TAYLOR CALVIN B BANKSHARES INC
Form 10-K
March 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

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

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $1.00 per share

Indicate by check mark whether the registrant has (1) 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No ____

The aggregate market value of the Common Stock held by non-affiliates of the registrant on December 31, 2004, was $104,361,941. This calculation is based upon the last price known to the registrant at which its Common Stock was sold as of the last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2004, the last known sale price was $37.00 per share. There is not an active trading market for the Common Stock and it is not possible to identify precisely the market value of the Common Stock.

On February 28, 2005, 3,207,584 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
The Company's Proxy Statement for Annual Meeting of Shareholders to be held on May 11, 2005, is incorporated by reference in this Form 10-K in Part III,

Item 10, Item 11, Item 12, Item 13, and Item 14.

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.

PART I

Item 1. Business

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 of Berlin, Maryland (Bank). The Bank is a commercial bank incorporated under the laws of the State of Maryland on December 17, 1907, with a main office located in Berlin, Maryland.

The Company's holding company structure can assist the Bank in maintaining its required capital ratios because the Company may, subject to compliance with debt guidelines implemented by the Board of Governors of the Federal Reserve System (Board of Governors or Federal Reserve), borrow money and contribute the proceeds to the Bank as primary capital. The holding company structure also permits greater flexibility in issuing stock for cash, property,or services and in reorganization transactions. Moreover, subject to certain regulatory limitations, a holding company can purchase shares of its own stock, which the Bank may not do without regulatory approval. A holding company may also engage in certain non-banking activities which the Board of Governors has deemed to be closely related to banking and proper incidents to the business of a bank holding company. These activities include making or servicing loans and certain types of leases; performing certain data processing services; acting as a fiduciary or investment or financial advisor; acting as a management consultant for other depository institutions; providing courier, appraisal, and consumer financial counseling services; providing tax planning and preparation services; providing check guaranty and collection agency services; engaging in limited real estate investment activities; underwriting, brokering, and selling credit life and disability insurance; engaging in certain other limited insurance activities; providing discount brokerage services; underwriting and dealing in certain government obligations and money market instruments and providing portfolio investment advice; acting as a futures commission merchant with respect to certain financial instrument transactions; providing foreign exchange advisory and transactional services; making investments in certain corporations for projects designed primarily to promote community welfare; and owning and operating certain healthy savings and loan associations. Although the Company has no present intention of engaging in any of these services, if circumstances should lead the Company's management to believe that there is a need for these services in the Bank's marketing areas and that such activities could be profitably conducted, the management of the Company would have the flexibility of commencing these activities upon filing notice thereof with the Board of Governors.

Location and Service Area

The Company, through the Bank, is engaged in a general commercial and retail banking business serving individuals, small- to medium-sized businesses, professional organizations, and governmental units. The Bank operates from nine branches located throughout Worcester County, Maryland and one branch located in Sussex County, Delaware. The Bank draws most of its customer deposits and conducts most of its lending transactions within the communities in which these branches are located.

Much of the Bank's service area is located along the shores of the Atlantic Ocean and has grown as both a resort and a retirement community in recent years. The principal components of the economy are tourism and agriculture. Berlin has a strong component of health-care related businesses. The tourist businesses of Ocean City, Maryland and Bethany, Delaware and the health-care facilities in Berlin, Maryland (including Berlin Nursing Home and Atlantic General Hospital) are among the largest employers in the counties.

Banking Services

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. All deposits are insured by the Federal Deposit Insurance Corporation (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 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 may not make any loans to any director or 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 reviews such loans 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 checks, 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 provides discount brokerage services through a correspondent bank.

Competition

The Company and the Bank face strong competition in all areas of operations. The competition comes from entities operating in Worcester County, Maryland and Sussex County, Delaware and neighboring counties and includes branches of some of the largest banks in Maryland, Delaware, and Virginia. Its most direct competition for deposits historically has come from other commercial banks, savings banks, savings and loan associations, and credit unions operating in its service areas. The Bank also competes for deposits with money market mutual funds and corporate and government securities. The Bank competes for loans with the same banking entities, as well as mortgage banking companies and other institutional lenders. The competition for loans varies from time to time depending on certain factors. These factors include, among others, the general availability of lendable funds and credit, general and local economic conditions, current interest rate levels, conditions in the mortgage market, and other factors which are not readily predictable.

The Bank employs traditional marketing media including local newspapers and radio, to attract new customers. Bank officers, directors, and employees are active in numerous community organizations and participate in community-based events. These activities and referrals of satisfied customers result in new business.

Employees

As of December 31, 2004, the Bank employed 93 full-time equivalent employees. The Company's operations are conducted through the Bank. Consequently, the Company does not have separate employees. None of the employees of the Bank are represented by any collective bargaining unit. The Bank considers its relations with its employees to be good.

SUPERVISION AND REGULATION

The Company and the Bank are subject to state and federal banking laws and regulations which impose specific requirements or restrictions on, and provide for general regulatory oversight with respect to, virtually all aspects of operations. These laws and regulations are generally intended to protect depositors, not shareholders. The following is a brief summary of certain statutes, rules, and regulations affecting the Company and the Bank. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and following with the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), numerous additional regulatory requirements have been placed on the banking industry, and additional changes have been proposed. Legislative changes and the policies of various regulatory authorities may affect the operations of the Company and the Bank and those effects may be material. The Company is unable to predict the nature or the extent of the effect on its business and earnings that fiscal or monetary policies, economic controls, or new federal or state legislation may have in the future.

Gramm-Leach-Bliley Act

In November 1999, the Gramm-Leach-Bliley Act was signed into law. Among other things, the Act repeals the restriction, contained in the Glass-Steagall Act, on banks affiliating with securities firms. The Act permits bank holding companies to engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities. The Act also authorizes activities that are "complementary" to financial activities. The Act is intended to grant certain powers to community banks that larger institutions have accumulated on an ad hoc basis. The Act may have the result of increasing competition that the Company and the Bank face from larger institutions and other types of companies. In fact, it is not possible to predict the full effect that the Act will have on the Company and the Bank.

The Company

The Company is a bank holding company within the meaning of the federal Bank Holding Company Act of 1956 (BHCA). Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. The Company's and the Bank's activities are limited to banking, managing or controlling banks, furnishing services to or performing services for its Subsidiary, or engaging in any other activity that the Federal Reserve determines to be so closely related to banking or managing and controlling banks as to be a proper incident thereto.

Investments, Control, and Activities. With certain limited exceptions, the BHCA requires a bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company.

In addition, and subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with regulations thereunder, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring "control" of a bank holding company, such as the Company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Because the Company's Common Stock is registered under the Securities Exchange Act of 1934, under Federal Reserve regulations, control will be rebuttably presumed to exist if a person acquires at least 10% of the outstanding shares of any class of voting securities of the Company. The regulations provide a procedure for challenge of the rebuttable control presumption.

Under the BHCA, the Company is generally prohibited from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities, unless the Federal Reserve, by order or regulation, has found those activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Source of Strength; Cross-Guarantee. Under Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company might not otherwise do so. Federal Reserve may require a bank holding company to terminate an activity or relinquish control of a nonbank subsidiary if Federal Reserve determines that such activity or control poses serious risk to the financial soundness or stability of a subsidiary bank. Further, federal bank regulatory authorities have discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. The Bank may be required to indemnify, or cross-guarantee, the FDIC against losses it incurs with respect to any other bank controlled by the Company, which in effect makes the Company's equity investments in healthy bank subsidiaries available to the FDIC to assist any failing or failed bank subsidiary of the Company.

Securities Exchange Act of 1934

The Company's common stock is registered with the Securities and Exchange Commission (SEC) under Section 12(g) of the Securities Exchange Act of 1934 (the Act). The Company is, therefore, subject to periodic and ad hoc information reporting, proxy solicitation rules, restrictions on insider trading, and other requirements of the Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act (SOX) of 2002 imposed additional disclosure requirements in the Company's reports filed with SEC. SOX defines new standards of independence for insiders, provides guidance for certain Board committees including the composition of those committees, and establishes corporate governance requirements.

The Bank

General. The Bank operates as a state nonmember banking association incorporated under the laws of the State of Maryland. It is subject to examination by the FDIC and the state department of banking regulation for each state in which it has a branch. The States and FDIC regulate or monitor all areas of the Bank's operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The FDIC requires the Bank to maintain certain capital ratios and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures. The Bank is required by the FDIC to prepare quarterly reports on the Bank's financial condition.

Under provisions of the FDICIA, all insured institutions must undergo periodic on-site examination by the appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the agency against each institution or affiliate, as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC and the appropriate agency (and state supervisor when applicable). FDICIA also directs the FDIC to develop with other appropriate agencies a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition, or other report of any insured depository institution. FDICIA also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to: (i) internal controls, information systems, and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset quality.

Transactions With Affiliates and Insiders. The Bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investment in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. In addition, each covered transaction must meet specific collateral requirements. The Bank is also subject to Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment Act. The Community Reinvestment Act requires that the Bank shall be evaluated by its primary federal regulator with respect to its record in meeting the credit needs of its local community, including low and moderate income neighborhoods, consistent with the safe and sound operation. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The Bank received a satisfactory rating in its most recent evaluation.

USA Patriot Act. In response to the terrorist attacks on September 11, 2001, Congress passed the Patriot Act. The Patriot Act requires that Banks prepare and retain additional records designed to assist the government in an effort to combat terrorism. The Act includes anti-money laundering and financial transparency provisions, and guidelines for verifying customer identification during account opening. The Act promotes cooperation between law enforcement, financial institutions, and financial regulators in identifying persons involved in illegal acts such as money laundering and terrorism.

Other Regulations. Interest and certain other charges collected or contracted for by the Bank are subject to state and federal laws concerning interest rates. The Bank's loan operations are also subject to certain federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers, the Home Mortgage Disclosure Act of 1975 requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves, the Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed, or other prohibited bases in extending credit, the Fair Credit Reporting Act of 1978 governing the use and provision of information to credit reporting agencies, the Fair Debt Collection Act governing the manner in which consumer debts may be collected by collection agencies, and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of the Bank are also subject to the Right to Financial Privacy Act which imposes a duty to maintain confidentiality of customers' financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act as implemented by the Federal Reserve Board's Regulation E which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Deposit Insurance

The FDIC establishes rates for the payment of premiums by federally insured banks and thrifts for deposit insurance. Separate insurance funds are maintained for commercial banks (BIF) and thrifts (SAIF), with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. Since 1993, insured depository institutions like the Bank have paid for deposit insurance under a risk-based premium system. With BIF at its legally mandated reserve ratio, FDIC has set the premiums for well-capitalized banks at a level of $.00 per $100 of insured deposits. The BIF insurance assessment rate for the first semiannual assessment period of 2005 is proposed to remain at $.00 to $.27 per $100 in deposits. In addition to the amount paid for deposit insurance, banks are assessed an additional amount to service the interest on the bond obligations of the Financial Corporation (FICO). Any increase in deposit insurance premiums for the Bank will increase the Bank's cost of funds, and there can be no assurance that such costs can be passed on to the Bank's customers.

Dividends

The principal source of the Company's cash revenues comes from dividends received from the Bank. The amount of dividends that may be paid by the Bank to the Company depends on the Bank's earnings and capital position and is limited by federal and state laws, regulations, and policies. The Federal Reserve has stated that bank holding companies should refrain from or limit dividend increases or reduce or eliminate dividends under circumstances in which the bank holding company fails to meet minimum capital requirements or in which earnings are impaired.

The Company's ability to pay any cash dividends to its shareholders in the future will depend primarily on the Bank's ability to pay dividends to the Company. In order to pay dividends to the Company, the Bank must comply with the requirements of all applicable laws and regulations. Under Maryland law, the Bank must pay a cash dividend only from the following, after providing for due or accrued expenses, losses, interest, and taxes: (i) its undivided profits, or (ii) with the prior approval of the Department of Financial Regulation, its surplus in excess of 100% of its required capital stock. Under FDICIA, the Bank may not pay a dividend if, after paying the dividend, the Bank would be undercapitalized. See "Capital Regulations" below. See Item 5 for a discussion of dividends paid by the Bank in the past three years.

In addition to the availability of funds from the Bank, the future dividend policy of the Company is subject to the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash needs, and general business conditions. The amount of dividends that might be declared in the future presently cannot be estimated and it cannot be known whether such dividends would continue for future periods.

Capital Regulations

The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, account for off-balance sheet exposure, and minimize disincentives for holding liquid assets. The resulting capital ratios represent qualifying capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios well in excess of the minimums.

Current guidelines require bank holding companies and federally regulated banks to maintain a minimum ratio of total capital to risk-based assets equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders' equity before the unrealized gains and losses on securities available for sale, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles, and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets. Total capital is the sum of Tier 1 plus Tier 2 capital.

Under the guidelines, banks' and bank holding companies' assets are given risk-weights of 0%, 20%, 50%, and 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets.

The federal bank regulatory authorities have also implemented a leverage ratio, which is Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 3%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points.

FDICIA established a new capital-based regulatory scheme designed to promote early intervention for troubled banks and requires the FDIC to choose the least expensive resolution of bank failures. The new capital-based regulatory framework contains five categories for compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To qualify as a "well capitalized" institution, a bank must have a leverage ratio of no less than 5%, a Tier 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. As of December 31, 2004, the Company and the Bank were qualified as "well capitalized." For further discussions, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Capital."

Recent Legislative Developments

Periodically, the federal and state legislatures consider bills with respect to the regulation of financial institutions. Some of these proposals could significantly change the regulation of banks and the financial services industry. The Company cannot predict if such proposals will be adopted or the affect to the Company.

Item 2. Properties

The Company has ten branch locations, all of which are owned by the Company or the Bank. The Bank leases the land on which the East Berlin branch is located. The locations are described as follows:

Office Location	Square Footage
Main Office, Maryland	
24 North Main Street, Berlin, Maryland 21811	24,229
East Berlin Office	
10524 Old Ocean City Boulevard, Berlin, Maryland 21811	1,500
20th Street Office	
100 20th Street, Ocean City, Maryland 21842	3,100
Ocean Pines Office	
11003 Cathell Road, Berlin, Maryland 21811	2,420
Mid-Ocean City Office	
9105 Coastal Highway, Ocean City, Maryland 21842	1,984
North Ocean City Office	
14200 Coastal Highway, Ocean City, Maryland 21842	2,545
West Ocean City Office	
9923 Golf Course Road, Ocean City, Maryland 21842	2,496
Pocomoke Office	
2140 Old Snow Hill Road, Pocomoke, Maryland 21851	2,624
Snow Hill Office	

108 West Market Street, Snow Hill, Maryland 21863	3,773
Ocean View, Delaware Office	
50 Atlantic Avenue, Ocean View, Delaware 19970	4,900

The Berlin office is the centralized location for the Company and the Bank; that is to say that all proof and bookkeeping is performed there. Each branch has a manager that also serves as its loan officer, with exception of the East Berlin office, which does not have a loan officer. All offices participate in normal day-to-day banking operations. The Company operates automated teller machines in all branches except the East Berlin office, and at one non-branch location in a local hospital.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or the Bank or any of their properties are subject.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the shareholders of the Company during the fourth quarter of the fiscal year for which this report is filed.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Articles of Incorporation, as amended, authorize it to issue up to 10,000,000 shares of common stock.

As of February 28, 2005 there were approximately 997 holders of record of the common stock and 3,207,584 shares of Common Stock issued and outstanding. 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. Transactions in the common stock are infrequent and are negotiated privately between the persons involved in those transactions.

All outstanding shares of common stock of the Company are entitled to share equally in dividends from funds legally available, when, as, and if declared by the Board of Directors. The Company paid dividends of $.65 per share in 2004, $.60 per share in 2003,and $1.00 per share in 2002. Included are special cash dividends of $.60 per share in 2002, which are not expected to be an annual event.

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-K.

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
October	600	$ 36.00	600	294,958
November	1,000	$ 36.00	1,000	293,958
December	1,480	$ 36.00	1,480	292,478
Totals	3,080	$ 36.00	3,080	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 equated to a total of 324,000 common shares available for repurchase. There was no expiration date for this program. No other stock repurchase plan or program existed simultaneously, nor had any other plan or program expired during the period covered by this table. Common shares repurchased under this plan are retired.

As of January 1, 2005, this plan has been renewed, by public announcement, making up to 10% of the Company's outstanding equity stock at that time, which equates to a total of 320,848 common shares, available for repurchase in 2005. Common shares repurchased under this plan are retired.

Item 6. Selected Financial Data

The following table presents selected financial data for the five years ended December 31, 2004.

	2004	2003	2002	2001	2000
	(Dollars in thousands, except for per share data)				
At Year End					
Total assets	$393,333	$386,486	$369,243	$336,825	$289,048
Total deposits	$319,772	$317,946	$301,495	$274,149	$231,926
Total loans, net of unearned income and allowance for loan losses	$161,510	$162,243	$161,825	$166,502	$168,571
Total stockholders' equity	$66,698	$63,636	$60,015	$57,243	$53,085
For the Year					
Net interest income	$13,698	$13,647	$13,741	$13,297	$13,580
Net income	$5,613	$5,540	$5,754	$5,414	$5,625
Per share data					
Book value	$20.79	$19.71	$18.52	$17.67	$16.38
Net income	$ 1.74	$ 1.71	$ 1.78	$ 1.67	$ 1.74
Cash dividends declared	$ .65	$ .60	$ 1.00	$ .37	$ .61

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

BUSINESS OF THE COMPANY

Calvin B. Taylor Bankshares, Inc. (Company) is a bank holding company that was incorporated in the State of Maryland on October 31, 1995. Calvin B. Taylor Banking Company (Bank), which commenced operation in 1890, was incorporated under the laws of the State of Maryland on December 17, 1907, and is a state nonmember bank under the laws of the State of Maryland. The Bank is engaged in a general commercial banking business, emphasizing in its marketing the Company's local management and ownership, from its main office and branches located in its primary service area of Worcester County, Maryland and Sussex County, Delaware, and neighboring counties. The Bank offers a full range of deposit services, including checking accounts, NOW, Money Market, and savings accounts and other time deposits, including certificates of deposit. In addition, the Bank offers certain retirement account services, such as Individual Retirement Accounts. The Bank also offers a full range of short- to medium-term commercial and personal loans. The Bank originates fixed rate mortgage loans and real estate construction and acquisition loans. These loans generally have a demand feature. Other bank services include cash management services, safe deposit boxes, travelers' checks, direct deposit of payroll and social security checks, debit cards, and automatic drafts for various accounts. The Bank also offers bank-by-phone and Internet banking services, including electronic bill payment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

Consolidated income of the Company is derived primarily from operations of the Bank. The 2004 net income was $5,613,187 compared to $5,540,214 for 2003, and $5,753,916 for 2002. The Company had a return on average equity of 8.64% and return on average assets of 1.42% for 2004, compared to returns on average equity of 8.97% and 9.83%, and returns on average assets of 1.45% and 1.65%, for 2003 and 2002, respectively.

Results of Operations

The Company's net income of $5,613,187, or $1.74 per share, for the year ended December 31, 2004, was an increase of $72,973 or 1.32%, from the net income of $5,540,214, or $1.71 per share, for the year ended December 31, 2003. Factors contributing to this increase included a $50,572 increase in net interest income and a lower effective income tax rate that results from tax-favored revenue becoming a higher percentage of total revenue. Increases in noninterest revenues and noninterest expenses offset each other. Noninterest revenue increased $185,961 (11.89%) in 2004 compared to 2003, while noninterest expense increased $186,810 (2.82%) during the same period.

The Company's net income of $5,540,214, or $1.71 per share, for the year ended December 31, 2003, was a decrease of $213,702, or 3.71%, from the net income of $5,753,916, or $1.78 per share, for the year ended December 31, 2002. Noninterest income decreased by 9.62% during 2003 compared to 2002, while noninterest expense increased by 1.87% during the same period. Included in noninterest income for 2002 is a $267,844 gain on the sale of an unimproved property in Ocean View, Delaware, which contributed $164,403 net of tax, to 2002 net income. Without that gain, noninterest income would have increased from 2002 to 2003 by 6.93%.

The Company's net income of $1,451,346 or $.45 per share, for the quarter ended December 31, 2004, was an increase of $142,802, or 10.91%, from the net income of $1,308,544 or $.40 per share, for the quarter ended December 31, 2003. Increased net interest income was the primary reason for the increase. As the Bank's time deposits continued to reprice downward, reflecting rate reductions from the previous year, the Bank enjoyed a widening interest spread. At the same time, the Bank has seen a shift in interest-bearing deposits from higher rate time deposits to relatively lower rate NOW and Money Market accounts.

The Company's net income of $1,308,544 or $.40 per share, for the quarter ended December 31, 2003, was a decrease of $133,285, or 9.25%, from the net income of $1,441,829, or $.45 per share, for the quarter ended December 31, 2002. Eliminating the fourth quarter 2002 net gain of $164,403 on the Ocean View property, net income would have increased $31,118 or 2.15%.

Net Interest Income

The primary source of income for the Company is net interest income, which is the difference between revenue on interest-earning assets, such as investment securities and loans, and interest incurred on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income is determined primarily by the average balance of interest-earning assets and funding sources and the various rate spreads between the interest-earning assets and the Company's funding sources. Changes in net interest income from period to period result from increases or decreases in the volume of interest-earning assets and interest-bearing liabilities, and increases or decreases in the average rates earned and paid on such assets and liabilities. The volume of interest-earning assets and interest-bearing liabilities is affected by the ability to manage the earning-asset portfolio, which includes loans, and the availability of particular sources of funds, such as noninterest-bearing deposits.

The key performance measure for net interest income is the "net margin on interest-earning assets," or net interest income divided by average interest-earning assets. The Company's net interest margin for 2004 on a non-GAAP tax-equivalent basis, was 3.88%, compared to 3.96% and 4.32% for 2003 and 2002, respectively. Because most of the Bank's loans are written with a demand feature, the income of the Bank should not change dramatically as interest rates change. Management of the Company expects to maintain the net margin on interest-earning assets. The net margin may decline, however, if competition increases, loan demand decreases, or the cost of funds rises faster than the return on loans and securities. Although such expectations are based on management's judgment, actual results will depend on a number of factors that cannot be predicted with certainty, and fulfillment of management's expectations cannot be assured.

Average Balances, Interest, and Yields
(Dollars stated in thousands)

	For the Year Ended December 31, 2004			For the Year Ended December 31, 2003			For the Year Ended December 31, 2002		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	
Assets									
Federal funds sold	$ 41,762	$ 547	1.31%	$ 53,715	$ 541	1.01%	$ 57,005	$ 923	1
Interest-bearing deposits	2,201	48	2.16%	1,706	42	2.48%	1,504	42	2
Investment securities									
U. S. Treasury	116,537	2,442	2.10%	99,711	2,411	2.42%	74,482	2,806	3
U. S. Government Agency	18,844	503	2.67%	18,172	531	2.92%	18,231	802	4
State and municipal	19,004	407	2.14%	12,119	332	2.74%	7,697	337	4
Other	1,786	79	4.43%	1,600	70	4.40%	1,508	62	4
Total investment securities	156,171	3,431	2.20%	131,602	3,344	2.54%	101,918	4,007	3
Loans									
Commercial	15,243	1,053	6.90%	13,780	987	7.16%	15,022	1,197	7
Mortgage	146,121	10,289	7.04%	150,491	10,879	7.23%	148,400	11,545	7
Consumer	2,305	201	8.73%	3,108	284	9.15%	4,054	387	9
Total loans	163,669	11,543	7.05%	167,379	12,150	7.26%	167,476	13,129	7
Allowance for loan losses	2,188			2,185			2,182		
Total loans, net of allowance	161,481	11,543	7.15%	165,194	12,150	7.36%	165,294	13,129	7
Total interest-earning assets	361,615	15,569	4.31%	352,217	16,077	4.56%	325,721	18,101	5
Noninterest-bearing									

cash	19,705	-		19,091	-		15,400	-	
Premises and equipment	6,968	-		6,567	-		5,904	-	
Other assets	6,428	-		3,220	-		2,170	-	
Total assets	$394,716	$15,569		$381,095	$16,077		$349,195	$18,101	
Liabilities and Stockholders' Equity									
Interest-bearing deposits									
Savings and NOW	$117,733	$310	0.26%	$110,638	$422	0.38%	$90,124	$776	0
Money market	49,733	198	0.40%	50,141	305	0.61%	46,890	581	1
Other time	72,621	1,028	1.42%	77,668	1,384	1.78%	83,008	2,641	3
Total interest-bearing deposits	240,087	1,536	0.64%	238,447	2,111	0.89%	220,022	3,998	1
Securities sold under agreements to repurchase	5,021	8	0.17%	4,135	10	0.24%	4,954	28	0
Borrowed funds	171	10	6.06%	189	11	6.05%	207	12	6
Total interest-bearing liabilities	245,279	1,554	0.63%	242,771	2,132	0.88%	255,183	4,038	1
Noninterest-bearing deposits	83,498	-		75,898	-		64,916	-	
	328,777	1,554		318,669	2,132	0.67%	290,099	4,038	1
Other liabilities	990	-		651	-		537	-	
Stockholders' equity	64,949	-		61,775	-		58,559	-	
Total liabilities and stockholders' equity	$394,716	$1,554		$381,095	$2,132		$349,195	$4,038	
Net interest spread			3.68%			3.68%			3
Net interest income	$14,015			$13,945			$14,063		
Net margin on interest-earning assets			3.88%			3.96%			4

Dividends and interest on tax-exempt securities and loans are reported on a fully taxable equivalent basis, which is a non-GAAP measure.

Tax equivalent adjustment included in:			
Investment income	$286	$263	$288
Loan income	$ 31	$ 35	$ 34

Analysis of Changes in Net Interest Income
(Dollars stated in thousands)

	Year ended December 31, 2004 compared with 2003 variance due to			Year ended December 31, 2003 compared with 2002 variance due to		
	Total	Rate	Volume	Total	Rate	Volume
Earning assets						
Federal funds sold	6	126	(120)	(382)	(329)	(53)
Interest-bearing deposits	6	(6)	12	1	(5)	6
Investment securities:						
U. S. Treasury	31	(376)	407	(396)	(1,347)	951
U. S. Government Agency	(28)	(48)	20	(273)	(270)	(3)
State and municipals	75	(114)	189	(5)	(199)	194
Other	9	1	8	9	5	4

Loans:						
Commercial	66	(39)	105	(210)	(111)	(99)
Mortgage	(590)	(274)	(316)	(666)	(829)	163
Consumer	(83)	(10)	(73)	(102)	(12)	(90)
Total interest revenue	(508)	(740)	232	(2,024)	(3,097)	1,073
Interest-bearing liabilities						
Savings and NOW	(112)	(139)	27	(354)	(531)	177
Money market	(107)	(105)	(2)	(276)	(316)	40
Other time deposits	(356)	(266)	(90)	(1,257)	(1,087)	(170)
Other borrowed funds	(3)	(4)	1	(19)	(13)	(6)
Total interest expense	(578)	(514)	(64)	(1,906)	(1,947)	41
Net interest income	70	(226)	296	(118)	(1,150)	1,032

Dividends and interest on tax-exempt securities and loans are reported on a fully taxable equivalent basis, which is a non-GAAP measure. The variance that is both rate/volume related is reported with the rate variance.

Composition of Loan Portfolio

Because loans are expected to produce higher yields than investment securities and other interest-earning assets (assuming that loan losses are not excessive), the absolute volume of loans and the volume as a percentage of total earning assets is an important determinant of net interest margin. Average loans, net of the allowance for loan losses, were $161,481,136, $165,194,000,and $165,293,144 during 2004, 2003, and 2002, respectively, which constituted 44.66%, 46.90%, and 50.75% of average interest-earning assets for the periods. The Company's loan to deposit ratio was 50.51%, 51.03%, and 53.67% at December 31, 2004, 2003, and 2002, respectively. Average loans to average deposits were 49.90%, 52.55%, and 58.01% for 2004, 2003, and 2002, respectively. The decrease in the loan to deposit ratio over the periods presented is primarily attributable to continued increases in deposits with little change in loan volume.

The Company extends loans primarily to customers located in and near Worcester County, Maryland and Sussex County, Delaware. There are no industry concentrations in the Company's loan portfolio. The Company does, however, have a substantial portion of its loans in real estate and performance will be influenced by the real estate market in the region.

The following table sets forth the composition of the Company's loan portfolio as of December 31, 2004, 2003, and 2002, respectively.

Composition of Loan Portfolio

	December 31, 2004		December 31, 2003		December 31, 2002	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Commercial	$ 14,007,430	8.56%	$ 13,199,879	8.03%	$ 12,765,723	7.78%
Real estate	141,029,581	86.16%	127,722,747	77.67%	139,354,241	84.97%
Construction	6,640,665	4.05%	20,877,036	12.70%	8,447,354	5.15%
Consumer	2,010,407	1.23%	2,630,623	1.60%	3,438,494	2.10%
Total loans	163,688,083	100.00%	164,430,285	100.00%	164,005,812	100.00%
Less allowance for loan losses	2,177,926		2,187,277		2,181,135	
Net loans	$161,510,157		$162,243,008		$161,824,677	

The following table sets forth the maturity distribution, classified according to sensitivity to changes in interest rates, for selected components of the Company's loan portfolio as of December 31, 2004.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

December 31, 2004

	One year or less	Over one Through five years	Over five years	Total
Commercial	$ 12,247,797	$1,130,073	$629,560	$ 14,007,430
Real estate	140,903,273	23,304	103,004	141,029,581
Construction	6,640,665	-	-	6,640,665
Consumer	971,350	954,397	84,660	2,010,407
Total	$160,763,085	$2,107,774	$817,224	$163,688,083
Fixed interest rate	$ 971,350	$ 2,107,774	$817,224	$ 3,896,348
Variable interest rate (or demand)	159,791,735	-	-	159,791,735
Total	$160,763,085	$ 2,107,774	$817,224	$163,688,083

As of December 31, 2004, $159,791,735 or 97.62%, of the total loans were either variable rate loans or loans written on demand.

The Company has the following commitments, lines of credit, and letters of credit outstanding as of December 31, 2004, 2003, and 2002, respectively.

	2004	2003	2002
Construction loans	$ 7,294,592	$ 10,495,735	$ 10,557,644
Other loan commitments	21,276,025	15,036,346	11,876,437
Standby letters of credit	1,535,210	2,957,508	1,726,127
Total	$ 30,105,827	$ 28,489,589	$ 24,160,208

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments may have interest fixed at current rates, fixed expiration dates, and may require the payment of a fee. Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company's exposure to credit loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment.

Loan Quality

The allowance for loan losses represents an allowance for probable losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on non-accruing, past due, and other loans that management believes require attention. The determination of the allowance rests upon management's judgment about factors affecting loan quality and assumptions about the economy. Management considers the year-end allowance appropriate and adequate to cover probable losses in the loan portfolio; however, management's judgment is based upon a number of assumptions about future events, which are believed to be reasonable, but which may or may not prove valid. Thus, 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 Company has a history of low loan charge-offs.

For significant problem loans, management's review consists of evaluation of the financial strengths of the borrowers and guarantors, the related collateral, and the effects of economic conditions. The overall evaluation of the adequacy of the total allowance for loan losses is based on an analysis of historical loan loss ratios, loan charge-offs, delinquency trends, and previous collection experience, along with an assessment of the effects of external economic conditions. It is the Company's policy to evaluate loan portfolio risk for the purpose of establishing an adequate allowance. The allowance may be increased for reserves for specific loans identified as substandard during management's loan review. Generally, the Company will not require a negative provision to reduce the allowance as a result of either net recoveries or a decrease in loans.

The provision for loan losses is a charge to earnings in the current period to replenish the allowance and maintain it at a level management has determined to be adequate. As of December 31, 2004, 2003, and 2002, the allowance for loan losses was 1.33% of outstanding loans.

No provision for loan losses was made in 2004 or 2003 due to low levels of delinquencies. The provision for loan losses was $25,000 in 2002.

Allocation of Allowance for Loan Losses

	2004		2003		2002	
Commercial	$ 220,460	10.12%	$ 163,059	7.46%	$ 139,005	6.37%
Real estate, including construction	838,490	38.50	868,828	39.72	864,111	39.62
Consumer	78,948	3.63	81,845	3.74	112,875	5.17
General	1,040,028	47.75	1,073,545	49.08	1,065,144	48.84
Total	$2,177,926	100.00%	$2,187,277	100.00%	$2,181,135	100.00%

Allowance for Loan Losses

	2004	2003	2002
Balance at beginning of year	$2,187,277	$2,181,135	$2,195,922
Loan losses:			
Commercial	-	_	6,816
Mortgages	-	-	-
Consumer	13,874	3,423	41,954
Total loan losses	13,874	3,423	48,770
Recoveries on loans previously charged off:			
Commercial	2,577	533	1,000
Consumer	1,946	9,032	7,983
Total loan recoveries	4,523	9,565	8,983
Net loan losses	9,351	(6,142)	39,787
Provision for loan losses charged			

to expense	-	-	25,000
Balance at end of year	$2,177,926	$2,187,277	$2,181,135
Allowance for loan losses to loans outstanding at end of year	1.33%	1.33%	1.33%
Net charge-offs to average loans	0.00%	0.00%	0.02%

As a result of management's ongoing review of the loan portfolio, loans are classified as nonaccrual when it is not reasonable to expect collection of interest under the original terms. These loans are classified as nonaccrual even though the presence of collateral or the borrower's financial strength may be sufficient to provide for ultimate repayment. Interest on nonaccrual loans is recognized only when received. A delinquent loan is generally placed in nonaccrual status when it becomes 90 days or more past due. When a loan is placed in nonaccrual status, all interest that has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. The Company had no nonperforming loans at December 31, 2004 and 2003. The Company had one loan with a balance of $2,222 on which the accrual of interest had been discontinued as of December 31, 2002.

When real estate acquired by foreclosure and held for sale is included with nonperforming loans, the result comprises nonperforming assets. There were no nonperforming assets at December 31, 2004, 2003, or 2002. Loans are classified as impaired when the collection of contractual obligations, including principal and interest, is doubtful. Management has identified no significant impaired loans as of December 31, 2004, 2003, or 2002.

Liquidity and 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.

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. Average liquid assets (cash and amounts due from banks, interest-bearing deposits in other banks, federal funds sold, and investment securities) were 67.94% of average deposits for 2004, compared to 65.57% and 61.71% for 2003 and 2002, respectively.

As of December 31, 2004, $72,905,414, or 45.94% of the Company's investment debt securities mature in one year or less. Funds invested in federal funds sold provide liquidity so the Bank does not need a large portfolio of securities classified as "available-for-sale." Other sources of liquidity include letters of credit, overnight federal funds, and reverse repurchase agreements available from correspondent banks. The total lines and letters of credit available from correspondent banks were $19,000,000 as of December 31, 2004, 2003, and 2002.

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 December 31, 2004, the Company was asset-sensitive for all time horizons. For asset-sensitive institutions, if interest rates should decrease, the net interest margins should decline. Conversely, if interest rates should increase, the net interest margins should increase. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

Interest Sensitivity Analysis
December 31, 2004

	Within three months	After three but within twelve months	After one but within five years	After five years	Total
Assets					
Earning assets					
Federal funds sold	$32,692,233	$ -	$ -	$ -	$ 32,692,233
Interest-bearing deposits	228,724	1,286,085	646,687	-	2,161,496
Investment debt securities	22,135,369	50,770,045	83,225,065	2,554,687	158,685,166
Loans	159,854,554	908,531	2,869,009	55,989	163,688,083
Total earning assets	$214,910,880	$52,964,661	$86,740,761	2,610,676	$357,226,978
Liabilities					
Interest-bearing deposits					
NOW	$ 68,892,268	$ -	$ -	$ -	$ 68,892,268
Money market	49,362,532	-	-	-	49,362,532
Savings	53,667,020	-	-	-	53,667,020
Certificates $100,000 and over	3,756,538	10,174,388	4,693,331	-	18,624,257
Certificates under $100,000	18,811,095	23,881,176	7,991,598	-	50,683,869

Securities sold under agreements to repurchase	5,933,466	-	-	-	5,933,466
Note payable	4,911	15,181	93,550	48,519	162,161
Total interest-bearing liabilities	$200,427,830	$34,070,745	$12,778,479	$ 48,519	$247,325,573
Period gap	$ 14,483,050	$18,893,916	$73,962,282	$ 2,562,157	$109,901,405
Cumulative gap	$ 14,483,050	$33,376,966	$107,339,248	$109,901,405	
Ratio of cumulative gap to total earning assets	4.05%	9.34%	30.05%	30.77%	

Investment Securities Maturity Distribution and Yields

	December 31, 2004		December 31, 2003		December 31, 2002	
	Amount	Yield	Amount	Yield	Amount	Yield
US Treasury						
One year or less	$ 58,255,488	1.71%	$ 68,496,088	0.97%	$ 50,003,569	2.87%
Over one through five years	58,361,766	2.57%	51,965,421	1.74%	40,065,506	2.58%
Over ten years	2,554,687	7.28%	2,559,062	7.28%	2,603,120	7.28%
Total U.S. Treasury securities	119,171,941	2.25%	123,020,571	1.43%	92,672,195	2.87%
U.S. Government Agencies						
One year or less	3,250,000	2.20%	2,000,810	4.65%	1,000,000	4.49%
Over one through five years	16,741,938	2.61%	15,000,000	2.31%	18,902,908	3.30%
Total U. S. Government Agencies	19,991,938	2.55%	17,000,810	2.59%	19,902,908	3.35%
State, county, and municipal						
One year or less	11,399,926	1.34%	6,395,697	1.72%	4,009,906	2.45%
Over one through five years	8,121,361	1.60%	9,830,041	1.35%	4,203,610	2.34%
Total state, county, and municipal	19,521,287	1.45%	16,225,738	1.49%	8,213,516	2.39%
Total debt securities	$158,685,166	2.19%	$156,247,119	1.56%	$120,788,619	2.92%
Debt securities						
One year or less	$ 72,905,414	1.67%	$ 76,892,595	1.13%	$ 55,013,475	2.87%
Over one through five years	83,225,065	2.48%	76,795,462	1.80%	63,172,024	2.78%
Over ten years	2,554,687	7.28%	2,559,062	7.28%	2,603,120	7.28%
Total debt securities	158,685,166	2.19%	156,247,119	1.56%	120,788,619	2.92%
Equity securities	3,265,566	2.72%	2,685,158	2.70%	1,783,680	2.51%
Total securities	$161,950,732	2.20%	$158,932,277	1.58%	$122,572,299	2.91%

Deposits and Other Interest-Bearing Liabilities

Average interest-bearing liabilities increased $2,507,550, or 1.03%, to

$245,279,167 in 2004, from $242,771,617 in 2003. Average interest-bearing deposits increased $1,640,081, or .69%, to $240,087,443 in 2004 from $238,447,362 in 2003, while average noninterest-bearing demand deposits increased $7,600,593, or 10.01% to $83,499,032 in 2004 from $75,898,439 in 2003. At December 31, 2004, total deposits were $319,772,358, compared to $317,946,053 at December 31, 2003, an increase of .57%. These rates of increase have slowed significantly from the rates at which deposits have grown since mid-2001. Management attributes the growth of deposits in recent years to investors' discomfort with a depressed and volatile stock market, and a resultant flight to the safety of insured deposits.

Average interest-bearing liabilities increased $17,588,168, or 7.81%, to $242,771,617 in 2003, from $225,183,449 in 2002. Average interest-bearing deposits increased $18,425,292, or 8.37%, to $238,447,362 in 2003, from $220,022,070 in 2002, while average noninterest-bearing demand deposits increased $10,982,926, or 16.92% to $75,898,439 in 2003, from $64,915,513 in 2002. At December 31, 2003, total deposits were $317,946,053, compared to $301,495,466 at December 31, 2002, an increase of 5.46%.

The following table sets forth the deposits of the Company by category as of December 31, 2004, 2003, and 2002, respectively.

	December 31,					
	2004		2003		2002	
	Amount	Percent of deposits	Amount	Percent of deposits	Amount	Percent of deposits
Demand deposits	$ 78,542,414	24.56%	$ 75,601,460	23.78%	$ 73,289,541	24.31%
NOW accounts	68,892,268	21.55%	63,400,879	19.94%	57,009,892	18.91%
Money market	49,362,532	15.44%	50,168,501	15.78%	46,942,638	15.57%
Savings accounts	53,667,020	16.78%	51,495,252	16.20%	45,514,226	15.10%
Time deposits less than $100,000	50,683,867	15.85%	57,242,198	18.00%	62,897,083	20.86%
Time deposits of $100,000 or more	18,624,257	5.82%	20,037,763	6.30%	15,842,086	5.25%
Total deposits	$319,772,358	100.00%	$317,946,053	100.00%	$301,495,466	100.00%

Core deposits, which exclude certificates of deposit of $100,000 or more, provide a relatively stable funding source for the Company's loan portfolio and other earning assets. The Company's core deposits increased $3,239,811, $12,254,910 and $32,246,116 during 2004, 2003, and 2002, respectively. Management believes that this increase is largely attributable to a migration of funds from the stock market into insured deposits. Deposits, and particularly core deposits, have been the Company's primary source of funding and have enabled the Company to meet both its short-term and long-term liquidity needs. Management anticipates that such deposits will continue to be the Company's primary source of funding in the future.

The maturity distribution of the Company's time deposits over $100,000 at December 31, 2004, is shown in the following table.

Maturities of Certificates of Deposit
and Other Time Deposits of $100,000 or More

	After three	After six through

	Within three months	through six months	twelve months	After twelve months	Total
Certificates of deposit of $100,000 or more	$ 3,756,538	$ 5,007,957	$ 5,166,431	$ 4,693,331	$18,624,257

Large certificate of deposit customers tend to be extremely sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits. Some financial institutions partially fund their balance sheets using large certificates of deposit obtained through brokers. These brokered deposits are generally expensive and are unreliable as long-term funding sources. Accordingly, the Company does not accept brokered deposits.

Noninterest Revenue

Noninterest revenue for 2004 increased $185,961, or 11.89% from the previous year. Included is a $160,771 increase in cash surrender value of bank owned life insurance policies with a face value of $4,000,000, which were purchased by the Bank in August 2003. A second significant increase occurred in ATM and debit card revenues, which are up $46,742 (16.94%) from 2003 due to increased usage.

Noninterest revenue for 2003 decreased $166,470, or 9.62% from the previous year. This includes a decrease of $267,844 related to a 2002 gain on the sale of property in Ocean View, Delaware. Service charges on deposit accounts increased $35,004 primarily due to increased deposit balances. Miscellaneous noninterest revenue increased $43,151, which includes a $54,035 increase in cash surrender value of bank owned life insurance policies.

The following table presents the principal components of noninterest revenue for the years ended December 31, 2004, 2003, and 2002, respectively.

	Noninterest Income		
	2004	2003	2002
Service charges on deposit accounts	$ 1,050,504	$ 1,208,306	$ 993,302
ATM and debit card revenue	322,716	275,974	252,755
Miscellaneous revenue	376,577	259,556	216,405
Gain on sale of real estate	-	-	267,844
Total noninterest revenue	$ 1,749,797	$ 1,563,836	$ 1,730,306
Noninterest revenue as a percentage of average total assets	0.44%	0.41%	0.50%

Noninterest Expense

Noninterest expense increased $186,810, or 2.82%, from 2003 to 2004. Increased personnel costs of $75,864 include a $50,132 increase in the cost of group insurance. Occupancy expense increased due to increased depreciation and real property taxes related to the Bank's Berlin office expansion completed late in 2003. Cost related to ATM and debit cards rose $30,999 due to increased usage. The revenues net of expenses related to ATM and debit card usage, increased $15,743 from 2003 to 2004.

Noninterest expense increased $121,481, or 1.87%, from 2002 to 2003.

Increased personnel costs of $204,573 were due to annual raises, increased 401(k) expense, and increased cost of group insurance. Occupancy expense increased due to increased depreciation related to recent building construction and renovation, as well as increased maintenance costs incurred to improve and maintain the grounds surrounding branches. Furniture and equipment expense decreased $36,346 mainly due to decreases in service contract costs, and improved classification of certain maintenance expenses. Of the $127,364 decrease in other operating expense, approximately $62,000 was directly attributable to the Ocean View branch location, which previously operated as Calvin B. Taylor Bank of Delaware, and its merger into the Calvin B. Taylor Bank of Berlin, Maryland.

The following table presents the principal components of noninterest expense for the years ended December 31, 2004, 2003, and 2002, respectively.

	Noninterest Expense		
	2004	2003	2002
Compensation and related expenses	$ 3,903,278	$ 3,827,414	$ 3,622,841
Occupancy expense	593,475	536,269	455,651
Furniture and equipment expense	551,721	542,433	578,779
Advertising	145,583	152,358	154,382
ATM and debit card	232,353	201,354	194,536
Business and product development	70,720	66,480	64,448
Computer software amortization	117,191	91,736	115,453
Computer software maintenance	82,514	97,570	91,141
Courier service	103,922	93,457	96,120
Deposit insurance	45,403	46,975	47,800
Director fees	89,375	84,240	80,600
Dues, donations, and subscriptions	81,328	80,842	81,171
Freight	60,829	67,517	62,294
Liability insurance	41,556	47,160	60,042
Postage	169,569	168,083	181,567
Professional fees	22,745	37,551	72,399
Stationery and supplies	135,269	125,593	158,965
Telephone	123,012	117,602	130,172
Miscellaneous	238,628	237,027	251,819
Total noninterest expense	$ 6,808,471	$ 6,621,661	$ 6,500,180
Noninterest expense as a percentage of average total assets	1.73%	1.74%	1.86%

Capital

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and the 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 shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less certain intangibles. 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.

At December 31, 2004, the Company and the Bank exceeded the minimum regulatory capital ratios, as set forth in the following table.

Analysis of Capital

	Analysis of Capital Required Minimums	Consolidated Company	Maryland Bank
2004			
Total risk-based capital ratio	8.0%	43.3%	41.3%
Tier I risk-based capital ratio	4.0%	41.7%	40.1%
Tier I leverage ratio	4.0%	16.0%	15.3%
2003			
Total risk-based capital ratio	8.0%	39.1%	37.1%
Tier I risk-based capital ratio	4.0%	37.6%	35.9%
Tier I leverage ratio	4.0%	16.0%	14.9%
2002			
Total risk-based capital ratio	8.0%	40.7%	38.9%
Tier I risk-based capital ratio	4.0%	39.4%	37.7%
Tier I leverage ratio	4.0%	15.9%	15.1%

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.

Accounting Rule Changes

The following recent accounting pronouncements would apply to the Company if the Company or the Bank entered into an applicable activity.

FASB Statement No. 151, Inventory Costs - an Amendment of ARB No. 43, Chapter 4, is a result of a broader effort by the FASB working with the International Accounting Standards Board to improve comparability of cross-border financial reporting.

FASB Statement No. 152, Accounting for Real Estate Time-Sharing Transactions, amends FASB Statement No. 66 Accounting for Sales of Real Estate to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2, Accounting for Real Estate Time Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions.

FASB Statement No. 153, Exchanges of Nonmonetary Assets an Amendment of AP Opinion No. 29, eliminates the exception to fair value for exchanges of similar productive assets that was provided in APB Opinion No. 29.

FASB Statement No. 123, Accounting for Stock-Based Compensation (Revised 2004) Share Based Payment, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The Statement eliminates the alternative to use the Accounting Principles Board Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. Under Opinion 25, issuing stock options to employees generally result in recognition of no compensation costs. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. In addition, this Statement amends FASB Statement No. 95, Statement of Cash Flows to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. This Statement is effective as of the first interim or annual reporting period that begins after June 15, 2005.

AICPA Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, prohibits the carrying over of valuation allowances in loans and securities acquired in a transfer. At transfer, the assets are to be recorded at the total cash flows expected to be collected. The SOP is effective for loans acquired in fiscal years beginning after December 15, 2004.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Impact of Inflation

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 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. See "Liquidity and Interest Rate Sensitivity" above.

Item 8. Financial Statements and Supplementary Data

In response to this Item, the information included on pages 1 through 21 of the Company's Annual Report to Shareholders for the year ended December 31, 2004, is incorporated herein by reference.

PART III

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There have been no changes in or disagreements with accountants on accounting or financial disclosure during the fiscal year covered by this report.

Item 9A. Controls and Procedures

Evaluation of disclosure 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.

Internal Control Over Financial Reporting

Management Report on Internal Control over Financial Reporting

Calvin B. Taylor Bankshares, Inc. maintains a system of internal control over financial reporting, which is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable published financial statements. The system includes an organizational structure and division of responsibility, established policies and procedures including a code of conduct to foster a strong ethical climate, and the careful selection, training, and development of our staff. The system contains self-monitoring mechanisms, and an internal auditor monitors the operation of the internal control system and reports findings and recommendations to management and the board of directors. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. The board, operating through its audit committee, which is composed entirely of directors who are not officers or employees of the Company, provides oversight to the financial reporting process.

There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system may vary over time and with circumstances.

The Company assessed its internal control system as of December 31, 2004 in relation to criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, the Company believes that, as of December 31, 2004, its system of internal control over financial reporting met those criteria.

Calvin B. Taylor Bankshares, Inc.

Date: March 15, 2005 By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chairman & Chief Executive Officer
(Principal Executive Officer)

Date: March 15, 2005 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Calvin B. Taylor Bankshares, Inc. and Subsidiary
Berlin, Maryland

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Calvin B. Taylor Bankshares, Inc. and Subsidiary maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Calvin B. Taylor Bankshares, Inc. and Subsidiary maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Calvin B. Taylor Bankshares, Inc. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America, the balance sheets and the related statements of income, changes in stockholders' equity and cash flows of Calvin B. Taylor Bankshares, Inc. and Subsidiary, and our report dated February 2, 2005, expressed an unqualified opinion.

/s/ Rowles & Company, LLP

Baltimore, Maryland
February 2, 2005

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.

Audit Committee and Financial Expert

The Board of Directors has adopted a written Audit Policy, which serves as a charter for the Audit Committee. The Audit Committee is comprised of seven independent directors, including Chairman James R. Bergey, Jr. who serves as the financial expert.

Item 10. Directors and Executive Officers of the Registrant

In response to this item, the information included on page 4 of the Company's Proxy Statement for Annual Meeting of Shareholders To Be Held on May 11, 2005, is incorporated herein by reference.

Item 11. Executive Compensation

In response to this item, the information included on page 4 of the Company's Proxy Statement for Annual Meeting of Shareholders To Be Held on May 11, 2005, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

In response to this item, the information included on page 5 of the Company's Proxy Statement for Annual Meeting of Shareholders To Be Held on May 11, 2005, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

In response to this item, the information included on page 4 of the Company's Proxy Statement for Annual Meeting of Shareholders To Be Held on May 11, 2005, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

In response to this item, the information included on page 6 of the Company's Proxy Statement for Annual Meeting of Shareholders To Be Held on May 11, 2005, is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Exhibits

3.1 Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of Registration Statement Form S-4, File No. 33-99762.

3.2 Bylaws of the Company, incorporated by reference to Exhibit 3.2 of Registration Statement Form S-4, File No. 33-99762.

13 Annual Report to Shareholders for the year ended December 31, 2004.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of the year ended December 31, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

Date: March 15, 2005 By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chief Executive Officer
Chairman of the Board of Directors

Date: March 15, 2005 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 15, 2005 By: /s/ James R. Bergey, Jr.
James R. Bergey, Jr., Director

Date: March 15, 2005 By: /s/ George H. Bunting, Jr.
George H. Bunting, Jr., Director

Date: March 15, 2005 By: /s/ John H. Burbage, Jr.
John H. Burbage, Jr., Director

Date: March 15, 2005 By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chief Executive Officer
Chairman of the Board of Directors

Date: March 15, 2005 By: /s/ Reese F. Cropper, III
Reese F. Cropper, III, Director

Date: March 15, 2005 By: /s/ Hale Harrison
Hale Harrison, Director

Date: March 15, 2005 By: /s/ Gerald T. Mason
Gerald T. Mason, Director

Date: March 15, 2005 By: /s/ William H. Mitchell
William H. Mitchell,

Vice President and Director

Date: March 15, 2005 By: /s/ Joseph E. Moore
Joseph E. Moore, Director

Date: March 15, 2005 By: /s/ Michael L. Quillin
Michael L. Quillin, Sr., Director

Date: March 15, 2005 By: /s/ D. Bruce Rogers
D. Bruce Rogers, Director

Date: March 15, 2005 By: /s/ Raymond M. Thompson
Raymond M. Thompson,
President and Director

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 Annual Report on Form 10-K for the period ended December 31, 2003 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: March 15, 2005 By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chairman & Chief Executive Officer
(Principal Executive Officer)

Date: March 15, 2005 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

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 annual report on Form 10-K of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 subsidiaries, is made known to us by others within those entities, particularly during the quarterly period in which this annual 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 annual report (the "Evaluation Date"); and

a. presented in this annual 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 annual 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: March 15, 2005 By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.
Chairman & Chief Executive Officer
(Principal Executive Officer)

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 annual report on Form 10-K of Calvin B. Taylor Bankshares, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 subsidiaries, is made known to us by others within those entities, particularly during the quarterly period in which this annual 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 annual report (the "Evaluation Date"); and

c. presented in this annual 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 annual 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: March 15, 2005 By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer
(Principal Financial Officer)

EXHIBIT 13

ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2004

Calvin B. Taylor Bankshares, Inc.
and Subsidiary

Financial Statements

December 31, 2004

Calvin B. Taylor Bankshares, Inc.
and Subsidiary

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Calvin B. Taylor Bankshares, Inc. and Subsidiary
Berlin, Maryland

We have audited the accompanying consolidated balance sheets of Calvin B. Taylor Bankshares, Inc. and Subsidiary as of December 31, 2004, 2003, and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calvin B. Taylor Bankshares, Inc. and Subsidiary as of December 31, 2004, 2003, and 2002, and the results of its operations and its cash flows for each of the three years then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board in the United States of America, the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 2, 2005, expressed an unqualified opinion thereon.

/s/ Rowles & Company, LLP

Baltimore, Maryland
February 2, 2005

Calvin B. Taylor Bankshares, Inc.
and Subsidiary
Consolidated Balance Sheets

	December 31, 2004	2003	2002
Assets			
Cash and due from banks	$ 21,901,546	$ 20,482,866	$ 21,051,412
Federal funds sold	32,692,233	29,525,781	54,821,617
Interest-bearing deposits	2,161,496	2,281,337	1,432,205
Investment securities available for sale	5,921,287	9,265,471	8,390,550
Investment securities held to maturity (approximate fair value of $155,107,698, $150,075,210,and $115,470,092)	156,029,445	149,666,806	114,181,749
Loans, less allowance for loan losses of $2,177,926, $2,187,277, and $2,181,135	161,510,157	162,243,008	161,824,677
Premises and equipment	6,891,238	7,064,970	5,745,842
Accrued interest receivable	1,415,775	1,344,613	1,405,587
Computer software	322,209	265,961	283,303
Bank owned life insurance	4,214,806	4,054,035	-
Other assets	272,790	291,553	106,004
	$393,332,982	$386,486,401	$369,242,946
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	$ 78,542,414	$ 75,601,460	$ 73,289,541
Interest-bearing	241,229,944	242,344,593	228,205,925
	319,772,358	317,946,053	301,495,466
Securities sold under agreements to repurchase	5,933,466	4,113,154	4,029,100
Pending purchases of investment securities	-	-	2,990,830
Accrued interest payable	116,502	145,044	243,468
Note payable	162,161	181,087	198,912
Deferred income taxes	549,070	355,632	70,156
Other liabilities	101,857	109,399	199,728
	326,635,414	322,850,369	309,227,660

Stockholders' equity			
Common stock, par value $1 per share; authorized 10,000,000 shares; issued and outstanding 3,208,478 shares at December 31, 2004, 3,227,966 shares at December 31,2003,and 3,240,000 shares at December 31, 2002	3,208,478	3,227,966	3,240,000
Additional paid-in capital	16,187,005	16,869,085	17,290,000
Retained earnings	45,917,427	42,391,363	38,788,018
	65,312,910	62,488,414	59,318,018
Accumulated other comprehensive income	1,384,658	1,147,618	697,268
	66,697,568	63,636,032	60,015,286
	$393,332,982	$386,486,401	$369,242,946

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

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

	Years Ended December 31, 2004	2003	2002
Interest and dividend revenue			
Loans, including fees	$ 11,512,125	$ 12,115,447	$ 13,095,218
U. S. Treasury and government agency securities	2,822,526	2,817,600	3,456,932
State and municipal securities	273,712	219,806	224,662
Federal funds sold	547,226	540,804	922,620
Interest-bearing deposit	47,574	42,363	41,661
Equity securities	48,592	43,227	37,792
Total interest and dividend revenue	15,251,755	15,779,247	17,778,885
Interest expense			
Deposit interest	1,535,171	2,110,465	3,996,749
Borrowings	18,723	21,493	40,848
Total interest expense	1,553,894	2,131,958	4,037,597
Net interest income	13,697,861	13,647,289	13,741,288
Provision for loan losses	-	-	25,000
Net interest income after provision for loan losses	13,697,861	13,647,289	13,716,288
Noninterest revenue			
Service charges on deposit accounts	1,050,504	1,028,306	993,302
ATM and debit card revenue	322,716	275,974	252,755
Miscellaneous revenue	376,577	259,556	216,405
Gain on sale of real estate	-	-	267,844
Total noninterest revenue	1,749,797	1,563,836	1,730,306
Noninterest expenses			
Salaries	3,136,220	3,092,919	2,994,325

Employee benefits	767,058	734,495	628,516
Occupancy	593,475	536,269	455,651
Furniture and equipment	551,721	542,433	578,779
Other operating	1,759,997	1,715,545	1,842,909
Total noninterst expenses	6,808,471	6,621,661	6,500,180
Income before income taxes	8,639,187	8,589,464	8,946,414
Income taxes	3,026,000	3,049,250	3,192,498
Net income	$5,613,187	$5,540,214	$5,753,916
Earnings per common share	$1.74	$1.71	$1.78

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

Calvin B. Taylor Bankshares, Inc.
and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity

	Common stock Shares	Common stock Par value	Additional Paid-in capital	Retained earnings	Accumulated other comprehensive income	Comprehensive income
Balance, December 31, 2001	3,240,000	3,240,000	17,290,000	36,274,102	438,468	
Net income	-	-	-	5,753,916	-	$5,753,916
Unrealized gain on investment securities available for sale net of income taxes	-	-	-	-	258,800	258,800
Comprehensive income						$6,012,716
Cash dividend, $1.00 per share	-	-	-	(3,240,000)	-	
Balance, December 31, 2002	3,240,000	3,240,000	17,290,000	38,788,018	697,268	
Net income	-	-	-	5,540,214	-	$5,540,214
Unrealized gain on investment securities available for sale net of income taxes	-	-	-	-	450,350	450,350
Comprehensive income						$5,990,564
Common shares repurchased	(12,034)	(12,034)	(420,915)	-	-	
Cash dividend,						

$.60 per share	-	-	-	(1,936,869)	-	
Balance, December 31, 2003	3,227,966	$ 3,227,966	$16,869,085	$42,391,363	$1,147,618	
Net income	-	-	-	5,613,187	-	$5,613,187
Unrealized loss on investment securities available for sale net of income taxes	-	-	-	-	237,040	237,040
Comprehensive income						$5,850,227
Common shares repurchased	(19,488)	(19,488)	(682,080)	-	-	
Cash dividend, $.65 per share	-	-	-	(2,087,123)	-	
Balance, December 31, 2004	3,208,478	$ 3,208,478	$16,187,005	$45,917,427	$1,384,658	

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

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

	Years Ended December 31,		
	2004	2003	2002
Cash flows from operating activities			
Interest received	$ 15,076,687	$ 15,761,248	$ 17,961,046
Fees and commissions received	1,640,852	1,507,872	1,462,551
Interest paid	(1,582,435)	(2,230,381)	(4,323,477)
Cash paid to suppliers and employees	(6,149,693)	(6,026,828)	(5,909,413)
Income taxes paid	(3,013,895)	(3,232,338)	(2,997,807)
	5,971,516	5,779,573	6,192,900
Cash flows from investing activities			
Certificates of deposits purchased, net of maturities	(567)	(699,000)	(553,205)
Proceeds from maturity of investments available for sale	4,000,000	-	-
Purchase of investments available for sale	(264,504)	(182,500)	(3,994,520)
Proceeds from maturities of investments held to maturity	102,010,000	107,310,000	91,445,000
Purchase of investments held to maturity	(108,272,336)	(145,709,919)	(118,071,995)

Loans made, net of principal collected	732,851	(418,331)	4,651,835
Proceeds from sale of premises and equipment	-	-	503,160
Purchases of and deposits on premises,equipment,and computer software	(551,236)	(1,941,071)	(650,339)
Purchase of bank owned life insurance	-	(4,000,000)	-
	(2,345,792)	(45,640,821)	(26,670,064)
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	(9,431,045)	(1,459,208)	(10,215,697)
Other deposits	11,257,350	17,909,795	37,561,982
Securities sold under agreements to repurchase	1,820,312	84,054	(526,223)
Payments on note payable	(18,926)	(17,825)	(16,791)
Common shares repurchased	(701,568)	(432,949)	-
Dividends paid	(2,087,123)	(1,936,869)	(3,240,000)
	839,000	14,146,998	23,563,271
Net increase (decrease) in cash and cash equivalents	4,464,724	(25,714,250)	3,086,107
Cash and cash equivalents at beginning of year	50,158,779	75,873,029	72,786,922
Cash and cash equivalents at end of year	$54,623,503	$50,158,779	$75,873,029

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

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

	Years Ended December 31,		
	2004	2003	2002
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 5,613,187	$ 5,540,214	$ 5,753,916
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	656,293	633,383	629,738
Provision for loan losses	-	-	25,000
Deferred income taxes	42,212	46,409	41,962
Amortization of premiums and accretion of discounts, net	(103,350)	(78,972)	(166,069)

(Gain) loss on disposition of assets	12,427	5,902	(260,880)
Decrease (increase) in			
Accrued interest receivable	(71,162)	60,974	348,229
Cash surrender value of bank owned life insurance	(160,771)	(54,035)	-
Other assets	18,763	(185,549)	(8,914)
Increase (decrease) in			
Accrued interest payable	(28,542)	(98,424)	(285,880)
Accrued income taxes	(30,107)	-	152,730
Other liabilities	22,566	(90,329)	(36,932)
	$ 5,971,516	$ 5,779,573	$ 6,192,900

Composition of cash and cash equivalents			
Cash and due from banks	$ 21,901,546	$ 20,482,866	$ 21,051,412
Federal funds sold	32,692,233	29,525,781	54,821,617
Interest-bearing deposits, except for time deposits	29,724	150,132	-
	$ 54,623,503	$ 50,158,779	$ 75,873,029

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

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

1. Summary of Significant Accounting Policies

Calvin B. Taylor Bankshares, Inc. is a bank holding company. Its subsidiary, Calvin B. Taylor Banking Company, is a financial institution operating primarily in Worcester County, Maryland and Sussex County, Delaware.

The accounting and reporting policies reflected in the financial statements conform to generally accepted accounting principles and to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Principles of consolidation

The consolidated financial statements of Calvin B. Taylor Bankshares, Inc. include the accounts of its wholly owned subsidiary, Calvin B. Taylor Banking Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold and interest-bearing deposits except for time deposits. Federal funds are purchased and sold for one-day periods.

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities classified as available-for-sale are recorded at fair value.

Gains and losses on disposal are determined using the specific-identification method.

Loans and allowance for loan losses

Loans are stated at face value less the allowance for loan losses. Interest on loans is credited to income based on the principal amounts outstanding. The accrual of interest is discontinued when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full.

The allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent risks in the loan portfolio. The minimum range of the allowance for loan losses is calculated by applying risk-weighted percentages to loans based on their delinquency and underlying collateral. The portion of the allowance that is a result of geographic and industry concentrations and current economic conditions is not allocated to specific loans. At December 31, 2004, the allowance included approximately $1,040,028 that was not allocated to specific loans.

1. Summary of Significant Accounting Policies (Continued)

Loans and allowance for loan losses (continued)

If the current economy or real estate market were to suffer a severe downturn, the estimate for uncollectible accounts would need to be increased. Loans that are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed under both straight-line and accelerated methods over the estimated useful lives of the assets.

Computer software

The Company amortizes software costs over their useful lives using the straight-line method.

Bank owned life insurance

The Company records increases in cash surrender value of bank owned life insurance as current period income based on projections provided by the underwriting company.

Advertising

Advertising costs are expensed as incurred.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income. Tax expense and tax benefits are allocated to the banks and company based on their proportional share of taxable income.

Per share data

Earnings per common share are determined by dividing net income by the weighted average of shares outstanding for the period. The weighted average of common shares outstanding was 3,219,116,3,235,767,and 3,240,000 shares outstanding, for the years ended December 31, 2004, 2003, and 2002, respectively.

2. Cash and Due From Banks

The Company normally carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were $42,076,235 for 2004,$53,869,724 for 2003,and $59,942,898 for 2002.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Company's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. Investment Securities

Investment securities are summarized as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Market value
December 31, 2004				
Available for sale				
U.S. Treasury	$ 1,994,909	$ 559,778	$ -	$ 2,554,687
State and municipal	100,000	1,034	-	101,034
Equity	1,612,712	1,653,106	252	3,265,566
	$ 3,707,621	$2,213,918	$ 252	$ 5,921,287
Held to maturity				
U.S. Treasury	$116,617,254	$ 3,267	$602,820	$116,017,701
U.S. Government agency	19,991,938	1,615	216,549	19,777,004
State and municipal	19,420,253	982	108,242	19,312,993
	$156,029,445	$ 5,864	$927,611	$155,107,698
December 31, 2003				

Available for sale				
U.S. Treasury	$ 5,991,862	$ 588,451	$ -	$ 6,580,313
Equity	1,448,208	1,236,950	-	2,685,158
	$ 7,440,070	$1,825,401	$ -	$ 9,265,471
Held to maturity				
U.S. Treasury	$116,440,258	$ 416,411	$ 34,334	$116,822,335
U.S. Government agency	17,000,810	69,385	60,879	17,009,316
State and municipal	16,225,738	34,016	16,195	16,243,559
	$149,666,806	$ 519,812	$111,408	$150,075,210
December 31, 2002				
Available for sale				
U.S. Treasury	$ 5,988,858	$ 618,012	$ -	$ 6,606,870
Equity	1,265,708	552,416	34,444	1,783,680
	$ 7,254,566	$1,170,428	$ 34,444	$ 8,390,550
Held to maturity				
U.S. Treasury	$ 86,065,325	$ 992,655	$ -	$ 87,057,980
U.S. Government agency	19,902,908	211,063	-	20,113,971
State and municipal	8,213,516	85,275	650	8,298,141
	$114,181,749	$1,288,993	$ 650	$115,470,092

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

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 December 31, 2004, aggregated by length of time the individual securities have been in a continous unrealized loss position.

	Less than 12 months		12 monthes or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. Treasury	$106,788,806	$ 591,710	$ 1,990,313	$ 11,110	$ 108,779,119	$ 602,820
U. S. Government Agency	17,290,458	201,480	984,931	15,069	18,275,389	216,549
State and municipal	17,974,368	105,227	197,840	3,015	18,172,208	108,242
Equity	19,344	252	-	-	19,344	242
	$142,072,976	$ 898,669	$ 3,173,084	$ 29,194	$ 145,246,060	$ 927,863

The debt securities for which an unrealized loss is recorded are issues of the United States Treasury, Federal Home Loan Bank(a U.S. government agency), and general obligations of states and municipalities. These securitites are classified as held-to maturity because the Company has the ability and the intent to hold the securitites until they are called or mature at face value. Fluctuatuions in fair value are reflective of market conditions, and not indicative of an other than temporary impairment of the investment.

The equity security for which an unrealized loss is recorded was purchased during 2004 as a long-term investment. This short-term value fluctuation is not indicative of an other than temporary impairment of the investment.

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

	December 31, 2004 Amortized cost	December 31, 2004 Fair value	December 31, 2003 Amortized cost	December 31, 2003 Fair value	December 31, 2002 Amortized cost	December 31, 2002 Fair value
Available for sale						
Within one year	$ -	$ -	$3,997,243	$4,021,251	$ -	$ -
After one year through five years	100,000	101,034	-	-	3,994,528	4,003,750
After ten years	1,994,909	2,554,687	1,994,619	2,559,062	1,994,330	2,603,120
	$2,094,909	$2,655,721	5,991,862	$6,580,313	$5,988,858	$6,606,870
Held to maturity due						
Within one year	$72,905,414	$72,619,263	$72,871,344	$73,184,592	$55,013,475	$55,394,968
After one year through five years	83,124,031	82,488,435	76,795,462	76,890,618	59,168,274	60,075,124
	$156,029,445	$155,107,698	$149,666,806	$150,075,210	$114,181,749	$115,470,092
Pledged securities	$27,289,502	$27,610,734	$21,790,367	$21,870,641	$20,868,000	$21,248,011

Investments are pledged to secure deposits of federal and local governments. Pledged securities also serve as collateral for securities sold under agreements to repurchase.

4. Lines of Credit

The Company has available lines of credit, including overnight federal funds, reverse repurchase agreements and letters of credit, totaling $19,000,000 as of December 31,2004, 2003, and 2002.

5. Loans and Allowance for Loan losses

Major classifications of loans are as follows:

	2004	2003	2002
Commercial	$ 14,007,430	$ 13,199,879	$ 12,765,723
Real estate	141,029,581	134,492,195	139,354,241
Construction	6,640,665	14,107,588	8,447,354
Consumer	2,010,407	2,630,623	3,438,494
	163,688,083	164,430,285	164,005,812
Allowance for loan losses	2,177,926	2,187,277	2,181,135
Loans, net	$161,510,157	$162,243,008	$161,824,677

The rate repricing distribution of the loan portfolio follows:

Immediately	$159,522,150	$160,730,764	$160,567,318
Within one year	1,240,935	1,405,338	813,678
Over one to five years	2,107,774	2,031,134	2,197,969
Over five years	817,224	263,049	426,847
	$163,688,083	$164,430,285	$164,005,812

Outstanding loan commitments, lines of credit, and letters of credit are as follows:

Loan commitments and lines of credit			
Construction and land development	$ 7,294,592	$ 10,495,735	$ 10,557,644
Other	21,276,025	15,036,346	11,876,437
	$ 28,570,617	$ 25,532,081	$ 22,434,081
Standby letters of credit	$ 1,535,210	$ 2,957,508	$ 1,726,127

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest at current market rates, fixed expiration dates, and may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

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

5. Loans and Allowance for Loan losses (Continued)

Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company's exposure to loan loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment.

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.

Transactions in the allowance for loan losses were as follows:

	2004	2003	2002
Beginning balance	$ 2,187,277	$ 2,181,135	$ 2,195,922
Provision charged to operations	-	-	25,000
Recoveries	4,523	9,565	8,983
	2,191,800	2,190,700	2,229,905

Loans charged off	13,874	3,423	48,770
Ending balance	$ 2,177,926	$ 2,187,277	$ 2,181,135

Amounts past due 90 days or more, and still accruing interest, are as follows:

Commercial	$ 151,063	$ 55,795	$ 17,370
Real estate	200,278	251,658	250,206
Consumer	40,335	7,942	15,280
	$ 391,676	$ 315,395	$ 282,856

Management has identified no impaired loans at December 31, 2004, 2003, and 2002. There were no non-accruning loans at December 31,2004 or December 13, 2003. Accrual of interest had been discontinued on one loan with a balance of $2,222 at December 31, 2002.

6. Lease Commitments

The Company leases the land on which the Route 50 branch in East Berlin is located. The lease obligation, which expires August 31, 2009, requires payments as follows:

Period	Minimum rentals
2005	15,000
2006	15,000
2007	15,000
2008	15,000
2009	10,000
	$ 70,000

7. Premises and Equipment

A summary of premises and equipment and the related depreciation is as follows:

	Estimated useful life	2004	2003	2002
Land		$ 2,076,097	$ 1,893,946	$ 1,659,793
Premises	5 - 50 years	6,400,025	6,423,636	5,028,225
Furniture and equipment	5 - 40 years	3,473,775	3,446,813	3,326,082
Construction in progress		-	-	210,583
		11,949,897	11,764,395	10,224,683
Accumulated depreciation		5,058,659	4,699,425	4,478,841
Net premises and equipment		$ 6,891,238	$ 7,064,970	$ 5,745,842

Depreciation expense	$ 539,102	$ 541,647	$ 514,285

8. Deposits

Major classifications of interest-bearing deposits are as follows:

	2004	2003	2002
Money market	$ 49,362,532	$ 50,168,501	$ 46,942,638
Savings and NOW	122,559,288	114,896,131	102,524,118
Other time	69,308,124	77,279,961	78,739,169
	$241,229,944	$242,344,593	$228,205,925

The rate repricing distribution of other time deposits follows:

Three months or less	$ 22,567,632	$ 26,832,009	$ 28,235,099
Over three through twelve months	34,055,564	35,832,764	36,006,763
Over one through two years	12,684,928	14,615,188	14,497,307
	$ 69,308,124	$ 77,279,961	$ 78,739,169

Included in other time deposits are certificates of deposit of $100,000 or more as follows:

Amount outstanding	$ 18,624,257	$ 20,037,763	$ 15,842,086
Interest expense	$ 276,074	$ 324,822	$ 597,603

9. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent overnight borrowings from customers. The government agency securities that collateralize these agreements are owned by the Company but maintained in the custody of an unaffiliated bank designated by the Company. Additional information follows.

	2004	2003	2002
Maximum month-end amount outstanding	$ 7,617,275	$ 6,542,540	$ 6,531,215
Average amount outstanding	5,020,787	4,134,892	4,954,682
Average rate paid during the year	.17%	.24%	.57%
Investment securities underlying the agreements at year end			
Carrying value	21,991,519	16,993,472	15,994,905
Estimated fair value	21,838,750	17,050,781	16,306,570

10. Note Payable

The Company purchased real estate, financing 100% of the purchase price. The 6% unsecured note has a final maturity of September, 2011. Maturities of this note are as follows:

2005	20,092
2006	21,332
2007	22,647
2008	24,044
2009	25,527
Remaining years	48,519
	$162,161

11. Profit Sharing Plan

In 1999, the Company adopted a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. The plan covers substantially all of the employees and allows discretionary Company contributions. Annually, the Board of Directors approves a discretionary contribution in addition to matching 50% of employee contributions to a maximum of 6% of the employee wages.

The total cost of the profit sharing plan for 2004,2003,and 2002, were $149,171, $170,395, and $146,568, respectively.

12. Non-interest Expenses

The components of non-interest other operating expenses follow:

	2004	2003	2002
Advertising	$ 145,583	$ 152,358	$ 154,382
ATM and debit card	232,353	201,354	194,536
Business and product development	70,720	66,480	64,448
Computer software amortization	117,191	91,736	115,453
Computer software maintenance contracts	82,514	97,570	91,141
Courier service	103,922	93,457	96,120
Deposit insurance	45,403	46,975	47,800
Director fees	89,375	84,240	80,600
Dues, donations, and subscriptions	81,328	80,842	81,171
Freight	60,829	67,517	62,294
Liability insurance	41,556	47,160	60,042
Postage	169,569	168,083	181,567
Professional fees	22,745	37,551	72,399
Stationery and supplies	135,269	125,593	158,965
Telephone	123,012	117,602	130,172
Miscellaneous	238,628	237,027	251,819
	$1,759,997	$1,715,545	$1,842,909

13. Related Party Transactions

The executive officers and directors of the Company enter into loan transactions with the Banks in the ordinary course of business. The terms of these transactions are similar to the terms provided to

other borrowers entering into similar loan transactions.
Executive officers and directors make deposits in the Bank, and invest in uninsured non-deposit investment products. They receive the same rates and terms on insured deposit accounts and securities sold under agreements to repurchase as other customers with simialar accounts

	2004	2003	2002
Beginning balance	$ 9,156,940	$ 11,133,959	$ 11,079,167
Advances	9,146,486	8,550,318	6,034,153
	18,303,426	19,684,277	17,113,320
Repayments	12,096,074	10,527,337	5,884,153
Other decreases	100	-	95,208
Ending balance	$ 6,207,252	$ 9,156,940	$ 11,133,959
Deposit and non-deposit investment balances	$ 13,833,657	$ 9,466,866	$ 8,041,253

The Company obtains legal services from a law firm in which one of the principal attorneys is also a member of the Board of Directors. Fees charged for these services are at similar rates charged by unrelated law firms for similar legal work. There were no payments to this related party during 2004. Amounts paid to this related party totaled $3,490, and $1,235,during the years ended December 31, 2003, and 2002.

14. Income Taxes

The components of income tax expense are as follows:

	2004	2003	2002
Current			
Federal	$2,597,535	$2,613,587	$2,772,796
State	386,253	389,254	377,740
	2,983,788	3,002,841	3,150,536
Deferred	42,212	46,409	41,962
	$3,026,000	$3,049,250	$3,192,498

The components of the deferred tax are as follows:

Provision for loan losses	$ 5,820	$ (2372)	$ 2,656
Non-accrual loan interest	-	43	(43)
Depreciation	30,862	47,512	32,334
Discount accretion	5,367	(128)	3,191
Net operating loss carryforward for state income tax	163	(163)	-
Organization costs	-	1,517	3,824
	$ 42,212	$ 46,409	$ 41,962

The components of the net deferred tax liability are as follows:

Deferred tax asset			
Allowance for loan losses	$ 597,675	$ 603,495	$ 601,123
Non-accrual loan interest	-	-	43
Net operating loss carryforward for state income tax		163	-
Organization costs	-	-	1,517
	597,675	603,658	602,683
Deferred tax liabilities			
Depreciation	298,974	268,112	220,601
Discount accretion	18,762	13,395	13,523
Unrealized gain on securities available for sale	829,009	677,783	438,715
	1,146,745	959,290	672,839
Net deferred tax liability	$ (549,070)	$ (355,632)	$ (70,156)

A reconciliation of the provision for taxes on income from the statutory federal income tax rates to the effective income tax rates follows:

Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
Increase (decrease) in tax rate resulting from			
Tax-exempt income	(2.0)	(1.5)	(1.1)
State income taxes net of federal income tax benefit	3.0	3.0	2.8
	35.0 %	35.5 %	35.7 %

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15. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value techniques prescribed by the Financial Accounting Standards Board and may not be indicative of the net realizable or liquidation values. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	December 31, 2004		December 31, 2003		December 31, 2002	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and due from						

banks	$21,901,546	$22,074,622	$20,482,866	$20,632,954	$21,051,412	$21,163,525
Interest-bearing deposits	2,161,496	2,163,186	2,281,337	2,305,344	1,432,205	1,469,452
Investment securities	161,950,732	161,028,985	158,932,277	159,340,681	122,572,299	123,860,642
Loans, net	161,510,157	161,534,247	162,243,008	162,289,522	161,824,677	161,892,242
Financial liabilities						
Interest-bearing deposits	$241,229,944	$241,284,245	$242,344,593	$242,471,838	$228,205,925	$228,558,735
Note payable	162,161	158,414	181,087	176,288	198,912	193,045

The fair value of federal funds sold, noninterest-bearing deposits, and securities sold under agreements to repurchase equals their carrying value.

The fair value of silver coin included with cash is determined based on quoted market prices.

The fair value of interest-bearing deposits with other financial institutions is estimated based on quoted interest rates for certificates of deposit with similar remaining terms.

The fair values of equity securities are determined using market quotations. The fair values of debt securities are estimated using a matrix that considers yield to maturity, credit quality, and marketability.

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect for loans of the same class and term. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for possible loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-rate time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

It is not practicable to estimate the fair value of outstanding loan commitments, unused lines, and letters of credit.

16. Capital Standards

The Federal Reserve Board and the Federal Deposit Insurance Corporation have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. The capital ratios and minimum capital requirements of the Company are as follows:

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2004						
Total risk-based capital (to risk weighted assets)	$67,862	43.3%	$12,526	8.0%	$15,657	10.0%
Tier 1 capital (to risk-weighted assets)	$65,313	41.7%	$ 6,263	4.0%	$ 9,394	6.0%
Tier 1 capital (to average fourth quarter assets)	$65,313	16.0%	$16,307	4.0%	$20,384	5.0%
December 31, 2003						
Total risk-based capital (to risk weighted assets)	$65,082	39.1%	$13,299	8.0%	$16,624	10.0%
Tier 1 capital (to risk-weighted assets)	$62,488	37.6%	$ 6,650	4.0%	$ 9,974	6.0%
Tier 1 capital (to average fourth quarter assets)	$62,488	16.0%	$15,636	4.0%	$19,545	5.0%
December 31, 2002						
Total risk-based capital (to risk weighted assets)	$61,255	40.7%	$12,032	8.0%	$15,040	10.0%
Tier 1 capital (to risk-weighted assets)	$59,318	39.4%	$ 6,016	4.0%	$ 9,024	6.0%
Tier 1 capital (to average fourth quarter assets)	$59,318	15.9%	$14,902	4.0%	$18,628	5.0%

Tier 1 capital consists of common stock, additional paid in capital, and retained earnings. Total risk-based capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specific risk percentages are applied to each category of asset and off-balance sheet items.

Failure to meet the capital requirements could affect the Company's ability to pay dividends and accept deposits, and may significantly affect the operations of the Company.

In the most recent regulatory report, the Company was determined to be well capitalized. Management has no plans that should change the classification of the capital adequacy.

17. Parent Company Financial Information

Balance Sheets	December 31, 2004	2003	2002
Assets			

Cash and due from banks	$ 10,651	$ 52,244	$ 353,604
Interest-bearing deposits	530,291	650,132	-
Investment securities available for sale	3,265,566	2,685,158	1,783,680
Investment securities held to maturity	503,156	499,692	499,230
Investment in subsidiary bank	61,630,473	58,798,328	56,226,822
Premises and equipment	1,311,740	1,342,696	1,375,315
Other assets	77,742	163,001	3,630
Total assets	$ 67,329,619	$ 64,191,251	$ 60,242,281
Liabilities and Stockholders' Equity			
Liabilities			
Deferred income taxes	$ 552,841	$ 393,950	$ 118,136
Other liabilities	79,210	161,269	108,859
	632,051	555,219	226,995
Stockholders' equity			
Common stock	3,208,478	3,227,966	3,240,000
Additional paid-in capital	16,187,005	16,869,085	17,290,000
Retained earnings	45,917,427	42,391,363	38,788,018
Accumulated other comprehensive income	1,384,658	1,147,618	697,268
Total stockholders' equity	66,697,568	63,636,032	60,015,286
Total liabilities and stockholders' equity	$ 67,329,619	$ 64,191,251	$ 60,242,281

	Years Ended December 31,		
Statements of Income	2004	2003	2002
Interest revenue	$ 19,480	$ 12,678	$ 37,066
Dividend revenue	48,676	43,227	37,792
Dividends from subsidiary	2,721,640	2,936,869	1,944,000
Equity in undistributed income of subsidiary	2,850,387	2,562,464	3,612,515
Gain on sale of real estate	-	-	267,844
Rental income and other fees	-	2,028	2,748
	5,640,183	5,557,266	5,901,965
Expenses			
Occupancy	3,251	3,777	15,831
Furniture and equipment		1,167	2,014
Other	22,745	20,272	21,263
	25,996	25,216	39,108
Income before income taxes	5,614,187	5,532,050	5,862,857
Income taxes (benefit)	1,000	(8,164)	108,941
Net income	$ 5,613,187	$ 5,540,214	$ 5,753,916

17. Parent Company Financial Information (Continued)

	Years Ended December 31,		
	2004	2003	2002
Statements of Cash Flows			

Cash flows from operating activities			
Interest and dividends received	$ 2,789,328	$ 2,992,141	$ 2,012,520
Rental payments and fees received	33,600	35,629	24,348
Cash paid for operating expenses	(28,639)	(26,197)	(27,234)
Income taxes refunded (paid)	1,310	(100,483)	1,727
	2,795,599	2,901,090	2,011,361
Cash flows from investing activities			
Certificates of deposit purchased, net of maturities	(564)	(500,000)	1,500,000
Purchase of investments available for sale	(164,504)	(182,500)	-
Proceeds from maturities of investments held to maturity	500,000	-	1,500,000
Purchase of investments held to maturity	(503,842)	-	(1,987,395)
Proceeds from sale of premises and equipment	-	-	500,000
	(168,910)	(682,500)	1,512,605
Cash flows from financing activities			
Common shares repurchases	(701,568)	(432,949)	-
Dividends paid	(2,087,123)	(1,936,869)	(3,240,000)
Net increase (decrease) in cash	(162,002)	(151,228)	283,966
Cash at beginning of year	202,376	353,604	69,638
Cash at end of year	$ 40,374	$ 202,376	$ 353,604

Reconciliation of net income to net cash provided by operating activities			
Net income	$ 5,613,187	$ 5,540,214	$ 5,753,916
Adjustments to reconcile net income to net cash used in operating activities			
Undistributed net income of subsidiary	(2,850,387)	(2,562,464)	(3,612,515)
Amortization of premiums and accretion of discount	21	(462)	(11,835)
Depreciation	30,957	32,619	33,475
Gain on sale of real estate	-	-	(267,844)
Decrease (increase) in other assets	85,259	(159,371)	52,058
Increase (decrease) in deferred income taxes and other liabilities	(83,438)	50,554	64,106
	$ 2,795,599	$ 2,901,090	$ 2,011,361

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18. Quarterly Results of Operations (Unaudited)

	Three months ended			
	December 31,	September 30,	June 30,	March 31,
2004				
Interest revenue	$3,954,857	$3,820,243	$3,733,533	$3,743,122
Interest expense	384,375	382,761	384,221	402,537
Net interest income	3,570,482	3,437,482	3,349,312	3,340,585
Provision for loan losses	-	-	-	-
Net income	1,451,346	1,447,964	1,371,093	1,342,784
Comprehensive income	1,564,420	1,663,271	1,235,704	1,386,832
Earnings per share	$0.45	$0.45	$0.43	$0.42
2003				
Interest revenue	$3,826,749	$3,934,534	$4,024,543	$3,993,421
Interest expense	435,526	473,779	559,096	663,557
Net interest income	3,391,223	3,460,755	3,465,447	3,329,864
Provision for loan losses	-	-	-	-
Net income	1,308,544	1,429,125	1,450,040	1,352,505
Comprehensive income	1,372,451	1,288,388	1,994,551	1,335,174
Earnings per share	$0.40	$0.44	$0.45	$0.42
2002				
Interest revenue	$4,227,559	$4,553,255	$4,555,972	$4,442,099
Interest expense	835,131	995,620	1,036,065	1,170,781
Net interest income	3,392,428	3,557,635	3,519,907	3,271,318
Provision for loan losses	25,000	-	-	-
Net income	1,441,829	1,491,997	1,540,177	1,279,913
Comprehensive income	1,500,543	1,658,031	1,608,412	1,245,730
Earnings per share	$0.45	$0.46	$0.47	$0.40