TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
November 02, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 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 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 3,210,958 shares of common stock ($1.00 par) outstanding as of October 31, 2004.

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Part I - Financial Information

Part II - Other Information

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

	(unaudited) September 2004	December 2003
Assets		
Cash and due from banks	$ 22,363,881	$ 20,482,866
Federal funds sold	47,816,193	29,525,781
Interest-bearing deposits	2,347,579	2,281,337
Investment securities available for sale	9,732,319	9,265,471
Investment securities held to maturity (approximate fair value of $158,412,400 and $150,075,210)	158,770,952	149,666,806
Loans, less allowance for loan losses of $2,184,884 and $2,187,277	158,288,994	162,243,008
Premises and equipment	6,817,958	7,064,970
Accrued interest receivable	1,315,801	1,344,613
Bank owned life insurance	4,175,362	4,054,035
Other assets	526,365	557,514
	$412,155,404	$386,486,401

Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 96,783,253	$ 75,601,460
Interest-bearing	240,937,425	242,344,593
	337,720,678	317,946,053
Securities sold under agreements to repurchase	6,369,302	4,113,154
Note payable	166,999	181,087
Accrued interest payable	125,203	145,044
Deferred income taxes	431,724	355,632
Other liabilities	10,347	109,399
	344,824,253	322,850,369
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,211,558 shares at September 30, 2004 and 3,227,966 shares at December 31, 2003	3,211,558	3,227,966
Additional paid in capital	16,294,805	16,869,085
Retained earnings	46,553,204	42,391,363
	66,059,567	62,488,414

Accumulated other comprehensive income	1,271,584	1,147,618
	67,331,151	63,636,032
	$412,155,404	$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 September 30, 2004	2003
Interest and dividend revenue		
Loans, including fees	$ 2,840,008	$ 3,042,068
U.S. Treasury and Agency securities	708,673	667,572
State and municipal securities	72,835	57,325
Federal funds sold	177,937	154,312
Interest-bearing deposits	11,595	10,924
Equity securities	9,195	2,333
Total interest and dividend revenue	3,820,243	3,934,534
Interest expense		
Deposit interest	377,714	468,017
Borrowings	5,047	5,762
Total interest expense	382,761	473,779
Net interest income	3,437,482	3,460,755
Provision for loan losses	-	-
Net interest income after provision for loan losses	3,437,482	3,460,755
Non-interest revenue		
Service charges on deposit accounts	265,332	242,606
Miscellaneous revenue	171,782	142,521
Total non-interest revenue	437,114	385,127
Non-interest expenses		
Salaries	751,872	752,379
Employee benefits	163,555	118,603
Occupancy	144,916	138,445
Furniture and equipment	141,103	148,602
Other operating	435,186	440,728
Total non-interest expenses	1,636,632	1,598,757
Income before income taxes	2,237,964	2,247,125
Income taxes	790,000	818,000
Net income	$ 1,447,964	$ 1,429,125

Basic earnings per share	$ 0.45	$ 0.44

See accompanying Notes to Consolidated Financial Statements

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

	For the nine months ended September 30, 2004	2003
Interest and dividend revenue		
Loans, including fees	$ 8,652,638	$ 9,179,266
U.S. Treasury and Agency securities	2,044,401	2,128,927
State and municipal securities	199,343	162,310
Federal funds sold	331,299	419,616
Interest-bearing deposits	35,109	31,808
Equity securities	34,108	30,571
Total interest and dividend revenue	11,296,898	11,952,498
Interest expense		
Deposit interest	1,156,169	1,679,547
Borrowings	13,350	16,886
Total interest expense	1,169,519	1,696,433
Net interest income	10,127,379	10,256,065
Provision for loan losses	-	-
Net interest income after provision for loan losses	10,127,379	10,256,065
Non-interest revenue		
Service charges on deposit accounts	786,822	768,256
Miscellaneous revenue	535,904	405,892
Total non-interest revenue	1,322,726	1,174,148
Non-interest expenses		
Salaries	2,285,596	2,245,474
Employee benefits	535,520	455,637
Occupancy	433,847	389,151
Furniture and equipment	422,049	412,407
Other operating	1,346,252	1,315,874
Total non-interest expenses	5,023,264	4,818,543
Income before income taxes	6,426,841	6,611,670
Income taxes	2,265,000	2,380,000
Net income	$ 4,161,841	$ 4,231,670
Basic earnings per share	$ 1.29	$ 1.31

See accompanying Notes to Consolidated Financial Statements

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

	For the nine months ended September 30, 2004	2003
Cash flows from operating activities		
Interest received	$ 11,288,221	$ 11,941,280
Fees and commissions received	1,327,427	1,158,902
Interest paid	(1,189,360)	(1,774,472)
Cash paid to suppliers and employees	(4,657,504)	(4,515,229)
Income taxes paid	(2,290,678)	(2,430,698)
	4,478,106	4,379,783
Cash flows from investing activities		
Certificates of deposit purchased, net of redemptions	(3)	(374,978)
Purchase of investment securities available for sale	(164,504)	(182,500)
Proceeds from maturities of investment securities held to maturity	77,740,084	86,215,000
Purchase of investment securities held to maturity	(86,908,942)	(115,476,017)
Loans made, net of principal collected	3,954,014	(1,991,634)
Purchases of premises, equipment, and intangibles	(287,086)	(1,659,344)
Purchase of bank owned life insurance	-	(4,000,000)
	(5,666,437)	(37,469,473)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(6,759,292)	1,522,793
Other deposits	26,533,917	45,456,679
Securities purchased under agreements to repurchase	2,256,148	1,434,727
Payment on note payable	(14,088)	(13,269)
Purchases and retirement of common stock	(590,688)	(422,366)
	21,425,997	47,978,564
Net increase (decrease) in cash	20,237,666	14,888,874
Cash and equivalents at beginning of period	50,158,779	75,873,029
Cash and equivalents at end of period	$ 70,396,445	$ 90,761,903

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

	For the nine months ended September 30, 2004	2003
Reconciliation of net income to net cash provided		
By operating activities		
Net income	$ 4,161,841	$ 4,231,670
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	491,434	472,945
Security discount accretion, net of premium amortization	(38,048)	(62,082)
(Gain) loss on disposition of assets	12,899	2,140
Decrease (increase) in		
Accrued interest receivable	28,812	50,863
Cash surrender value of bank owned life insurance	(121,327)	(15,368)
Other assets	61,388	(86,797)
Increase (decrease) in		
Accrued interest payable	(19,841)	(78,039)
Other liabilities	(99,052)	(135,549)
	$ 4,478,106	$ 4,379,783
Composition of cash and cash equivalents		
Cash and due from banks	$ 22,363,881	$ 21,315,902
Federal funds sold	47,816,193	69,446,001
Interest-bearing deposits, except for time deposits	216,371	-
	$ 70,396,445	$ 90,761,903

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 nine months ended September 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 September 30	3,216,586	3,234,983
Nine months ended September 30	3,222,068	3,238,309

2. Comprehensive Income

Comprehensive income consists of:

	For the nine months ended September 30,	
	2004	2003
Net income	$4,161,841	$4,231,670
Unrealized gain on investment securities available for sale, net of income taxes	123,966	386,443
Comprehensive income	$4,285,807	$4,618,113

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:

	September 30,	
	2004	2003
Loan commitments	$28,387,145	$24,224,769
Standby letters of credit	$ 1,843,425	$ 2,525,518

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. The Bank operates nine branches in Worcester County, Maryland and one branch 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 $25.7 million from December 31, 2003 to September 30, 2004. Combined deposits and customer repurchase agreements increased $22.0 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 nine 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 three quarters 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 nine months of 2004, the Bank's gross loan portfolio decreased $4.0 million. Management believes that steep competition in a historically low interest rate market is responsible for much of this decline.

Historically, the Company has low loan charge-offs. Based on a review of the consolidated loan portfolio, the Company determined that an allowance of 1.36% of gross loans was adequate as of September 30, 2004. At December 31, 2003, the allowance was 1.33% of gross loans. At September 30, 2004, there was one non-accruing loan with an outstanding principal balance of $866. Loans delinquent ninety days or more, and still accruing interest, totaled $302,568 or .19% 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 69.85% for the third quarter of 2004 compared to 67.47% for the third 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 September 30, 2004, was $1,447,964 or $.45 per share, compared to $1,429,125 or $.44 per share for the third quarter of 2003. This represents an increase of $18,839 or 1.32% from the prior year. Year to date net income decreased $69,829 or $.02 per share to $4,161,841 or $1.29 per share in 2004 from $4,231,670 or $1.31 per share in 2003. The year to date decrease in net income is comprised of a $128,686 decrease in net interest income, a $148,578 increase in non-interest revenues, a $204,721 increase in non-interest expense, and a $115,000 decrease in income tax expense.

Net interest income decreased $128,686 in the first nine months of 2004 compared to the first nine months of 2003, largely attributable to the fall of market rates throughout 2001 through 2003. Although deposit rates dropped to their current level in July 2003, the Bank's loan and investment portfolios have continued to reprice downward. Management expects to see a gradual upward repricing of earnings assets and liabilities as the upward market rate trend begun earlier this year continues. The first earning asset to reflect this trend is the overnight investment in federal funds sold.

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 three quarters of 2004 or 2003. Net loans charged-off / (recovered) were $2,393 during the first nine months of 2004, versus ($4,385) during the same period in 2003.

Non-interest revenue, including service charges on deposit accounts, increased $51,987 from third quarter 2003 to third quarter 2004. For the year to date, non-interest revenue has increased $148,578 from 2003 to 2004. Revenue increases are primarily due to deposit services charges assessed against a larger deposit base and fee increases placed in effect in May 2004. Additionally, the Bank purchased Bank Owned Life Insurance policies at a cost of $4.0 million in August 2003. The year to date tax-exempt increase in cash surrender value of $121,327 on these policies is included in miscellaneous non-interest revenue.

Employee benefit costs for nine months ended September 30, 2004 versus the same period in 2003, are $79,883 higher including an $86,962 increase in group insurance costs. Salaries were slightly lower in the third quarter of 2004 versus 2003, and are up only slightly year to date. Throughout the year, the Bank has made an effort to streamline the employee roster, increasing production per employee. Lower salaries in the current quarter result from a decreased number of full time equivalent employees along with reduced overtime stemming from increased efficiency. The Bank, which hires seasonal employees during the summer, employed 90 full time equivalent employees as of September 30, 2004, versus 97 full time equivalent employees at September 30, 2003. The Company has no employees other than those hired by the bank.

The Company's occupancy expense increased $44,696 for nine months ended September 30, 2004 from the same period in 2003. Notable factors in this increase are increased depreciation and real estate taxes related to the newly constructed operations wing added to the Berlin, Maryland office in August 2003.

Third quarter income taxes are $28,000 less than last year, on a pre-tax income decrease of $9,161. Year-to-date income taxes are $115,000 less than last year, on a pre-tax income decrease of $184,829. Of the $115,000 decrease, approximately $46,850 is due to the tax-exempt income from bank owned life insurance. The balance relates to the overall decrease in earnings.

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 $3,695,119 from December 31, 2003 to September 30, 2004. This increase is attributable to the comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $590,688 used to purchase and retire 16,408 shares of common stock. Stock repurchases were at a price of $36.00 dollars 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 September 30, 2004 and 2003 were 41.77% and 36.75%, 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 September 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 14.34%, 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
July	2,780	$36.00	2,780	301,968
August	3,540	$36.00	3,540	298,428
September	2,870	$36.00	2,870	295,558
Totals	9,190	$36.00	9,190	n/a

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 15 and 16, 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 17.

b) Reports on Form 8-K

There were no reports on Form 8-K filed for the quarter ended September 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: November 2, 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: November 2, 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 September 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: November 2, 2004_______	By:/s/Reese F. Cropper, Jr. Reese F. Cropper, Jr. Chairman & Chief Executive Officer (Principal Executive Officer)
Date: November 2, 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: November 2, 2004_______	By:/s/Reese F. Cropper, Jr. Reese F. Cropper, Jr., Chairman & Chief Executive Officer
Date: November 2, 2004_______	By:/s/Jennifer G. Hawkins Jennifer G. Hawkins Treasurer (Principal Financial Officer)