TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
May 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2011
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation or organization)

52-1948274

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

24 North Main Street, Berlin, Maryland 21811

(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A (not required at this time)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ____	Accelerated filer [X]
Non- accelerated filer ____ (Do not check if a smaller reporting company)	Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No [X]

On April 30, 2011, 3,000,508 shares of the registrant's common stock were issued and outstanding.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Form 10-Q
Index

Part I - Financial Information, Item 1 Financial Statements
Calvin B. Taylor Bankshares, Inc. and Subsidiary
Consolidated Balance Sheets

	(unaudited) March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 17,051,016	$ 14,319,142
Federal funds sold	31,656,196	36,081,862
Interest-bearing deposits	10,658,500	11,650,849
Investment securities available for sale	44,813,118	59,801,920
Investment securities held to maturity (approximate fair value of $43,836,218 and $32,491,819)	43,668,735	32,303,572
Loans, less allowance for loan losses of $1,120,292 and $983,178	244,805,499	237,001,219
Premises and equipment	6,345,269	6,319,854
Other real estate owned	779,500	779,500
Accrued interest receivable	1,184,823	1,224,920
Computer software	106,020	89,521
Bank owned life insurance	5,303,312	5,260,539
Prepaid expenses	1,002,148	1,285,266
Other assets	1,529	29,640
	$ 407,375,665	$ 406,147,804
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 74,691,581	$ 76,763,686
Interest-bearing	251,793,458	250,014,068
	326,485,039	326,777,754
Securities sold under agreements to repurchase	4,572,801	4,490,512
Accrued interest payable	132,159	150,299
Deferred income taxes	247,100	383,326
Other liabilities	709,996	151,361
	332,147,095	331,953,252
Stockholders' equity		
Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,000,508 shares at March 31, 2011 and December 31, 2010	3,000,508	3,000,508
Additional paid-in capital	8,733,438	8,733,438
Retained earnings	62,692,803	61,441,595
	74,426,749	73,175,541
Accumulated other comprehensive income	801,821	1,019,011
	75,228,570	74,194,552
	$ 407,375,665	$ 406,147,804

See accompanying Notes to Consolidated Financial Statements

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

	For the three months ended March 31, 2011	2010
Interest and dividend revenue		
Loans, including fees	$ 3,890,621	$ 3,960,170
U.S. Treasury and government agency securities	244,518	345,052
State and municipal securities	14,777	12,325
Federal funds sold	14,480	11,956
Interest-bearing deposits	14,675	19,496
Equity securities	8,014	18,844
Total interest and dividend revenue	4,187,085	4,367,843
Interest expense		
Deposits	403,474	499,860
Borrowings	5,401	8,846
Total interest expense	408,875	508,706
Net interest income	3,778,210	3,859,137
Provision for loan losses	145,400	421,000
Net interest income after provision for loan losses	3,632,810	3,438,137
Noninterest revenue		
Service charges on deposit accounts	215,495	224,735
ATM and debit card	137,259	121,647
Increase in cash surrender value of bank owned life insurance	42,772	41,888
Gain on sale of assets	200	148,236
Miscellaneous revenue	53,226	101,686
Total noninterest revenue	448,952	638,192
Noninterest expenses		
Salaries	874,987	866,847
Employee benefits	362,595	250,829
Occupancy	222,859	228,842
Furniture and equipment	126,811	124,670
Data proccessing	67,112	73,226
ATM and debit card	46,640	63,647
Deposit insurance premiums	75,954	78,455
Other operating	336,096	406,934
Total noninterest expenses	2,113,054	2,093,450
Income before income taxes	1,968,708	1,982,879
Income taxes	717,500	717,500
Net income	$ 1,251,208	$ 1,265,379
Earnings per common share – basic and diluted	$ 0.42	$ 0.42

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

	For the three months ended March 31, 2011	2010
Cash flows from operating activities		
Interest and dividends received	$ 4,295,782	$ 4,354,052
Fees and commissions received	434,290	525,329
Interest paid	(427,015)	(524,908)
Cash paid to suppliers and employees	(1,803,524)	(1,999,269)
Income taxes paid	(51,955)	(435,956)
	2,447,578	1,919,248
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	993,330	3,830,680
Proceeds from maturities of investments available for sale	23,575,000	13,005,000
Purchase of investments available for sale	(8,985,881)	-
Proceeds from maturities of investments held to maturity	65,000	5,190,000
Purchase of investments held to maturity	(11,452,495)	(5,769,273)
Loans made, net of principal reductions	(7,949,680)	(7,671,344)
Proceeds from sale of repossessed loan collateral, net of cost of sale	-	59,420
Purchases of premises, equipment, and computer software	(175,437)	(51,625)
Proceeds from sale of premises and equipment	200	72,100
	(3,929,963)	8,664,958
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(3,481,121)	1,452,960
Other deposits	3,188,406	(5,043,398)
Securities sold under agreements to repurchase	82,289	(812,911)
Payments on note payable	-	(6,625)
	(210,426)	(4,409,974)
Net increase in cash and cash equivalents	(1,692,811)	6,174,232
Cash and cash equivalents at beginning of period	50,531,537	43,489,772
Cash and cash equivalents at end of period	$ 48,838,726	$ 49,664,004

See accompanying Notes to Consolidated Financial Statements

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

	For the three months ended March 31, 2011	2010
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 1,251,208	$ 1,265,379
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	145,400	421,000
Gain on sale of repossessed loan collateral	-	(4,920)
Amortization of premiums and accretion of discount, net	68,599	39,392
Depreciation and amortization	133,323	145,034
Gain on sale of real property	-	(55,061)
Decrease (increase) in		
Accrued interest receivable	40,097	(53,184)
Cash surrender value of bank owned life insurance	(42,773)	(41,888)
Other assets	311,229	406,851
Increase (decrease) in		
Accrued interest payable	(18,140)	(16,202)
Accrued income taxes	665,545	34,374
Other liabilities	(106,910)	(221,527)
	$ 2,447,578	$ 1,919,248
Composition of cash and cash equivalents		
Cash and due from banks	$ 17,051,016	$ 17,549,372
Federal funds sold	31,656,196	31,988,106
Interest-bearing deposits, except for time deposits	131,514	126,528
	$ 48,838,726	$ 49,664,006

See accompanying Notes to Consolidated Financial Statements

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements conform with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Interim financial statements do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations for these interim periods have been made. These adjustments are of a normal recurring nature. Results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2011. 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, 2010.
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:

	2011	2010
Three months ended March 31	3,000,508	3,000,508

2. Comprehensive Income

Comprehensive income consists of:

	For the three months ended March 31, 2011	2010
Net income	$ 1,251,208	$ 1,265,379
Unrealized gain (loss) on investment securities available for sale, net of income taxes	(217,190)	22,282
Comprehensive income	$ 1,034,018	$ 1,287,661

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

3. Investment Securities

Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
March 31, 2011				
Available for sale				
U.S. Treasury	$ 41,590,108	$ 898,583	$ 7,361	$ 42,481,330
State and municipal	290,484	3,458	3,480	290,462
Equity	1,691,841	711,922	362,437	2,041,326
	$ 43,572,433	$ 1,613,963	$ 373,278	$ 44,813,118
Held to maturity				
U.S. Treasury	$ 27,477,357	$ 165,818	$ 17,905	$ 27,625,270
U.S. Government agency	10,001,782	10,208	10,190	10,001,800
State and municipal	6,189,596	19,837	285	6,209,148
	$ 43,668,735	$ 195,863	$ 28,380	$ 43,836,218
December 31, 2010				
Available for sale				
U.S. Treasury	$ 56,150,205	$ 966,157	$ 16,871	$ 57,099,491
State and municipal	365,772	4,031	3,709	366,094
Equity	1,691,841	1,008,745	364,251	2,336,335
	$ 58,207,818	$ 1,978,933	$ 384,831	$ 59,801,920
Held to maturity				
U.S. Treasury	$ 19,487,287	$ 178,407	$ 5,147	$ 19,660,547
U.S. Government agency	7,002,448	13,646	6,850	7,009,244
State and municipal	5,813,837	11,979	3,788	5,822,028
	$ 32,303,572	$ 204,032	$ 15,785	$ 32,491,819

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

3. Investment Securities (Continued)

The table below shows the gross unrealized losses and fair value of securities that are in an unrealized loss position as of March 31, 2011, 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	$ 12,006,780	$ 25,266	$ -	$ -	$ 12,006,780	$ 25,266
U. S. Government Agency	4,989,810	10,190	-	-	4,989,810	10,190
State and municipal	993,430	3,765	-	-	993,430	3,765
Equity securities	14,695	100,325	323,889	262,112	338,584	362,437
	$ 18,004,715	$ 139,546	$ 323,889	$ 262,112	$ 18,328,604	$ 401,658

The debt securities for which an unrealized loss is recorded are issues of the U. S. Treasury, the Federal Home Loan Bank (a U. S. government agency), and general and highly rated revenue obligations of states and municipalities. The Company has the ability and 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. Management continues to monitor the financial condition of the issuers.

The amortized cost and estimated fair value of debt securities, by contractual maturity, and the amount of pledged securities follow. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2011		December 31, 2010	
	Amortized cost	Fair value	Amortized cost	Fair value
Available for sale				
Within one year	$ 22,667,422	$ 22,750,679	$ 35,163,533	$ 35,292,775
After one year through five years	17,216,457	17,346,113	19,355,802	19,481,248
After ten years	1,996,713	2,675,000	1,996,642	2,691,562
	$ 41,880,592	$ 42,771,792	$ 56,515,977	$ 57,465,585
Held to maturity				
Within one year	$ 15,002,755	$ 15,052,645	$ 8,758,541	$ 8,789,063
After one year through five years	28,665,980	28,783,573	23,545,031	23,702,756
	$ 43,668,735	$ 43,836,218	$ 32,303,572	$ 32,491,819
Pledged securities	$ 25,599,210	$ 26,494,854	$ 26,567,879	$ 27,558,868

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)

4. Loans and Allowance for Loan Losses

Major classifications of loans are as follows:

	March 31, 2011		December 31, 2010	
Real estate mortgages				
Construction, land development, and land	$	19,455,536	$	21,792,060
Residential 1 to 4 family		92,258,901		94,296,749
Commercial properties		117,194,515		102,578,171
Commercial		15,457,291		17,596,451
Consumer		1,559,548		1,720,966
		245,925,791		237,984,397
Allowance for loan losses		1,120,292		983,178
Loans, net	$	244,805,499	$	237,001,219

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:

	March 31, 2011		December 31, 2010	
Loans 90 days or more past due and still accruing				
Real estate mortgages				
Construction, land development, and land	$	-	$	-
Residential 1 to 4 family		302,215		-
Commercial properties		684,422		684,422
Commercial		-		-
Consumer		-		-
		986,637		684,422
Nonaccruing loans				
Real estate mortgages				
Construction, land development, and land		1,150,536		1,171,127
Residential 1 to 4 family		823,350		318,076
Commercial properties		1,885,085		2,610,204
Commercial		-		7,114
Consumer		-		-
		3,858,971		4,106,521
Total nonperforming loans		4,845,608		4,790,943
Other real estate owned		779,500		779,500
Total nonperforming assets	$	5,625,108	$	5,570,443
Interest not accrued on nonaccruing loans	$	149,881	$	156,805

Interest included in net income on nonaccruing loans, year-to-date	$ 8,700	$ 93,033

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

4. 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						
March 31, 2011	Construction and Land	Residential	Commercial	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Loans charged off	-	-	-	(2,945)	(7,193)	-	(10,138)
Recoveries	-	150	-	284	1,418	-	1,852
Provision charged to operations	35,000	-	117,500	44,899	(41,353)	(10,646)	145,400
Ending balance	$ 270,437	$ 50,752	$ 474,493	$ 237,184	$ 72,100	$ 15,326	$ 1,120,292
Individually evaluated for impairment:							
Balance in allowance	$ 110,509	$ -	$ 350,000	$ -	$ -		$ 460,509
Related loan balance	$ 1,525,626	$ 823,350	$ 2,569,507	$ -	$ -		$ 4,918,483
Collectively evaluated for impairment:							
Balance in allowance	$ 159,928	$ 50,752	$ 124,493	$ 237,184	$ 72,100	$ 15,326	$ 659,783
Related loan balance	$ 17,929,910	$ 91,435,551	$ 114,625,008	$ 15,457,291	$ 1,559,548		$ 241,007,308
December 31, 2010							
Beginning balance	$ 145,262	$ 48,034	$ 2,192	$ 380,161	$ 53,638	$ 8,474	$ 637,761
Loans charged off	(100,000)	(190,093)	-	(354,854)	(52,935)	-	(697,882)
Recoveries	-	1,100	-	1,073	29,126	-	31,299
Provision charged to operations	190,175	191,561	354,801	168,566	89,399	17,498	1,012,000
Ending balance	$ 235,437	$ 50,602	$ 356,993	$ 194,946	$ 119,228	$ 25,972	$ 983,178
Individually evaluated for impairment:							
Balance in allowance	$ -	$ -	$ 330,759	$ -	$ -		$ 330,759
	$ 1,171,127	$ 361,743	$ 2,566,537				

Related loan balance				$ 7,114	$ -		$ 4,106,521
Collectively evaluated for impairment:							
Balance in allowance	$ 235,437	$ 50,602	$ 26,234	$ 194,946	$ 119,228	$ 25,972	$ 652,419
Related loan balance	$ 20,620,933	$ 93,935,006	$ 100,011,634	$ 17,589,337	$ 1,720,966		$ 233,877,876
March 31, 2010							
Beginning balance	$ 145,262	$ 48,034	$ 2,192	$ 380,161	$ 53,638	$ 8,474	$ 637,761
Loans charged off	-	-	-	(347,872)	(27,981)	-	(375,853)
Recoveries	-	-	-	78	5,364	-	5,442
Provision charged to operations	115,000	19,555	143,029	76,077	25,295	42,044	421,000
Ending balance	$ 260,262	$ 67,589	$ 145,221	$ 108,444	$ 56,316	$ 50,518	$ 688,350
Individually evaluated for impairment:							
Balance in allowance	$ -	$ -	$ 127,561	$ -	$ -		$ 127,561
Related loan balance	$ -	$ 163,519	$ 2,710,608	$ -	$ -		$ 2,874,127
Collectively evaluated for impairment:							
Balance in allowance	$ 260,262	$ 67,589	$ 17,660	$ 108,444	$ 56,316	$ 50,518	$ 560,789
Related loan balance	$ 23,506,980	$ 98,102,641	$ 102,454,131	$ 19,009,547	$ 2,053,137		$ 245,126,436

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

4. Loans and Allowance for Loan Losses (continued)

The table below shows the relationship of net charged-off loans and the balance in the allowance to gross loans and average loans.

Allowance for Loan Losses

	For three months ended March 31 2011	2010	For the year ended December 31 2010
Net loans charged off	$ 8,286	$ 370,411	$ 666,583
Balance at end of period	$ 1,120,292	$ 688,350	$ 983,178
Gross loans outstanding at the end of the period	$ 245,925,791	$ 248,000,563	$ 237,984,397
Allowance for loan loses to gross loans outstanding at the end of the period	0.46%	0.28%	0.41%
Average loans outstanding during the period	$ 240,422,747	$ 243,850,884	$ 244,189,000
Annualized net charge-offs as a percentage of average loans outstanding during the period	0.01%	0.62%	0.27%

Loans are considered past due when either principal or interest is not paid by the date on which payment is due. The following table is an analysis of past due loans by days past due and type of loan.

Age Analysis of Past Due Loans

March 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	> 90 Days Past Due and Accruing
Real Estate							
Construction, land development, and land	$ -	$ 666,742	$ 408,802	$ 1,075,544	$ 18,379,992	$ 19,455,536	$ -
Residential 1 to 4 family	2,678,830	950,970	835,400	4,465,200	87,793,701	92,258,901	302,215
Commercial properties	600,000	601,439	2,481,825	3,683,264	113,511,251	117,194,515	684,422
Commercial	112,000	-	-	112,000	15,345,291	15,457,291	-
Consumer	35,808	5,460	-	41,268	1,518,280	1,559,548	-
Total	$ 3,426,638	$ 2,224,611	$ 3,726,027	$ 9,377,276	$ 236,548,515	$ 245,925,791	$ 986,637

December 31, 2010
Real Estate

Construction, land development, and land	$ 474,843	$ 234,719	$ 1,089,719	$ 1,799,281	$ 19,992,779	$ 21,792,060	$ -
Residential 1 to 4 family	1,390,288	336,134	-	1,726,422	92,570,327	94,296,749	-
Commercial properties	-	37,957	2,508,675	2,546,632	100,031,539	102,578,171	684,422
Commercial	103,759	7,114	-	110,873	17,485,578	17,596,451	-
Consumer	-	19,415	-	19,415	1,701,551	1,720,966	-
Total	$ 1,968,890	$ 635,339	$ 3,598,394	$ 6,202,623	$ 231,781,774	$ 237,984,397	$ 684,422

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

4. Loans and Allowance for Loan Losses (continued)

Loans are considered impaired when management considers it unlikely that collection of principal and interest payments will be made according to contractual terms, including principal and interest payments. A performing loan may be categorized as impaired based on knowledge of circumstances that are deemed relevant to loan collection. Not all impaired loans are past due nor are losses expected for every impaired loan. If a loss is expected, an impaired loan may have specific reserves allocated to it in the allowance for loan losses. A schedule of impaired loans at period ends and their average balances for the year follows:

March 31, 2011	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land development, and land	$ 684,802	$ 684,802	$ -	$ 694,387
Residential 1 to 4 family	823,350	823,350		826,208
Commercial properties	684,422	684,422		684,422
With an allowance recorded				
Construction, land development, and land	840,824	840,824	110,509	840,824
Commercial properties	1,885,085	1,885,085	350,000	1,885,085
Total:				
Construction, land development, and land	1,525,626	1,525,626	110,509	1,535,211
Residential 1 to 4 family	823,350	823,350	-	826,208
Commercial properties	2,569,507	2,569,507	350,000	2,569,507
Total, all categories	$ 4,918,483	$ 4,918,483	$ 460,509	$ 4,930,926

December 31, 2010	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Construction, land development, and land	$ 1,171,127	$ 1,171,127	$ -	$ 1,194,397
Residential 1 to 4 family	361,743	361,743	-	379,546
Commercial properties	88,488	88,488	-	93,244
Commercial	7,114	7,114	-	8,122
With an allowance recorded				
Commercial properties	2,478,049	2,478,049	330,759	2,484,804
Total:				
Construction, land development, and land	1,171,127	1,171,127	-	1,194,397
Residential 1 to 4 family	361,743	361,743	-	379,546
Commercial properties	2,566,537	2,566,537	330,759	2,578,048
Commercial	7,114	7,114	-	8,122

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

4. Loans and Allowance for Loan Losses (continued)

Credit risk is measured based on an internally designed grading scale. The grades correspond to regulatory rating categories of pass, special mention, substandard, and doubtful. Evaluation of grades assigned to individual loans is completed no less than quarterly. Credit quality, as measured by internally assigned grades, is an important component in the calculation of an adequate allowance for loan losses. The following table summarizes loans by credit quality indicator.

	March 31, 2011	December 31, 2010
Real Estate Credit Risk Profile by Internally Assigned Grade		
Construction, land development, and land		
Pass	$ 13,747,684	$ 16,063,618
Substandard	4,182,226	4,557,315
Doubtful		
Less than 90 days past due	375,090	761,189
Nonperforming: 90 days or more		
past due and/or non-accruing	1,150,536	409,938
Total	$ 19,455,536	$ 21,792,060
Residential 1 to 4 family		
Pass	$ 86,771,560	$ 90,393,936
Special Mention	249,164	-
Substandard	4,112,612	3,584,737
Doubtful		
Less than 90 days past due	-	292,091
Nonperforming: 90 days or more		
past due and/or non-accruing	1,125,565	25,985
Total	$ 92,258,901	$ 94,296,749
Commercial properties		
Pass	$ 109,822,337	$ 95,620,813
Special Mention	-	-
Substandard	4,802,671	4,347,154
Doubtful		
Less than 90 days past due	-	132,155
Nonperforming: 90 days or more		
past due and/or non-accruing	2,569,507	2,478,049
Total	$ 117,194,515	$ 102,578,171
Commercial Credit Risk Profile by Internally Assigned Grade		
Pass	$ 15,457,291	$ 17,589,337
Doubtful		
Less than 90 days past due	-	7,114
Total	$ 15,457,291	$ 17,596,451

Consumer Credit Risk Profile by Internally Assigned Grade		
Pass	$ 1,559,548	$ 1,720,966
Total	$ 1,559,548	$ 1,720,966

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

5. Loan commitments

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Outstanding loan commitments and letters of credit consist of:

	March 31, 2011	December 31, 2010
Loan commitments and lines of credit		
Construction and land development	$ 8,015,111	$ 8,569,169
Other	16,725,502	21,164,229
	$ 24,740,613	$ 29,733,398
Standby letters of credit	$ 1,314,691	$ 1,590,367

6. Assets Measured at Fair Value on a Recurring Basis

The Company values investment securities classified as available for sale on a recurring basis and other real estate acquired through foreclosure at fair value on a non-recurring basis. The fair value hierarchy established in the Financial Accounting Standards Board Codification Topic 820 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, equity investments in community banks, and other real estate acquired through foreclosure are valued under Level 2. The Company has no assets measured at fair value on a recurring or non-recurring basis that are valued under Level 3 criteria. No assets were transferred between levels of the fair value hierarchy during this period.

At March 31, 2011, values for available for sale investment securities and other real estate owned were established as follows:

	Total	Level 1 Inputs	Level 2 Inputs
Investment securities available for sale (recurring)			
U.S. Treasury	$ 42,481,330	$ 42,481,330	$ -
State and municipal	290,462	-	290,462
Equity	2,041,326	345,840	1,695,486
Other real estate owned (non-recurring)	779,500	-	779,500
	$ 45,592,618	$ 42,827,170	$ 2,765,448

The fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis, and the valuation methods used in estimating the fair value of financial instruments is disclosed in the Company's Annual Report on Form 10-K. It is not practicable to report quarterly the fair value of financial assets and liabilities measured on a non-recurring basis.

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

7. New accounting standards

The following accounting pronouncements have been approved by the Financial Accounting Standards Board but had not become effective as of March 31, 2011. These pronouncements would apply to the Company if the Company or the Bank entered into an applicable activity.

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. Disclosures related to the gross presentation of Level 3 purchases, sales, issuances and settlements of assets and liabilities was required for the Company beginning January 1, 2011 and are included in Note 5.

ASU No. 2010-20, "Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 was effective for the Company with its annual reporting period ended December 31, 2010. Since its adoption, the Company provides more information about the credit quality of its financing receivables (loans), including aging information and credit quality indicators. The disclosures are disaggregated by portfolio segment. ASU No. 2011-01 postpones the effective date for disclosures relating to troubled debt restructures (see below).

ASU No. 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The amendments in ASU 2011-01 temporarily delay the effective date of disclosures about troubled debt restructurings required under ASU 2010-20. These disclosures are required in the first interim or annual period beginning after June 15, 2011.

ASU No. 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." The amendments in ASU 2011-02 provide further clarification as to when a loan modification or restructuring is considered a troubled debt restructuring (TDR) for the purpose of achieving more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a TDR, a creditor must conclude that 1) the restructuring constitutes a concession, and 2) the debtor is experiencing financial difficulties. These disclosures are required in the first interim or annual period beginning after June 15, 2011.

The accounting policies adopted by management are consistent with accounting principles generally accepted in the United States of America and are consistent with those followed by peer Banks.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
Part 1. Financial Information
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

General

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

The Company currently engages in no business other than owning and managing the Bank. The Bank employed 88 full time equivalent employees as of March 31, 2011. 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 $1.2 million (.30%) from December 31, 2010 to March 31, 2011. Combined deposits and customer repurchase agreements decreased $210,426 (.06%) during the same period. Average total assets and average total deposits each increased $18.0 million from first quarter 2010 to first quarter 2011. Throughout 2010, deposits and total assets grew as a result of market instability that was part of a continuing general economic recession. At such times, many consumers seek the safety of conservatively run community banks. The first quarter of 2011 conforms to the historical pattern in which the Bank sees a decrease in deposits during the first quarter of the year as business customers in the resort area purchase inventory for the upcoming summer season. For further discussion of seasonal activity that affects deposit levels, see the section titled Liquidity.

Loan Portfolio

From December 31, 2010 to March 31, 2011 the gross loan portfolio has grown $7.9 million (3.34%). Growth in the loan portfolio has been funded by reductions in federal funds sold and the investment portfolio. Because loans earn at higher average rates than federal funds sold or investments, this shift has a positive effect on earnings. There is no adverse impact on the Company's ability to meet liquidity demands resulting from recent increases in the loan portfolio.

The Company makes loans to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Loan Quality and the Allowance for Loan Losses

The allowance for loan losses (ALLL) represents an amount which management believes to be adequate to absorb identified and inherent losses in the loan portfolio as of the balance sheet date. Valuation of the allowance is completed no less than quarterly. The determination of the allowance is inherently subjective as it relies on estimates of potential loss related to specific loans, the effects of portfolio trends, and other internal and external factors.

The ALLL consists of (i) formula-based reserves comprised of potential losses in the balance of the loan portfolio segmented into homogeneous pools, (ii) specific reserves comprised of potential losses on loans that management has identified as impaired and (iii) unallocated reserves. Unallocated reserves are not associated with a specific portfolio segment or a specific loan, but may be appropriate if properly supported and in accordance with GAAP.

The Company evaluates loan portfolio risk for the purpose of establishing an adequate allowance for loan losses. In determining an adequate level for the formula-based portion of the ALLL, management considers historical loss experience for major types of loans. Homogenous categories of loans are evaluated based on loss experience in the most recent five years. Based on this evaluation, management applies a formula to the current portfolio which gives weight to portfolio size and loss experience for categories of real estate construction loans, other 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 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 2008, the Company has experienced historically high loan losses and provisions for loan losses. Management expects more loan losses in 2011.

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 4.

Management believes that in a general economic downturn, such as the region has experienced since mid-2008, the Bank's greatest likelihood of loss is in unsecured loans - commercial and consumer, and in secured consumer loans. Reserves for these segments of the portfolio are included in the formula-based portion of the ALLL. As of March 31, 2011, management reserved 125 bp against unsecured loans, and consumer loans secured by other than real estate. Both of these reserves were increased during the first quarter of this year in recognition of the prolonged economic challenges to regional, national, and global economies. Additionally, management reserved 10% against overdrawn checking accounts which are a distinct high risk category of unsecured loan.

Borrowers whose cash flow is impaired as a result of prevailing economic conditions have also experienced depressed real estate values. Management recognizes that the combination of these circumstances – reduced revenue and depressed collateral values, may increase the likelihood of loss in the Bank's real estate secured loan portfolio. Management closely monitors conditions that might indicate deterioration of collateral value on significant loans and, when possible, obtains additional collateral as required to limit the Bank's loss exposure. The Bank expects commercial and consumer mortgage foreclosures to continue in 2011. 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 included in specific reserves in the ALLL.

Historically, the absence or improper execution of a document has not resulted in a loss to the Bank, however, management recognizes that the Bank's loss exposure is increased until a critical contract or collateral documentation exception is cured. At March 31, 2011, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

The provision for loan losses is a charge to earnings in the current period to maintain the allowance at a level management has determined to be appropriate. The allowance is increased by current period provisions and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Adjustments made to bring the balance in the allowance to the level established by management may result in an increase or decrease to expense. A provision of $145,400 was made in the first quarter of 2011. A provision of $421,000 was made in the comparable period in 2010. The year-to-year increase in the level of the ALLL reflects the consequences of the current economy. As the recession continues and borrowers' suffer personal and professional financial hardship, the likelihood of loss on previously performing loans has increased. As Management identifies loans with heightened loss potential, a provision for those losses is recorded.

Management considers the March 31, 2011 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. As of March 31, 2011, management has not identified any loans which are anticipated to be wholly charged-off within the next 12 months. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

The Bank experienced net charge-offs of $370,411 in the first quarter of 2010 and $8,286 in the current year to date. In 2010, a loss of $347,214 was attributable to a single unsecured commercial line of credit. Management expects loan losses to continue throughout 2011, as reflected in the elevated level of the ALLL. See Note 4 for a schedule of transactions in the allowance for loan losses.

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

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. Nonperforming assets increased $54,665 (.98%) from December 31, 2010 to March 31, 2011. See Note 4 for additional information about nonperforming assets.

Loans are considered impaired when management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. 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 underlying collateral, or (3) the loan’s observable fair value. The Bank selects and applies, on a loan-by-loan basis, the appropriate valuation method. 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 totaled $4,918,483 and $4,106,521 at March 31, 2011, and December 31, 2010, respectively. See Note 4 for additional information about impaired loans.

Liquidity

Liquidity represents the ability to provide steady sources of funds for loan commitments and investment activities, as well as to provide sufficient funds to cover deposit withdrawals and payment of debt and operating obligations. These funds can be obtained by converting assets to cash or by attracting new deposits. The Company’s major sources of liquidity are loan repayments, maturities of short-term investments including federal funds sold, and increases in core deposits. Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds.

Due to its location in a seasonal resort area, the Bank typically experiences a decline in deposits, federal funds sold and investment securities throughout the first quarter of the year when business customers are using their deposits to meet cash flow needs. 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.

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 45.26% for the first quarter of 2011 compared to 40.21% for the same quarter of 2010.

The Company has available lines of credit, including overnight federal funds and reverse repurchase agreements, totaling $28,000,000 as of March 31, 2011.

Average net loans to average deposits were 73.89% versus 79.47% as of March 31, 2011 and 2010, respectively. Average net loans decreased by 1.58% while average deposits grew by 5.85%. Deposit increases were generally reinvested in overnight federal funds sold and investment securities. Average deposit balance increases occurred in all categories of deposits except time deposits. When market interest rates are very low, as they have been since late 2008, investors may prefer to remain more liquid by moving funds into NOW or money market accounts. This allows them to be able to act on an opportunity for higher earnings without waiting for a time deposit to mature. Resulting changes in deposit portfolio composition do not have a negative impact on the Company’s ability to meet liquidity demands.

-

Interest Rate Sensitivity

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

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

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

On the liability side, deposit products are structured to offer incentives to attain the maturity distribution desired. 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 expanding the various funding sources.

As of March 31, 2011, the Company was cumulatively asset-sensitive for all time horizons. For asset-sensitive institutions, if interest rates should decrease, the net interest margins should decline. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

Results of Operations

Net income for the three months ended March 31, 2011**,** was $1,251,208 or $.42 per share, compared to $1,265,379 or $.42 per share for the first quarter of 2010. This represents a decrease of $14,171 or 1.12% from the prior year. The key components of net income are discussed in the following paragraphs.

For the first quarter of 2011 compared to 2010, net interest income decreased $80,927 (2.10%). While balances of interest-bearing assets and liabilities increased, lower yields caused overall reductions in both interest revenues and expense. Although average total interest-earning assets increased $19.2 million (5.42%), decreased rates offset any revenue increases attributable to volume. Average interest-bearing liabilities increased $9.8 million (4.02%) while experiencing reduced related expense, again due to rate reductions.

The tax-equivalent quarterly yield on interest-earning assets decreased by 47 basis points from 5.09% for first quarter 2010 to 4.62% in 2011. The quarterly yield on interest-bearing liabilities decreased by 19 basis points from .84% in 2010 to .65% in 2011. In combination, these shifts contribute to a decrease in net margin on interest-earning assets of 32 basis points.

The Company's net interest income is one of the most important factors in evaluating its financial performance. Management uses interest rate sensitivity analysis to determine the effect of rate changes. Net interest income is projected over a one-year period to determine the effect of an increase or decrease in the prime rate of 100 basis points. If prime were to decrease one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a decrease of approximately 4.9% in net interest income. Conversely, if prime were to increase one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience an increase in net interest income of the same percentage. The sensitivity analysis does not consider the likelihood of these rate changes nor whether management's reaction to this rate change would be to reprice its loans or deposits or both.

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

Average Balances, Interest, and Yields

	For the quarter ended March 31, 2011			For the quarter ended March 31, 2010		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$ 33,530,469	$ 14,480	0.18%	$ 29,389,496	$ 11,956	0.16%
Interest-bearing deposits	10,941,834	14,675	0.54%	9,956,179	19,496	0.79%
Investment securities	88,884,897	289,164	1.32%	71,006,973	411,297	2.35%
Loans, net of allowance	239,372,627	3,930,946	6.66%	243,207,854	3,992,843	6.66%
Total interest-earning assets	372,729,827	4,249,265	4.62%	353,560,502	4,435,592	5.09%
Noninterest-bearing cash	15,298,687			15,383,108		
Other assets	14,810,421			15,924,931		
Total assets	$ 402,838,935			$ 384,868,541		
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
NOW	$ 59,716,925	51,333	0.35%	$ 54,539,056	49,383	0.37%
Money market	44,655,962	54,071	0.49%	36,294,849	44,647	0.50%
Savings	47,721,463	40,663	0.35%	47,316,166	57,861	0.50%
Other time	97,753,213	257,407	1.07%	99,652,437	347,969	1.42%
Total interest-bearing deposits	249,847,563	403,474	0.65%	237,802,508	499,860	0.85%
Securities sold under agreements to repurchase & federal funds purchased	4,472,621	5,401	0.49%	6,652,091	8,152	0.50%
Borrowed funds	-	-		44,159	695	6.38%
Total interest-bearing liabilities	254,320,184	408,875	0.65%	244,498,758	508,707	0.84%
Noninterest-bearing deposits	74,127,013			68,253,940		
	328,447,197	408,875	0.50%	312,752,698	508,707	0.66%
Other liabilities	346,740			504,585		
Stockholders' equity	74,044,998			71,611,258		
Total liabilities and stockholders' equity	$ 402,838,935			$ 384,868,541		
Net interest spread			3.97%			4.25%
Net interest income		$ 3,840,390			$ 3,926,885	
Net margin on interest-earning assets			4.18%			4.50%
Tax equivalent adjustment in:						
Investment income		$ 21,855			$ 35,075	
Loan income		$ 40,325			$ 32,673	

Provisions for loan losses of $145,400 and $421,000 were recorded during the three months ended March 31, 2011 and 2010, respectively. Net loans charged-off were $8,286 and $370,411 during the first quarters of 2011 and 2010, respectively. Management expects additional losses to occur during 2011, and those losses may be significant. Provisions for anticipated losses are included in the ALLL. The decrease in loan losses from first quarter 2010 to 2011 results from the timing of events which trigger the recognition of loss. See Loan Quality and the Allowance for Loan Losses for a discussion of the provision for loan losses.

Noninterest revenue for the first quarter of 2011 is $189,240 (29.65%) lower than the comparable period last year. Non-recurring gains on sale of assets in 2010 account for most of this variance. In 2010 the Bank liquidated an inventory of old coin much of which has high precious metal content. Also, in the first quarter of 2010, the Delaware Department of Transportation purchased a portion of the Company's property in Ocean View for expansion of the adjacent highway. Gains on these two transactions comprised $143,315 of 2010 non-interest revenue. Included in miscellaneous revenue in 2010 were proceeds totaling $45,000 from the granting of easements related to the Ocean View roadway expansion.

Noninterest expense for the first quarter of 2011 is $19,604 (.94%), more than last year. While most noninterest expense categories are slightly lower or flat, employee benefits increased by $111,766 (44.56%). The most significant increase is in the cost of group insurance which increased $109,106 (78.60%).

Income taxes for the quarter ended March 31, 2011 are the same amount as last year, on a pre-tax income decrease of $14,171. This is consistent with the Company's effective tax rate of approximately 36.3%.

Plans of Operation

The Bank offers a full range of deposit services including checking, NOW, Money Market, and savings accounts, and time deposits including certificates of deposit. The transaction, savings, and certificate of deposit accounts are tailored to the Bank's principal market areas at rates competitive to those offered in the area. The Bank also offers Individual Retirement Accounts (IRA), Health Savings Accounts, and Education Savings Accounts. All deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount allowed by law. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities. The Bank offers individual customers up to $50 million in FDIC insured deposits through the Certificate of Deposit Account Registry Services® network.

The Bank also offers a full range of short- to medium-term commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. The Bank originates commercial and residential mortgage loans and real estate construction and acquisition loans. These lending activities are subject to a variety of lending limits imposed by state and federal law. The Bank lends to directors and officers of the Company and the Bank under terms comparable to those offered to other borrowers entering into similar loan transactions. The Board of Directors approves all loans to officers and directors and reviews these loans every six months.

Other bank services include cash management services, 24-hour ATMs, debit cards, safe deposit boxes, travelers' checks, 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 offers a remote capture service that enables commercial customers 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 $1,034,018 from December 31, 2010 to March 31, 2011. This increase is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements.

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 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 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

Tier one risk-based capital ratios of the Company as of March 31, 2011 and December 31, 2010 were 32.3% and 33.0%, respectively. Both are substantially in excess of regulatory minimum requirements.

Website Access to SEC Reports

The Bank maintains an Internet website at

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At March 31, 2011, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 21.83%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans or change the rates rests with management.

Item 4. Controls and procedures

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

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2011. Based on that evaluation, the Company's management, including the CEO and Treasurer, has concluded that the Company's disclosure controls and procedures are effective. The projection of an evaluation of controls to future periods is subject to the risk that procedures may become inadequate due to changes in conditions including the degree of compliance with procedures.

Changes in Internal Controls

During the quarter ended on the date of this report, there were no significant changes in the Company's internal control over financial reporting that have had or are reasonably likely to have a material effect on the Company's internal control over financial reporting. As of March 31, 2011, 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, 2010.

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

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, as part of its capital planning, the Board of Directors voted to temporarily suspend the stock buy-back program. On February 9, 2011, the Board of Directors voted to suspend this program indefinitely.

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 December 31, 2009, 239,492 shares were retired under this program. No shares were retired during 2010 or year-to-date 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.

	2011		2010	
Sales price per share	High	Low	High	Low
First quarter	$ 34.00	$ 26.50	$ 36.00	$ 32.00
Second quarter			$ 42.00	$ 29.00
Third quarter			$ 42.00	$ 29.00
Fourth quarter			$ 40.00	$ 26.00

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. (Removed and Reserved)

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 and Reports on Form 8-K

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: May 9, 2011

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 officers 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 officers 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: May 9, 2011

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

Exhibit 31.2Exhibit 32
Certification - Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

We, the undersigned, certify that to the best of our knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended March 31, 2011, 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: May 9, 2011

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: May 9, 2011

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

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