TAYLOR CALVIN B BANKSHARES INC
Form 10-K
March 28, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

Commission File No. 33-99762

CALVIN B. TAYLOR BANKSHARES, INC.
(Exact name of registrant as specified in its Charter)

Maryland

(State or other jurisdiction of incorporation or organization)

52-1948274
(I.R.S. Employer Identification No.)

24 North Main Street, Berlin, Maryland 21811
(Address of principal executive offices)(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

Check 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 past 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 ____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will 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]

The aggregate market value of the Common Stock held by non-affiliates of the registrant on December 31, 2001, was $101,380,125. This calculation is based upon estimation by the Company's Board of Directors of fair market value of the Common Stock of $35.00 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, 2002, 3,240,000 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 8, 2002, is incorporated by reference in this Form 10-K in Part III, Item 9, Item 10, Item 11, and Item 12.

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. Description of Business

General

Calvin B. Taylor Bankshares, Inc. (the "Company") was incorporated as a Maryland corporation on October 31, 1995. The Company owns all of the stock of two banks. The Maryland bank is a commercial bank incorporated under the laws of the State of Maryland on December 17, 1907. This bank operates nine banking offices in Worcester County with the Bank's main office located in Berlin, Maryland. It is engaged in a general commercial and retail banking business serving individuals, businesses, and governmental units in Worcester County, Maryland and neighboring counties. The second bank was incorporated in Delaware in 1997 but opened late in the second quarter of 1998. This one-branch Delaware bank offers the same services as the Maryland bank.

The Company's holding company structure can assist the banks in maintaining their required capital ratios because the Company may, subject to compliance with debt guidelines implemented by the Board of Governors of the Federal Reserve System (the "Board of Governors" or the

"Federal Reserve"), borrow money and contribute the proceeds to the banks 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 banks 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 banks' 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 conducts general commercial banking in its primary service areas, emphasizing the banking needs of individuals and small- to medium-sized businesses and professional concerns. The Maryland bank operates from nine branches located throughout Worcester County, Maryland while the Delaware bank operates from one branch located in Sussex County, Delaware. The Banks draw most of their customer deposits and conduct most of their lending transactions from within their primary service areas, which encompass Worcester County, Maryland, Sussex County, Delaware and neighboring counties.

Both Sussex County, Delaware and Worcester County, Maryland are located along the shores of the Atlantic Ocean and have experienced population growth in recent years. The area is growing as both a resort and a retirement community.

The principal components of the economy of the counties 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 the largest employers in the counties. The largest industrial employers are Perdue Farms and Hudson Farms.

Banking Services

The banks offer a full range of deposit services including checking, NOW and Money Market accounts, savings and time deposits including certificates of deposit. The transaction accounts and time certificates are tailored to the banks' principal market areas at rates competitive to those offered in the area. In addition, the banks offer certain retirement account services, such as Individual Retirements Accounts ("IRAs"). All deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount allowed by law (generally, $100,000 per depositor subject to aggregation rules). The banks solicit these accounts from individuals, businesses, associations and organizations, and governmental authorities.

The Company, through its banks, 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 Company originates commercial and residential mortgage loans and real estate construction and acquisition loans. These lending activities are subject to a variety of lending limits imposed by state and federal law. Neither bank may make any loans to any director, officer, or employee (except for commercial loans to directors who are not officers or employees) unless the loans are approved by the Board of Directors of the lending bank. The Board of Directors must review any such loans every six months.

Other bank services include cash management services, 24-hour ATM's, credit cards, debit cards, safe deposit boxes, travelers' checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. In 2002, the banks plan to offer Internet banking including electronic bill-payment services to both commercial and retail customers.

Competition

The Company faces strong competition in all areas of its 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 banks also compete for deposits with money market mutual funds and corporate and government securities. The banks compete 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 banks' employ 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, 2001, the banks employed 97 full-time equivalent employees. The Company's operations are conducted through the banks. Consequently, the Company does not have separate employees. None of the employees of the banks are represented by any collective bargaining unit. The banks consider their relations with their employees to be good.

SUPERVISION AND REGULATION

The Company and the banks 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 banks. 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 banks 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

On November 12, 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 banks 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 banks.

The Company

Because it owns the outstanding common stock of the banks, the Company is a bank holding company within the meaning of the federal Bank Holding Company Act of 1956 (the "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 banks' activities are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, 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 every 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. Some of the activities that the Federal Reserve has determined by regulation to be proper incidents to the business of banking include making or servicing loans and certain types of leases, engaging in certain insurance and discount brokerage activities, performing certain data processing services, acting in certain circumstances as a fiduciary or investment or financial advisor, owning savings and loan associations, and making investments in certain corporations or projects designed primarily to promote community welfare.

Source of Strength; Cross-Guarantee. In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to its banks and to commit resources to support the banks in circumstances in which the Company might not otherwise do so. Under the BHCA, the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional 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 banks 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.

The Banks

General. The banks operate as state nonmember banking associations incorporated under the laws of the State of Maryland and the State of Delaware. They are subject to examination by the FDIC and each state's department of banking regulation. Deposits in the banks are insured by the FDIC up to a maximum amount (generally $100,000 per depositor, subject to aggregation rules). The States and FDIC regulate or monitor all areas of the banks' 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 banks to maintain certain capital ratios and imposes limitations on each of the banks' aggregate investment in real estate, bank premises, and furniture and fixtures. The banks are required by the FDIC to prepare quarterly reports on the banks' 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 banks are 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 each bank's capital and surplus and, as to all affiliates combined, to 20% of each bank's capital and surplus. In addition, each covered transaction must meet specific collateral requirements. The banks are 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 banks are 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.

Branching. Under Maryland law, the Maryland bank may open branches statewide, subject to the prior approval of the State Department of Financial Regulation and the

FDIC. Maryland law permits banking organizations in other states to acquire Maryland banking organizations, as long as such states grant similar privileges to banking organizations in Maryland to acquire banking organizations in their states, by opening a de novo branch, by acquiring an existing branch from a Maryland depository institution, or as a result of an interstate merger with a Maryland banking organization. Delaware law also allows branches statewide with prior approval of the Office of the State Bank Commissioner and the FDIC. Delaware law is more restrictive allowing other state banking organizations to branch to Delaware only through opening a de novo bank, or as the result of an interstate merger.

Community Reinvestment Act. The Community Reinvestment Act requires that each insured depository institution 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 of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria would impose additional requirements and limitations on the banks. The banks received satisfactory ratings in their most recent evaluations.

Other Regulations. Interest and certain other charges collected or contracted for by the banks are subject to state and federal laws concerning interest rates. The banks' 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 banks 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 banks have paid for deposit insurance under a risk-based premium system. Under this system, until mid-1995 depository institutions paid to BIF or SAIF from $0.23 to $0.31 per $100 of insured deposits depending on the capital levels and risk profile of the institution, as determined by its primary federal regulator on a semi-annual basis. When BIF reached its legally mandated reserve ratio in mid-1995, the FDIC lowered premiums for well-capitalized banks, eventually to a level of $.00 per $100 of insured deposits, with a minimum semiannual assessment of $1,000. In 1996, congress enacted the Deposit Insurance Funds Act of 1996, which eliminated this minimum assessment. The BIF insurance assessment rate for the first semiannual assessment period of 2002 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 banks will increase the banks' cost of funds, and there can be no assurance that such costs can be passed on to the banks' customers.

Dividends

The principal source of the Company's cash revenues comes from dividends received from the Maryland 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 Maryland 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 two years.

In addition to the availability of funds from the

Maryland 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, 2001, the Company and its banks were qualified as "well capitalized." For further discussions, see "Item 7. Management's Discussion and Analysis or Plan 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. Description of Property

The Company has ten branch locations, all of which are owned by the Company or the banks. The locations are described as follows:

Office	Location	Square Footage
Main Office, Maryland	24 North Main Street, Berlin, Maryland 21811	6,500
East Berlin Office	10524 Old Ocean City Blvd, Berlin, MD 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
Main Office, Delaware
50 Atlantic Avenue, Ocean View, Delaware 19970
4,900

The Berlin office is the centralized location for the Company and for all the Maryland branches; that is to say that all proof and bookkeeping is performed there. The Delaware office has its own proof and bookkeeping functions. 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.

Eight Maryland offices offer automated teller machines; all locations except the East Berlin office. The Delaware bank has an automated teller machine on-premise. The Company operates one automated teller machine which is located at a local hospital.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or the banks 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 2001.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

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, 2001, there were approximately 905 holders of record of the common stock and 3,240,000 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 $.37 per share in 2001 and $.61 per share in 2000 which includes a special cash dividend of $.25 per share which is not expected to be an annual event.
Per share data for 2000 is restated to give retroactive effect to the 2000 stock split effected in the form of a 100% stock dividend.

Item 6. Selected Financial Data

The following table presents selected financial data for the five years ended December 31, 2001. Prior period per share data is restated to reflect 100% stock dividends paid in 1998 and 2000.

	2001	2000	1999	1998	1997
(Dollars in thousands, except for per share data)					
At Year End					
Total assets	336,825	289,048	288,921	277,463	249,893
Total deposits	274,149	231,926	238,726	230,618	206,793
Total loans, net of unearned income and allowance for loan losses	166,502	168,571	152,001	139,737	147,191
Total stockholders' equity	57,243	53,085	49,220	46,343	42,577
For the Year					
Net interest income	13,297	13,580	12,221	11,554	11,465
Net income	5,414	5,625	5,020	4,697	4,935
Per share data					
Book value	17.67	16.38	15.19	14.31	13.14
Net income	1.67	1.74	1.55	1.45	1.53
Cash dividends declared	.37	.61	.60	.33	.68

Item 7. Management's Discussion and Analysis or Plan of Operation

BUSINESS OF THE COMPANY

Calvin B. Taylor Bankshares, Inc. (the "Company") is a bank holding company which was incorporated in the State of Maryland on October 31, 1995. Calvin B. Taylor Banking Company (the "Maryland 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. Calvin B. Taylor Bank of Delaware (the "Delaware Bank") was incorporated under the laws of the State of Delaware on September 18, 1997, and is a state nonmember bank under the laws of the State of Delaware. Both banks are engaged in a general commercial banking business, emphasizing in their marketing the Company's local management and ownership, from their main offices located in their primary service areas of Worcester County, Maryland and Sussex County, Delaware, and their neighboring counties. The banks offer a full range of deposit services, including checking accounts, NOW accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates

of deposit. In addition, the banks offer certain retirement account services, such as Individual Retirement Accounts. The banks also offer a full range of short- to medium-term commercial and personal loans. The banks originate 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.

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 elsewhere herein.

Overview

Consolidated income of the Company is derived primarily from operations of the banks. The 2001 net income was $5,414,404, compared to $5,624,558 for 2000, and $5,019,660 for 1999. The Company continued its history of above average earnings with a return on average equity of 9.54% and return on average assets of 1.75% for 2001, compared to returns on average equity of 10.84% and 10.47%, and returns on average assets of 1.94% and 1.78%, for 2000 and 1999, respectively.

Results of Operations

The Company reported net income of $5,414,404, or $1.67 per share, for the year ended December 31, 2001, which was a decrease of $210,154, or 3.74%, from the net income of $5,624,558, or $1.74 per share, for the year ended December 31, 2000. Primarily responsible for this decrease was the decline in net interest income and increased personnel costs. Net income for 2000 increased by $604,898, or 12.05%, over the net income of $5,019,660, or $1.55 per share for the year ended December 31, 1999. Per share data for 1999 is restated for the effect of the 100% stock dividend distributed 2000. Primarily responsible for this increase was the growth in net interest income.

Net interest income decreased $283,039, or 2.08%, to $13,296,966 in 2001, from $13,580,005 in 2000. This decrease was the result of a lower net interest spread between the rates on interest-earning assets and interest-bearing liabilities. Interest expense increased $388,357 while interest income increased by $105,318. The yield on interest-earning assets decreased to 6.91% in 2001, from 7.39% in 2000, while the combined yield on deposits and borrowed funds was stable at 2.48% for the same periods.

Net interest income increased $1,359,187, or 11.12%, to $13,580,005 in 2000, from $12,220,818 in 1999. This increase was the result of an increase in interest revenue of $1,440,460 while interest expense increased by $81,273. Net interest income increased primarily due to growth of $18,090,114 in the mortgage loan portfolio funded largely by a decrease of $13,648,377 in the amortized cost of investment securities held to maturity. Decreasing deposit balances offset increased rates, resulting in an increase of $47,198 of deposit interest expense. Interest expense on retail repurchase agreements, which were first offered by the Bank in 2000, was $23,427. The yield on interest-earning assets increased to 7.39% in 2000, from 6.97% in 1999, while the combined yield on deposits and borrowed funds increased to 2.48% from 2.47% for the same periods.

Noninterest income and noninterest expense increased by 17.83% and 5.45%, respectively, during 2001 compared to 2000. Noninterest income and noninterest expense increased by 5.60% and 4.54%, respectively, during 2000 compared to 1999.

The Company reproted net income of $1,165,144 or $.36 per share for the quarter ended December 31, 2001, which was a decrease of $273,045, or 18.99% from the net income of $1,438,189, or $.44 epr share, for the quarter ended December 31, 2000. Primarily responsible was the decrease in quarterly net income from $3,532,645 in fourth quarter 2000 to $3,253,986 in fourth quarter 2001. Management attributes this $278,657 or 7.89% decline in net interest income to several factors related to the national economic environment. Decreased yields on federa; funds sold and investment securities, coupled with the banks' loan rate reductions caused interest income to lag by $255,829 or 5.06% behind the comparable quarter last year. Throughout the year, the banks' lowered the rate they pay on time deposit. In mid-fourth quarter, they lowered rated on interest-bearing checking and savings deposits.

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 2001 was 4.74% compared to 5.21% for 2000 and 4.77% for 1999. Because most of the loans of the banks are written with a demand feature, the income of the banks 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, 2001			For the Year Ended December 31, 2000			For the Year Ended December 31, 1999		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield	Average Balance	Interest	Yi
Assets									
Federal funds sold	41,265	1,413	3.42%	27,035	1,716	6.35%	25,120	1,262	5.0
Interest-bearing deposits	803	46	5.77%	833	46	5.53%	1,136	60	5.2
Investment securities:									
U. S. Treasury	47,478	2,577	5.43%	52,382	3,009	5.74%	70,036	3,744	5.3
U. S. Government Agency	18,180	1,121	6.17%	14,102	924	6.55%	5,202	312	6.0
State and municipal	8,773	493	5.62%	11,045	601	5.44%	14,684	776	5.2
Other	1,508	49	3.26%	1,466	35	2.38%	936	26	2.8
Total investment securities	75,939	4,240	5.58%	78,995	4,569	5.78%	90,859	4,858	5.3
Loans:									
Commercial	15,722	1,330	8.46%	16,670	1,372	8.23%	16,466	1,329	8.0
Mortgage	151,521	12,398	8.18%	142,159	11,666	8.21%	125,807	10,299	8.1
Consumer	5,061	475	9.38%	5,059	491	9.72%	5,029	480	9.5
Total loans	172,304	14,203	8.24%	163,888	13,529	8.26%	147,303	12,108	8.2
Allowance for loan losses	2,188			2,091			2,084		
Total loans, net of allowance	170,116	14,203	8.35%	161,797	13,529	8.36%	145,219	12,108	8.3
Total interest-earning assets	288,123	19,902	6.91%	268,660	19,860	7.39%	262,334	18,288	6.9
Noninterest-bearing cash	13,437	-		12,658	-		12,929	-	
Premises and equipment	5,800	-		5,774	-		5,538	-	
Other assets	2,137	-		2,155	-		1,898	-	
Total assets	309,497	19,902		289,247	19,860		282,699	18,288	
Interest-bearing									
Deposits									
Savings and NOW	76,033	1,409	1.85%	82,093	1,531	1.86%	69,550	1,411	2.0
Money market	35,804	864	2.41%	38,001	946	2.49%	58,167	1,332	2.2
Other time	79,894	3,900	4.88%	69,456	3,345	4.82%	68,900	3,032	4.4

Total interest-bearing deposits	191,731	6,173	3.22%	189,550	5,822	3.07%	196,617	5,775	2.9
Securities sold under agreements to repurchase	4,126	62	1.50%	1,610	24	1.45%	-	-	
Borrowed funds	223	13	6.03%	239	14	6.02%	123	4	3.0
Total interest-bearing liabilities	196,080	6,248	3.19%	191,399	5,860	3.06%	196,740	5,779	2.9
Noninterest-bearing deposits	55,879	-		45,144	-		37,291	-	
	251,959	6,248	2.48%	236,544	5,860	2.48%	234,031	5,779	2.4
Other liabilities	759	-		841	-		747	-	
Stockholders' equity	56,779	-		51,863	-		47,921	-	
Total liabilities and stockholders' equity	309,497	6,248		289,247	5,860		282,699	5,779	
Net interest spread			3.72%			4.33%			4.0
Net interest income		13,654			14,000			12,509	
Net margin on interest-earning assets			4.74%			5.21%			4.7

Dividends and interest on tax-exempt securities and loans are reported on fully taxable equivalent basis.
US Treasury and Agency income for December 31, 2000 is restated for the effect of exemption from Maryland income tax.

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

	Year ended December 31, 2001 compared with 2000 variance due to			Year ended December 31, 2000 compared with 1999 variance due to			Year ended December 31, 1999 compared with 1998 variance due to		
	Total	Rate	Volume	Total	Rate	Volume	Total	Rate	Volume
Earning assets									
Interest-bearing deposits	-	2	(2)	(14)	2	(16)	(11)	(5)	(6)
Federal funds sold	(303)	(1,207)	904	454	358	96	(150)	(83)	(66)
Investment securities:									
U. S. Treasury	(432)	(150)	(281)	(735)	209	(945)	276	(295)	570
U. S. Government Agency	198	(69)	267	612	78	534	297	27	270
State, county, and municipals	(109)	15	(124)	(175)	17	(192)	65	(69)	134
Other	14	13	1	9	(6)	15	2	(38)	40
Loans:									
Commercial	(43)	35	(78)	43	27	17	30	(105)	135
Mortgage	773	(35)	768	1,367	28	1,339	(286)	(162)	(124)
Consumer	(17)	(17)	-	11	8	3	(33)	(34)	1
Total interest revenue	42	(1,413)	1,455	1,572	721	851	190	(764)	954
Interest-bearing liabilities									
Savings and NOW deposits	(122)	(9)	(113)	120	(134)	254	(83)	(305)	222
Money market	(82)	(27)	(55)	(386)	76	(462)	(199)	(206)	7

Other time deposits	555	52	503	313	289	24	(245)	(441)	196
Other borrowed funds	37	1	36	34	7	27	4	4	-
Total interest expense	388	17	371	81	238	(157)	(523)	(948)	425
Net interest income	(346)	(1,430)	1,084	1,491	483	1,008	713	185	528

Dividends and interest on tax-exempt securities and loans are reported on fully taxable equivalent basis. 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 $170,116,213, $161,796,946 and $145,219,090 during 2001, 2000 and 1999, respectively, which constituted 59.04%, 60.22% and 55.36% of average interest-earning assets for the periods. The Company's loan to deposit ratio was 60.73%, 72.68%, and 63.67% at December 31, 2001, 2000, and 1999, respectively. Average loans to average deposits were 68.70%, 68.94%, and 62.08% for the same periods. The decrease in the loan to deposit ratio as of year-end 2001 versus year-end 2000 is attributable to a dramatic increase in deposits.

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 of the 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, 2001, 2000 and 1999, respectively.

Composition of Loan Portfolio

	December 31, 2001		December 31, 2000		December 31, 1999	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Commercial	15,341,122	9.09%	15,588,946	9.13%	17,825,019	11.57%
Real estate	146,258,549	86.70%	148,468,890	86.94%	130,378,776	84.62%
Construction	2,117,685	1.26%	1,540,376	0.90%	824,071	0.53%
Consumer	4,980,078	2.95%	5,165,742	3.03%	5,054,669	3.28%
Total loans	168,697,434	100.00%	170,763,954	100.00%	154,082,535	100.00%
Less allowance for loan losses	2,195,922		2,192,755		2,082,031	
Net loans	166,501,512		168,571,199		152,000,504	

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, 2001.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

December 31, 2001

	One year or less	Over one through five years	Over five years	Total
Commercial	15,341,122	-	-	15,341,122
Real estate	146,258,549	-	-	146,258,549
Construction	2,117,685	-	-	2,117,685
Consumer	2,109,087	2,648,073	222,918	4,980,078
Total	165,826,443	2,648,073	222,918	168,697,434
Fixed interest rate	2,109,087	2,648,073	222,918	4,980,078
Variable interest rate (or demand)	163,717,356	-	-	163,717,356
Total	165,826,443	2,648,073	222,918	168,697,434

As of December 31, 2001, $163,717,356 or 97.05%, 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, 2001, 2000 and 1999, respectively.

	2001	2000	1999
Construction loans	6,456,910	2,964,536	9,486,899
Other loan commitments	8,639,337	3,192,350	4,843,120
Standby letters of credit	3,243,063	1,412,552	1,504,241
Total	18,339,310	7,569,438	15,834,260

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 a reserve for potential 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 reserve level 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 possible 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 credit loss or that additional increases in the credit 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 have each bank evaluate loan portfolio risk for the purpose of establishing an adequate allowance. The banks' target levels for their allowances as a percentage of gross loans range from approximately 1.00% to 1.35%. This 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, even though this may cause the allowance as a percentage of gross loans to exceed the Company's target.

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, 2001, 2000 and 1999, the respective allowances for loan losses were 1.30%, 1.28% and 1.35% of outstanding loans.

The provision for loan losses was $22,985 in 2001, a decrease of $151,095 from the $174,080 provision in 2000. This decrease is due to the stable size and delinquency status of the loan portfolio, and the low level of net charge-offs in 2001. The provision for loan losses was $174,080 in 2000, an increase of $168,335 from the $5,745 provision in 1999. The increased provision is the result of a $56,295 increase in net charge-offs for 2000, which totaled $63,356. Outstanding loans increased 10.83% during the same

period.

	2001		2000		1999	
Commercial	218,414	9.95%	167,626	7.64%	213,549	10.26%
Real estate, including construction	913,449	41.60	810,790	36.98	656,104	31.51
Consumer	174,671	7.94	174,003	7.93	152,313	7.31
General	889,388	40.51	1,040,336	47.45	1,060,155	50.92
Total	2,195,922	100.00%	2,192,755	100.00%	2,082,031	100.00%

Allowance for Loan Losses

	2001	2000	1999
Balance at beginning of year	2,192,755	2,082,031	2,080,358
Loan losses:			
Commercial	3,741	56,193	13,628
Mortgages	-	-	-
Consumer	20,983	10,907	8,256
Total loan losses	24,724	67,100	21,884
Recoveries on loans previously charged off			
Commercial	4,056	2,386	6,504
Consumer	850	1,358	8,319
Total loan recoveries	4,906	3,744	14,823
Net loan losses	19,818	63,356	7,061
Provision for loan losses charged to expense	22,985	174,080	5,745
Provision related to commitments	-	-	2,989
Balance at end of year	2,195,922	2,192,755	2,082,031
Allowance for loan losses to loans outstanding at end of year	1.30%	1.28%	1.35%
Net charge-offs to average loans	0.00%	0.04%	0.00%

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, 2001, 2000 or 1999.

Where 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, 2001, 2000 or 1999. 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, 2001, 2000 or 1999.

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 53.08% of average deposits for 2001, compared to 50.93% and 55.60% for 2000 and 1999, respectively.

As of December 31, 2001, $41,521,902, or 47.87% of the investment debt securities mature in one year or less. Funds invested in federal funds sold provide liquidity so the banks do 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 of credit available from correspondent banks at December 31, 2001 were $39,000,000. At December 31, 2000 and 1999, they were $19,000,000.

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.

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

Interest Sensitivity Analysis
December 31, 2001

	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	54,389,656	-	-	-	54,389,656
Interest-bearing deposits	99,000	590,000	190,000	-	879,000
Investment debt securities	12,833,044	28,688,858	42,876,250	2,336,880	86,735,032
Loans	159,744,976	6,081,467	2,648,073	222,918	168,697,434
Total earning assets	227,066,676	35,360,325	45,714,323	2,559,798	310,701,122
Liabilities					
Interest-bearing deposits					
Money market and NOW	86,379,359	-	-	-	86,379,359
Savings	38,306,292	-	-	-	38,306,292
Certificates =>$100,000	5,437,744	13,206,842	2,097,332	-	20,741,917
Certificates					