TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
August 06, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13(a) OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED JUNE 30, 2004

Commission File Number: 000-50047

CALVIN B. TAYLOR BANKSHARES, INC.

I.R.S. Employer Identification No.: 52-1948274
State of incorporation: Maryland

Address of principal executive offices: 24 North Main Street,
Berlin, Maryland 21811
Issuer's telephone number: (410) 641-1700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13(a) or 15(d) of the Exchange Act 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 is an accelerated filer as defined in Rule 12b-2 of the Exchange Act.

YES X NO

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The registrant had 3,217,968 shares of common stock ($1.00 par) outstanding as of July 31, 2004.

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

	(unaudited) June 2004	December 2003
Assets		
Cash and due from banks	$ 18,110,361	$ 20,482,866
Federal funds sold	42,050,901	29,525,781
Interest-bearing deposits	2,143,660	2,281,337
Investment securities available for sale	9,327,599	9,265,471
Investment securities held to maturity (approximate fair value of $146,941,520 and $150,075,210)	147,718,987	149,666,806
Loans, less allowance for loan losses of $2,190,706 and $2,187,277	163,097,097	162,243,008
Premises and equipment	6,919,445	7,064,970
Accrued interest receivable	1,359,227	1,344,613
Bank owned life insurance	4,135,220	4,054,035
Other assets	595,758	557,514
	$395,458,255	$386,486,401
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 83,250,030	$ 75,601,460
Interest-bearing	239,492,646	242,344,593
	322,742,676	317,946,053
Securities sold under agreements to repurchase	5,566,673	4,113,154
Pending purchases of investment securities	544,786	-
Accrued interest payable	123,992	145,044
Note payable	171,766	181,087
Deferred income taxes	308,577	355,632
Other liabilities	1,065	109,399
	329,459,535	322,850,369
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,220,748 shares at June 30,2004 and 3,227,966 shares at December 31, 2003	3,220,748	3,227,966
Additional paid in capital	16,616,455	16,869,085
Retained earnings	45,105,240	42,391,363
	64,942,443	62,488,414
Accumulated other comprehensive income	1,056,277	1,147,618
	65,998,720	63,636,032
	$395,458,255	$386,486,401

See accompanying Notes to consolidated Financial Statements

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

	For the three months ended June 30, 2004	2003
Interest and dividend revenue		
Loans, including fees	$ 2,906,603	$ 3,110,407
U.S. Treasury and Agency securities	662,180	704,492
State and municipal securities	66,339	55,940
Federal funds sold	80,821	131,664
Interest-bearing deposits	11,444	10,842
Equity securities	6,146	11,198
Total interest and dividend revenue	3,733,533	4,024,543
Interest expense		
Deposit interest	379,891	553,803
Other	4,330	5,293
Total interest expense	384,221	559,096
Net interest income	3,349,312	3,465,447
Provision for loan losses	-	-
Net interest income after provision for loan losses	3,349,312	3,465,447
Non-interest revenue		
Service charges on deposit accounts	269,269	268,079
Miscellaneous revenue	196,959	147,885
Total non-interest revenue	466,228	415,964
Non-interest expenses		
Salaries	759,793	745,893
Employee benefits	168,735	162,917
Occupancy	144,098	122,068
Furniture and equipment	153,696	121,522
Other operating	478,125	450,971
Total non-interest expenses	1,704,447	1,603,371
Income before income taxes	2,111,093	2,278,040
Income taxes	740,000	828,000
Net income	$ 1,371,093	$ 1,450,040
Basic earnings per share	$ 0.43	$ 0.45

See accompanying Notes to consolidated Financial Statements

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

	For the six months ended June 30, 2004	2003
Interest and dividend revenue		
Loans, including fees	$ 5,812,630	$ 6,137,198
U.S. Treasury and Agency securities	1,335,728	1,461,355
State and municipal securities	126,508	104,985
Federal funds sold	153,362	265,304
Interest-bearing deposits	23,514	20,884
Equity securities	24,913	28,238
Total interest and dividend revenue	7,476,655	8,017,964
Interest expense		
Deposit interest	778,455	1,211,530
Other	8,303	11,124
Total interest expense	786,758	1,222,654
Net interest income	6,689,897	6,795,310
Provision for loan losses	-	-
Net interest income after provision for loan losses	6,689,897	6,795,310
Non-interest revenue		
Service charges on deposit accounts	521,490	525,650
Miscellaneous revenue	364,122	263,371
Total non-interest revenue	885,612	789,021
Non-interest expenses		
Salaries	1,533,724	1,493,095
Employee benefits	371,965	337,034
Occupancy	288,931	250,706
Furniture and equipment	280,946	263,804
Other operating	911,066	875,147
Total non-interest expenses	3,386,632	3,219,786
Income before income taxes	4,188,877	4,364,545
Income taxes	1,475,000	1,562,000
Net income	$ 2,713,877	$ 2,802,545
Basic earnings per share	$ 0.84	$ 0.86

See accompanying Notes to consolidated Financial Statements

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

	For the six months ended June 30, 2004	2003
Cash flows from operating activities		
Interest received	$ 7,461,114	$ 7,946,860
Fees and commissions received	914,244	722,210
Interest paid	(807,810)	(1,287,060)
Cash paid to suppliers and employees	(3,032,817)	(2,908,417)
Income taxes paid	(1,696,328)	(1,579,398)
	2,838,403	2,894,195
Cash flows from investing activities		
Certificates of deposit purchased, net of redemptions	(3)	(349,582)
Purchase of investment securities available for sale	(99,004)	(100,000)
Proceeds from maturities of investment securities held to maturity	54,450,084	58,280,000
Purchase of investment securities held to maturity	(52,057,988)	(65,188,219)
Loans made, net of principal collected	(854,089)	(8,314,903)
Purchases of premises, equipment, and intangibles	(243,441)	(1,188,031)
	1,195,559	(16,860,735)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(6,821,176)	(1,591,962)
Other deposits	11,617,799	13,252,840
Securities purchased under agreements to repurchase	1,453,519	77,758
Payment on note payable	(9,321)	(8,780)
Purchases and retirement of common shares	(259,848)	-
	5,980,973	11,729,856
Net increase (decrease) in cash	10,014,935	(2,236,684)
Cash and equivalents at beginning of period	50,158,779	75,873,029
Cash and equivalents at end of period	$ 60,173,714	$ 73,636,345

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

	For the six months ended June 30, 2004	2003
Reconciliation of net income to net cash provided		
By operating activities		
Net income	$ 2,713,877	$ 2,802,545
Adjustments to reconcile net income to net cash		
Provided by operating activities		
Depreciation and amortization	326,500	317,647
Security discount accretion, net of premium amortization	(927)	(49,101)
(Gain) loss on disposition of assets	12,815	-
Decrease (increase) in		
Accrued interest receivable	(14,614)	(22,003)
Cash surrender value of bank owned life insurance	(81,185)	-
Other assets	11,324	14,273
Increase (decrease) in		
Accrued interest payable	(21,052)	(64,405)
Other liabilities	(108,335)	(104,761)
	$ 2,838,403	$ 2,894,195
Composition of cash and cash equivalents		
Cash and due from banks	$ 18,110,361	$ 25,228,850
Federal funds sold	42,050,901	48,407,495
Interest-bearing deposits, except for time deposits	12,452	-
	$ 60,173,714	$ 73,636,345

See accompanying Notes to consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Notes to Financial Statements

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been made. These adjustments are of a normal recurring nature. Results of operations for the six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the audited consolidated financial statements and related footnotes for the Registrant's year ended December 31, 2003.

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:

	2004	2003
Three months ended June 30	3,222,311	3,240,000
Six months ended June 30	3,224,838	3,240,000

2. Comprehensive Income

Comprehensive income consists of:

	Six months ended June 30, 2004	2003
Net income	$2,713,877	$2,802,545
Unrealized gain (loss) on investment securities available for sale, net of income taxes	(91,341)	527,180
Comprehensive income	$2,622,536	$3,329,725

3. 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, 2004	June 30, 2003
Loan commitments	$29,012,919	$25,011,480
Standby letters of credit	$ 2,809,485	$ 2,629,094

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

The following discussion contains certain forward-looking statements within the meaning of and made pursuant to the safe harbor provisions of the Private Litigation Securities Reform Act of 1995.

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. (the "Company") was incorporated as a Maryland corporation on October 31, 1995. The Company owns all of the stock of Calvin B. Taylor Banking Company (the "Bank"), a commercial bank that was established in 1890 and incorporated under the laws of the State of Maryland on December 17, 1907. This 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.

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. Management estimates the appropriate allowance for loan losses, including the timing of loan charge-offs.

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. It is one of the most difficult and subjective judgments. The adequacy of the allowance for loan losses is evaluated periodically based on a review of the loan portfolio, with a particular emphasis on non-accruing, past due, and other loans that management believes require attention. The determination of the reserve level relies on management's judgment about factors affecting loan quality, current trends in delinquencies and charge-offs, and anticipated changes in the composition and size of the portfolio. Management also considers external factors such as changes in the interest rate environment, the view of the Bank's regulators, economic conditions in the Bank's service area and beyond, and legislation that affects the banking industry.

Financial Condition

Total assets of the Company increased $9.0 million from December 31, 2003 to June 30, 2004. Combined deposits and customer repurchase agreements increased $6.3 million during the same period. During the first quarter of the year, the Bank typically experiences a decline in deposits since business customers are using their deposits to meet cash flow needs. Generally, this situation reverses late in the second quarter of the year as the Bank receives deposits from seasonal business customers, summer residents and tourists. During the first six months of 2003, this traditional pattern did not apply. Management believes that adverse conditions in the stock markets contributed to unusually large increases in deposits in the first half of last year. After nearly three years of unusually large deposit increases, the Bank appears to be returning to a more historically typical model in 2004.

During the first six months of 2004, the Bank's grossloan portfolio has increased $864 thousand. Funding for these loans was provided by growth in deposits. This increase in loans does not negatively impact the Company's ability to meet liquidity demands.

Historically, the Company has low loan charge-offs. Based on a review of the consolidated loan portfolio, the Company determined that an allowance of 1.33% of gross loans was adequate as of June 30, 2004. At December 31, 2003, the allowance was 1.33% of gross loans. At June 30, 2004, there was one non-accruing loan with an outstanding principal balance of $3,081. Loans delinquent ninety days or more totaled $531,105 or .32% of the portfolio.

Liquidity

The Company's major sources of liquidity are loan repayments, maturities of short-term investments including federal funds sold, and increases in core deposits. Throughout the first quarter of the year, when the Bank typically experiences a decline in deposits, federal funds sold and investment securities are primary sources of liquidity. During the second quarter of the year, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives seasonal deposits. Throughout the second and third quarters the Bank maintains a high liquidity level. Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds. 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 were 65.41% for the second quarter of 2004 compared to 64.27% for the first quarter of 2004 and 62.62% for the second quarter of 2003. This increase in liquidity is primarily due to growth in deposits, which has not been accompanied by a corresponding increase in demand for loans.

Results of Operations

Net income for the three months ended June 30, 2004, was $1,371,093 or $.43 per share, compared to $1,450,040 or $.45 per share for the second quarter of 2003. This represents a decrease of $78,947 or 5.44% from the prior year. Year to date net income has decreased $88,668 or $.02 per share to $2,713,877 or $.84 per share in 2004 from $2,802,545 or $.86 per share in 2003. The key components of net income are discussed in the following paragraphs.

Net interest income decreased $105,413 in the first six months of 2004 compared to the first six months of 2003. This decrease is attributable to the fall of market rates throughout 2001 through 2003. Although deposit rates dropped to the current level in July 2003, the Bank's loan and investment portfolios have continued to reprice downward. The Company's net interest income is one of the most important factors in evaluating its financial performance. Management uses interest sensitivity analysis to determine the effect of rate changes. Net interest income is projected over a one-year period to determine the effect of an increase or decrease in the prime rate of 100 basis points. If prime were to decrease one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a decrease of less than five percent in net interest income. 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.

No provision for loan losses was made in the first six months of 2004 or 2003. Net loans charged-off(recovered) were ($3,429) during the first half of 2004 versus ($2,130) in the same period in 2003.

Miscellaneous non-interest revenues exceed last year-to-date primarily due to the increase in cash surrender value of bank owned life insurance. The Bank invested $4 million in life insurance in August 2003. As of June 30, 2004, the current year increase in cash surrender value is $81.2 thousand.

Non-interest expense variances include a $45.7 thousand increase in group insurance premiums. The Bank employed 98 full time equivalent employees as of June 30, 2004. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Non-interest expense variances also include an increase of $35.9 thousand in other operating expenses. Significant line items variances include a $14.3 thousand increase in correspondent bank fees, and $10.9 thousand in computer software annual maintenance fees.

Income taxes are $87.0 thousand lower than last year, on a pre-tax income decrease of $175.7 thousand.

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 accounts and time certificates are tailored to the Bank's principal market areas at rates competitive to those offered in the area. In addition, the Bank offers certain retirement account services, such as Individual Retirements Accounts ("IRAs"). All deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount allowed by law (generally, $100,000 per depositor subject to aggregation rules). The bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities.

The Company, through the Bank, 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 Company 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 may not make any loans to any director or executive officer (except for commercial loans to directors who are not officers or employees) unless the Board of Directors of the Bank approves the loans. The Board of Directors must review any such loan every six months.

Other bank services include cash management services, 24-hour ATM's, debit cards, safe deposit boxes, travelers' checks, direct deposit of payroll and social security, and automatic drafts. The Bank offers bank-by-phone and Internet banking services, including electronic bill-payment, to both commercial and retail customers.

Capital Resources and Adequacy

Total stockholders' equity increased $2,362,688 from December 31, 2003 to June 30, 2004. This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $259,848 used to purchase and retire 7,218 shares of the Company's common stock. Stock repurchases were at a price of $36.00 per share.

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and Bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of stockholders' equity less accumulated other comprehensive income. In addition, the Company and the Bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 3%, 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, 2004 and 2003 were 39.71% and 36.74%, respectively. Both are substantially in excess of regulatory minimum requirements.

Website Access to SEC Reports

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At June 30, 2004, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 11.47%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Item 4. Controls and procedures

Within the ninety days prior to the date of this report, the Company's management performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures and its internal controls and procedures for financial reporting. Disclosure Controls are procedures that are designed to ensure that information required to be disclosed in the Company's publicly filed reports is reported in a timely manner. As part of these controls, Management reviews information gathered through systems developed for that purpose to determine the nature of required disclosure.

Internal controls are procedures designed to provide management with reasonable assurance that assets are safeguarded, and that transactions are properly authorized, executed, and recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. 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.

The Chief Executive Officer and the Treasurer of the Company have concluded, based on the evaluation of disclosure controls and internal controls that the financial information and disclosures included in periodic SEC filings and the Company's financial statements are fairly presented in conformity with generally accepted accounting principles.

Changes in Internal Controls

There were no significant changes in the company's internal controls or in other factors that could significantly affect internal controls, including corrective actions with regard to significant deficiencies and material weaknesses.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part II. Other Information

Item 1 Legal Proceedings
Not applicable

Item 2 Changes in Securities and Use of Proceeds
e) The following table presents information about the Company's repurchase of its equity securities during the calendar quarter ended on the date of this Form 10-Q.

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	2,550	$36.00	2,550	306,348
May	500	$36.00	500	305,348
June	1,100	$36.00	1,100	304,748
Totals	4,150	$36.00	4,150	

The Company publicly announced on August 14, 2003, that it would repurchase up to 10% of its outstanding equity stock at that time, which equates to a total of 324,000 common shares available for repurchase. There is no expiration date for this program. No other stock repurchase plan or program exists at this time, nor has any other plan or program expired during the period covered by this table.

Item 3 Defaults Upon Senior Securities
Not applicable

Item 4 Submission of Matters to a Vote of Security Holders
The Company held its annual meeting on May 12, 2004, during which the items detailed in the proxy statement dated March 19, 2004, were approved. This includes the reelection of the Board of Directors.

Item 5 Other information
Not applicable.

Item 6 Exhibits and Reports on Form 8-K
a) Exhibits
2. Proxy Statement dated March 19, 2004, is incorporated by reference.
31. Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-

Oxley Act of 2002 are presented on pages 14 and 15, respectively.

32. Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is presented on page 16.

b) Reports on Form 8-K
There were no reports on Form 8-K filed for the quarter ended June 30, 2004.

Exhibit 31
Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Reese F. Cropper, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a. designed such disclosure controls and procedures 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 quarterly report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the quarterly report (the "Evaluation Date"); and
   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in the quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Calvin B. Taylor Bankshares, Inc.

Date: August 5, 2004_______

By:/s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chairman & Chief
Executive Officer
(Principal Executive Officer)

Exhibit 31
Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jennifer G. Hawkins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a. designed such disclosure controls and procedures 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 quarterly report is being prepared;
   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the quarterly report (the "Evaluation Date"); and
   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

internal controls; and

6. The registrant's other certifying officers and I have indicated in the quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Calvin B. Taylor Bankshares, Inc.

Date: August 5, 2004_______ By:/s/ Jennifer G.Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

Exhibit 32
Certification of Principal Executive Officer and Principal Financial Officer
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, 2004 of the Registrant (the "Report"):

(1) The 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 5, 2004_______ By:/s/ Reese F. Cropper,Jr.
Reese F. Cropper, Jr.
Chairman & Chief
Executive Officer
(Principal Executive Officer)

Date: August 5, 2004_______ By:/s/ Jennifer G.Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

SIGNATURES

Pursuant to the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, 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 5, 2004_______ By:/s/ Reese F. Cropper,Jr.
Reese F. Cropper, Jr.,
Chairman & Chief
Executive Officer

Date: August 5, 2004_______ By:/s/ Jennifer G.Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)