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TAYLOR CALVIN B BANKSHARES INC

Form 10-Q

November 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

Commission File Number: 0001003986

CALVIN B. TAYLOR BANKSHARES, INC.

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

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

Issuer's telephone number: (410) 641-1700

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

The registrant had 3,240,000 shares of common stock (\$1.00 par) outstanding as of October 31, 2002.

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

Part I - Financial Information

Consolidated Statements of Condition

	(unaudited) September 30 2002	December 31 2001
Assets		
Cash and due from banks	\$ 25,100,100	\$ 18,397,266
Federal funds sold	69,862,131	54,389,656
Interest-bearing deposits	1,079,205	879,000
Investment securities available for sale	4,035,534	3,974,099
Investment securities held to maturity (approximate fair value of \$113,632,600 and \$85,604,100)	112,680,488	84,398,152
Loans, less allowance for credit losses of \$2,170,466 and \$2,195,922	163,707,004	166,501,512
Premises and equipment	5,964,889	5,895,275
Accrued interest income	1,367,886	1,753,816
Deferred income taxes	55,564	134,639
Other assets	487,460	501,152
	\$ 384,340,261	\$ 336,824,567

Liabilities and Stockholders' Equity

Deposits		
Noninterest-bearing	\$ 76,799,536	\$ 60,508,663
Interest-bearing	241,397,646	213,640,518
	318,197,182	274,149,181
Securities sold under agreements to repurchase		
	5,643,474	4,555,323
Accrued interest payable	326,360	529,348
Note payable	203,205	215,702
Accrued income taxes	156,798	2,298
Other liabilities	2,499	130,145
	324,529,518	279,581,997
Stockholders' equity		
Common stock, par value \$1 per		

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share authorized 10,000,000		
shares, issued and outstanding		
3,240,000 shares	3,240,000	3,240,000
Additional paid in capital	17,290,000	17,290,000
Retained earnings	38,642,189	36,274,102
	59,172,189	56,804,102
Net unrealized gain on securities		
available for sale	638,554	438,468
	59,810,743	57,242,570
	\$ 384,340,261	\$ 336,824,567

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

	For the three months ended September 30	
	2002	2001
Interest and dividend revenue		
Loans, including fees	\$ 3,314,206	\$ 3,526,900
U.S. Treasury and Agency securities	875,517	894,005
State and municipal securities	50,190	74,748
Federal funds sold	297,203	490,283
Deposits with banks	10,996	11,622
Equity securities	5,143	6,314
Total interest and dividend revenue	4,553,255	5,003,872
Interest expense		
Deposit interest	983,556	1,602,832
Other	12,064	23,843
Total interest expense	995,620	1,626,675
Net interest income	3,557,635	3,377,197
Provision for credit losses	-	-
Net interest income after provision for credit losses	3,557,634	3,377,197
Other operating revenue		
Service charges on deposit accounts	251,430	199,001
Miscellaneous revenue	130,279	131,250
Total other operating revenue	381,709	330,251
Other expenses		
Salaries and employee benefits	844,671	856,231
Occupancy	115,349	128,106
Furniture and equipment	143,871	155,494
Other operating	471,355	388,292
Total other expenses	1,575,246	1,528,123
Income before income taxes	2,364,097	2,179,325
Income taxes	872,100	778,413
Net income	\$ 1,491,997	\$ 1,400,912
Basic earnings per share	\$ 0.46	\$ 0.43

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

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	For the nine months ended September 30	
	2002	2001
Interest and dividend revenue		
Loans, including fees	\$ 9,954,324	\$ 10,725,442
U.S. Treasury and Agency securities	2,677,533	2,589,108
State and municipal securities	173,349	261,696
Federal funds sold	686,935	1,103,534
Deposits with banks	31,935	35,670
Equity securities	27,249	25,786
Total interest and dividend revenue	13,551,325	14,741,236
Interest expense		
Deposit interest	3,170,983	4,642,570
Other	31,483	55,687
Total interest expense	3,202,466	4,698,257
Net interest income	10,348,859	10,042,979
Provision for credit losses	-	-
Net interest income after provision for credit losses	10,348,859	10,042,979
Other operating revenue		
Service charges on deposit accounts	723,877	608,122
Miscellaneous revenue	362,833	374,577
Total other operating revenue	1,086,710	982,699
Other expenses		
Salaries and employee benefits	2,567,502	2,508,625
Occupancy	339,675	332,793
Furniture and equipment	420,676	445,651
Other operating	1,403,329	1,200,524
Total other expenses	4,731,182	4,487,593
Income before income taxes	6,704,387	6,538,085
Income taxes	2,392,300	2,288,825
Net income	\$ 4,312,087	\$ 4,249,260
Basic earnings per share	\$ 1.33	\$ 1.31

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

	For the nine months ended September 30	
	2002	2001
Cash flows from operating activities		
Interest received	\$ 13,838,534	\$ 14,847,228
Fees and commissions received	979,903	1,021,867
Interest paid	(3,405,454)	(4,641,398)
Cash paid to suppliers and employees	(4,311,990)	(4,276,194)
Income taxes paid	(2,235,847)	(2,335,511)
	4,865,146	4,615,992
Cash flows from investing activities		
Proceeds from maturities of investment securities	67,142,815	47,747,000
Purchase of investment securities		

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held to maturity	(95,108,703)	(57,333,426)
Certificates of deposit purchased, net of redemptions	(200,205)	-
Purchases of premises, equipment, and intangibles	(497,903)	(750,060)
Loans made, net of principal collected	2,794,505	705,280
Proceeds from sales of equipment	-	17,000
	(25,869,491)	(9,614,206)
Cash flows from financing activities		
Net change in time deposits	(5,765,467)	14,054,954
Net change in other deposits	49,813,468	24,546,091
Net change in repurchase agreements	1,088,151	1,995,717
Payment on mortgage obligation	(12,498)	(11,772)
Dividend paid	(1,944,000)	-
	43,179,654	40,584,990
Net increase (decrease) in cash	22,175,309	35,586,776
Cash and equivalents at beginning of period	72,786,922	31,499,806
Cash and equivalents at end of period	\$ 94,962,231	\$ 67,086,582
Reconciliation of net income to net cash provided from operating activities		
Net income	\$ 4,312,087	\$ 4,249,260
Adjustments		
Depreciation and amortization	469,571	380,284
Deferred income tax	-	-
Provision for loan losses	-	-
Security discount accretion, net of premium amortization	(98,721)	(107,873)
(Gain) loss on disposition of assets	5,183	(13,933)
Decrease (increase) in accrued interest receivable and other assets	353,157	173,984
Increase (decrease) in accrued interest payable and other liabilities	(176,131)	(65,730)
	\$ 4,865,146	\$ 4,615,992

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been made. These adjustments are of a normal recurring nature. Results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the

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results that may be expected for the year ending December 31, 2002. For further information, refer to the audited consolidated financial statements and related footnotes for the Registrant's fiscal period ended December 31, 2001.

Consolidation has resulted in the elimination of all significant intercompany accounts and transactions.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and overnight investments in federal funds sold.

Per share data

Earnings per common share and dividends per common share are determined by dividing net income and dividends by the 3,240,000 shares outstanding, giving retroactive effect to stock dividends distributed.

2. Comprehensive Income

Comprehensive income consists of:

	Nine months ended September 30,	
	2002	2001
Net income	\$ 4,312,087	\$ 4,249,260
Unrealized gain (loss) on investment securities available for sale, net of income taxes	200,086	(19,688)
Comprehensive income	\$ 4,512,173	\$ 4,229,572

3. Loan commitments

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

	September 30, 2002	December 31, 2001
Loan commitments	\$ 22,253,644	\$ 15,096,247
Standby letters of credit	\$ 1,733,677	\$ 3,243,063

Calvin B. Taylor Bankshares, Inc. and Subsidiaries

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following discussion of the financial condition and results of operations of the Registrant (the Company) should be

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read in conjunction with the Company's financial statements and related notes and other statistical information included elsewhere herein.

General

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

Effective at the close of business on September 26, 2002, Calvin B. Taylor Bank of Delaware (the "Delaware Bank") was merged into the Maryland Bank. The Delaware Bank was incorporated in the state of Delaware in 1997 and opened its only branch in late second quarter of 1998. The location from which the Delaware Bank operated is now a branch of the Maryland Bank. No assets, accounts, or services were abandoned or sold as a result of the merger. Management believes that operating efficiency of the overall organization will improve as a result of the merger.

The Company currently engages in no business other than owning and managing the Maryland Bank.

Financial Condition

Total assets of the Company increased \$47.5 million from December 31, 2001 to September 30, 2002. Combined deposits and customer repurchase agreements increased \$45.1 million during the same period. During the first quarter of the year, the bank typically experiences a decline in deposits since business customers are using their deposits to meet cash flow needs. Generally, this situation reverses late in the second quarter of the year as the bank receives loan repayments from seasonal business customers, and deposits from summer residents and tourists. Late in the third quarter, seasonal deposits decline. Management believes that adverse conditions in the national stock markets, which were amplified by the terrorist attacks of September 11, 2001, are contributing to the sustained high level of deposits in the bank as of September 30, 2002.

During the first nine months of 2002, the bank's loan portfolio has decreased \$2.8 million. Low market rates have triggered aggressive competition for low rate loans in the bank's lending area.

The allowance for credit losses represents a reserve for potential losses in the loan portfolio. The adequacy of the allowance for credit 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 anticipated changes in the composition and size of the portfolio,

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as well as assumptions about the economy. Historically, the Company has low loan charge-offs. The bank's target level for the allowance as a percentage of gross loans is approximately 1.00% to 1.35%. Based on a review of the consolidated loan portfolio, the Company determined that an allowance of 1.31% of gross loans was adequate as of September 30, 2002. At December 31, 2001, the allowance was 1.30% of gross loans. At September 30, 2002, there were no nonaccruing loans. Loans delinquent ninety days or more and still accruing totaled \$254,012 or .15% of the portfolio.

Liquidity

The company's major sources of liquidity arise from loan repayments, short-term investments, including federal funds sold, and an increase in core deposits. Throughout the first quarter of the year, when the bank typically experiences a decline in deposits, federal funds sold and investment securities are primary sources of liquidity. During the second quarter of the year, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the bank receives seasonal deposits. Throughout the second and third quarters the bank maintains a high liquidity level.

Funds from seasonal deposits are generally invested in short-term U.S. Treasury Bills and overnight federal funds. Average liquid assets (cash and amounts due from banks, interest bearing deposits in other banks, federal funds sold, and investment securities) compared to average deposits were 63.94% for the third quarter of 2002 as compared to 57.28% for the second quarter of 2002 and 56.66% for the third quarter of 2001.

Results of Operations

Net income for the three months ended September 30, 2002, was \$1,491,997 or \$.46 per share, compared to \$1,400,912 or \$.43 per share for the third quarter of 2001. This represents an increase of \$91,085 or 6.50% from the prior year. Year to date net income increased \$62,827 or \$.02 per share from \$4,249,260 or \$1.31 per share in 2001 to \$4,312,087 or \$1.33 per share in 2002. Significant reasons for the year to date increase in net income are increased net interest income and non-interest income, offset in part by increased operating expenses.

Net interest income increased \$305,880 in the first nine months of 2002 as compared to the first nine months of 2001. Net interest income increased \$180,437 in the three months ended September 30, 2002 as compared to the three months ended September 30, 2001. This increase, both year-to-date and for the most recent quarter, is attributable to rate reductions on interest-bearing deposits, which offset loan rate reductions. The Company's net interest income is one of the most important factors in evaluating its financial performance. Management uses interest sensitivity analysis to determine the effect of rate changes. Net interest income is projected over a one-year period to determine the effect of an increase or decrease in the prime rate of 100 basis points. If prime were to decrease one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience a decrease of less than six percent in net interest income. The sensitivity analysis does not consider the likelihood of these rate changes nor whether management's reaction to this rate change would be to reprice its loans or deposits.

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No provision for loan losses was made in the first three quarters of 2002 or 2001. Net charge-offs during the third quarter of 2002, and the year-to-date, were (\$2,839) and \$25,456, respectively. Net charge-offs during the third quarter of 2001, and the year-to-date, were \$10,143 and \$15,623, respectively.

Other operating revenue, including service charges on deposit accounts, increased \$51 thousand from third quarter 2001 to third quarter 2002. For the year to date, other operating revenue has increased \$104 thousand from 2001 to 2002. Revenue increases are primarily due to deposit services charges assessed against a larger deposit base and fee increases placed in effect in May 2002.

Personnel expenses are higher for the nine months ended September 30, 2002 compared to the same period in 2001 due to general increases in salaries as well as increased health care costs. The bank, which hires seasonal employees during the summer, employed 95 full time equivalent employees as of September 30, 2002. The Company has no employees other than those hired by the bank.

The Company's occupancy expense increased \$7 thousand from first three quarters of 2001 to 2002. In 2001, the banks changed their accounting for real property taxes from cash basis to amortizing the cost throughout the year.

Furniture and equipment expense decreased \$25 thousand from the first three quarters of 2001 to 2002. A significant cause of this decrease is the reclassification of software maintenance contract costs from furniture and equipment expense to other operating expense. The Company replaced its core processing system in the fourth quarter of 2001 and is experiencing the expected increases in related depreciation, maintenance costs, and software amortization expense. Prior to the installation of the new processing system, improved data storage, networking, and Internet banking systems were installed. These, too, have caused an increase in related costs.

Plans of Operation

The bank conducts general commercial banking businesses in their service areas, of Worcester County, Maryland and Sussex County, Delaware, while also emphasizing the banking needs of individuals and small- to medium-sized businesses and professional concerns. The banks offer a full range of federally insured deposit services that are typically available in most banks and savings and loan associations, 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.

The Company, through the bank, offers a full range of short- to medium-term commercial and personal loans, and originates mortgage loans, including real estate construction and acquisition loans. The bank has the intent and the ability to hold loans that they originate in their portfolios.

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

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various accounts. The Company is associated with the STAR network of automated teller machines that may be used by customers throughout Maryland, Delaware and other regions. The Company offers credit card services through a correspondent bank.

Capital Resources and Adequacy

Total stockholders' equity increased \$2,568,173 from December 31, 2001 to September 30, 2002. This increase is attributable to the comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by a special cash dividend of \$1,944,000 or \$.60 per share paid in February 2002.

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and its banks 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 banks must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 3%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

Tier one risk-based capital ratios of the Company as of September 30, 2002 and 2001 were 38.57% and 32.31%, respectively. Both are substantially in excess of regulatory minimum requirements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At September 30, 2002, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 17.36%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. Both banks have classified their demand mortgage and commercial loans as immediately repricing. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

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

- Item 1 Legal Proceedings
 Not applicable
- Item 2 Changes in Securities and Use of Proceeds
 Not applicable
- Item 3 Defaults Upon Senior Securities
 Not applicable
- Item 4 Submission of Matters to a Vote of Security Holders
 The Company held its annual meeting on
 May 8, 2002, during which the items detailed in the
 proxy statement dated March 15, 2002, were approved.
 This includes the reelection of the Board of Directors.
- Item 5 Other information
 Not applicable.
- Item 6 Exhibits and Reports on Form 8-K
 a) Exhibits
 2. Proxy Statement dated March 15, 2002, is
 incorporated by reference.
 b) Reports on Form 8-K
 There were no reports on Form 8-K filed for the
 quarter ended September 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Calvin B. Taylor Bankshares, Inc.

Date: _____ By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.,
Chairman & Chief Executive Officer

Date: _____ By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins

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Treasurer

Certification of Principal Executive Officer and Principal
Financial Officer

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

We, the undersigned, certify that to the best of our knowledge,
based upon a review of the Quarterly Report on Form 10-Q for the
period ended September 30, 2002 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: _____ By: /s/ Reese F. Cropper, Jr.
Reese F. Cropper, Jr.,
Chairman & Chief Executive Officer

Date: _____ By: /s/ Jennifer G. Hawkins
Jennifer G. Hawkins
Treasurer

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

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

1. I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those

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entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

Calvin B. Taylor Bankshares, Inc.

Date: _____

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 quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls

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and procedures as of a date within 90 days prior to the filing date of the quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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

Calvin B. Taylor Bankshares, Inc.

Date: _____

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