the Loan Quality and the Allowance for Loan Losses section above for a discussion of the provision for loan losses.

Noninterest revenue for the second quarter of 2012 is \$181,936 (52.20%) higher than the comparable period last year. Noninterest revenue for the year-to-date is \$203,840 (25.56%) higher than last year. The positive variances in both the quarterly and the year-to-date periods result from the recording of a \$178,325 other than temporary impairment (OTTI) loss on equity investments in the 2<sup>nd</sup> quarter of 2011. The remaining increase over the prior year is attributable to the incremental income from an additional investment made in bank owned life insurance in the 1<sup>st</sup> quarter of 2012.

Noninterest expense for the 2<sup>nd</sup> quarter of 2012 is \$47,796 (2.35%), higher than last year and primarily attributable to increases in employee benefits, in particular the cost of group insurance. Noninterest expense year-to-date is up \$105,254 (2.54%), which is also driven by increases in other operating expenses such as consulting fees and advertising.

Income taxes for the six months ended June 30, 2012 are \$109,750 (9.21%) higher than the same period last year with pre-tax income increasing by \$264, 202 (7.87%). The increase in income taxes for the six months ended June 30, 2012 is proportionate to the increase in income before income taxes. The Company's effective tax rate of 35.92% for the six months ended June 30, 2012 is consistent with the rate through June 30, 2011 of 35.48%. At this time, there are no changes in the operations of the Company or tax laws applicable to the Company that would have a significant impact on the effective income tax rate.

## 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 by other community banks. 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<sup>®</sup> 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, acquisition and development 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.

### Capital Resources and Adequacy

Total stockholders' equity increased \$2,225,073 (2.94%) from December 31, 2011 to June 30, 2012. This increase is attributable to comprehensive income of \$2,338,616 for the 6 months ended June 30, 2012 less stock repurchases of \$113,543 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 June 30, 2012 and December 31, 2011 were 33.1% and 33.5%, respectively. Both are substantially in excess of regulatory minimum requirements.

On June 7, 2012, the Board of Governors of the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively the "banking agencies") issued joint notices of proposed rulemaking that would revise and replace the banking agencies' current regulatory capital framework. The proposed rules would implement the Basel III capital standards as established by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As proposed, the new regulatory capital framework would apply to the Company as well as the Bank and would establish higher minimum regulatory capital ratios, add a new Common Tier 1 regulatory capital ratio, establish capital conservation buffers, and significantly revise the rules for calculating risk-weighted assets. Management is currently assessing the proposed rules to determine their impact on the Company.

### Website Access to SEC Reports

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At June 30, 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 21.07%, as a percentage of average interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Item 4. Controls and procedures

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

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 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 controls that have had or are reasonably likely to have a material effect on the Company's internal control over financial reporting, including disclosure controls. As of June 30, 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
April	900	24.85	900	294,365
May	1,400	24.18	1,400	292,965
June	1,880	22.99	1,880	291,085
Totals	4,180	23.79	4,180	

The 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 June 30, 2012, 248,457 shares were retired under this program with 4,780 of those shares being retired during the six months ended June 30, 2012. As of June 30, 2012, 291,085 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.

Sales price per share First quarter	2012		2011	
	High	Low	High	Low
	\$ 24.50	\$ 22.35	\$ 34.00	\$ 26.50

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Second quarter	\$	24.85	\$	22.52	\$	28.50	\$	26.00
Third quarter					\$	32.00	\$	21.00
Fourth quarter					\$	25.50	\$	22.10

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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: August 3, 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: August 3, 2012

By: /s/ Jennifer G. Hawkins

Jennifer G. Hawkins

Treasurer (Principal Financial & Accounting Officer)



Exhibit 32

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

We, the undersigned, certify that to the best of our knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended June 30, 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: August 3, 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: August 3, 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)