TAYLOR CALVIN B BANKSHARES INC
Form 10-Q
November 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008
Commission File No. 000-50047

Calvin B. Taylor Bankshares, Inc.

(Exact name of registrant as specified in its Charter)

Maryland

(State of incorporation or organization)

52-1948274

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

24 North Main Street, Berlin, Maryland 21811

(Address of principal executive offices, including zip code)

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

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

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

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

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

On October 31, 2008, 3,052,900 shares of the registrant's common stock were issued and outstanding.

Calvin B. Taylor Bankshares, Inc. and Subsidiary
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Part I - Financial Information, Item 1 Financial Statements Calvin B. Taylor Bankshares, Inc. and Subsidiary Consolidated Balance Sheets (unaudited) September 30 December 31, 2008 2007 Assets Cash and due from banks $ 12,103,008 $ 17,428,347 Federal funds sold 39,722,207 23,121,256 Interest-bearing deposits 15,923,116 6,012,482 Investment securities available for sale 32,555,778 24,082,202 Investment securities held to maturity (approximate fair value of $37,121,191 and $47,302,194) 36,508,424 46,679,750 Loans, less allowance for loan losses of $199,475 and $195,525 235,119,322 238,076,278 Premises and equipment 6,334,937 6,536,469 Accrued interest receivable 1,380,374 1,693,173 Bank owned life insurance 4,870,830 4,720,770 Income taxes receivable 213,188 301,826 Other assets 518,572 493,120 $ 385,249,756 $ 369,145,673 Liabilities and Stockholders' Equity Deposits Noninterest-bearing $ 81,112,309 $ 73,357,578 Interest-bearing 222,280,687 215,585,969 303,392,996 288,943,547 Securities sold under agreements to repurchase 6,045,974 3,426,173 Note payable 80,192 98,090 Accrued interest payable 350,917 501,909 Deferred income taxes 1,516,464 1,481,111 Other liabilities 91,054 219,080 311,477,597 294,669,910 Stockholders' equity Common stock, par value $1 per share authorized 10,000,000 shares, issued and outstanding 3,055,290 shares at September 30, 2008, and 3,102,510 shares at December 31, 2007 3,055,290 3,102,510 Additional paid-in capital 10,653,093 12,381,413 Retained earnings 58,075,471 57,076,461 71,783,854 72,560,384 Accumulated other comprehensive income 1,988,305 1,915,379 73,772,159 74,475,763 $ 385,249,756 $ 369,145,673 See accompanying Notes to Consolidated Financial Statements

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

For the three months ended September 30,	2008	2007
Interest and dividend revenue		
Loans, including fees	$ 4,140,888	$ 4,163,017
U.S. Treasury and government agency securities	545,844	793,673
State and municipal securities	10,857	14,965
Federal funds sold	221,938	608,500
Interest-bearing deposits	87,138	51,474
Equity securities	9,908	9,596
Total interest and dividend revenue	5,016,573	5,641,225
Interest expense		
Deposits	905,011	1,222,347
Borrowings	25,538	11,036
Total interest expense	930,549	1,233,383
Net interest income	4,086,024	4,407,842
Provision for loan losses	(1,478)	-
Net interest income after provision for loan losses	4,087,502	4,407,842
Noninterest revenue		
Service charges on deposit accounts	280,280	244,484
ATM and debit card	146,784	145,509
Bank owned life insurance	51,510	48,046
Miscellaneous revenue	47,062	55,922
Total noninterest revenue	525,636	493,961
Noninterest expenses		
Salaries	878,244	876,444
Employee benefits	200,211	196,587
Occupancy	188,860	180,344
Furniture and equipment	111,778	117,194
Data proccessing	67,847	62,005
ATM and debit card	81,713	71,932
Other operating	395,843	335,653
Total noninterest expenses	1,924,496	1,840,159
Income before income taxes	2,688,642	3,061,644
Income taxes	982,500	1,100,500
Net income	$ 1,706,142	$ 1,961,144
Earnings per common share - basic and diluted	$ 0.56	$ 0.63
Dividend per common share	$ 1.30	$ -

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Statements of Income (unaudited)

	For the nine months ended September 30,	
	2008	2007
Interest and dividend revenue		
Loans, including fees	$ 12,520,143	$ 12,514,743
U.S. Treasury and government agency securities	1,683,837	1,979,548
State and municipal securities	31,657	54,650
Federal funds sold	669,832	1,527,614
Interest-bearing deposits	209,076	96,985
Equity securities	56,944	50,744
Total interest and dividend revenue	15,171,489	16,224,284
Interest expense		
Deposits	3,054,918	3,369,510
Borrowings	40,627	27,487
Total interest expense	3,095,545	3,396,997
Net interest income	12,075,944	12,827,287
Provision for loan losses	75,015	-
Net interest income after provision for loan losses	12,000,929	12,827,287
Noninterest revenue		
Service charges on deposit accounts	803,242	773,950
ATM and debit card	395,601	377,049
Bank owned life insurance	150,059	141,960
Miscellaneous revenue	181,251	172,964
Total noninterest revenue	1,530,153	1,465,923
Noninterest expenses		
Salaries	2,637,949	2,586,155
Employee benefits	644,978	602,606
Occupancy	560,180	520,745
Furniture and equipment	352,240	344,163
Data processing	207,865	179,719
ATM and debit card	221,891	202,932
Other operating	1,097,201	1,005,719
Total noninterest expenses	5,722,304	5,442,039
Income before income taxes	7,808,778	8,851,171
Income taxes	2,837,500	3,206,000
Net income	$ 4,971,278	$ 5,645,171
Earnings per common share - basic and diluted	$ 1.61	$ 1.80
Dividend per common share	$ 1.30	$ -

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30,	2008	2007
Cash flows from operating activities		
Interest and dividends received	$ 15,369,050	$ 15,810,513
Fees and commissions received	1,383,262	1,319,628
Interest paid	(3,246,537)	(3,245,536)
Cash paid to suppliers and employees	(5,439,087)	(5,190,909)
Income taxes paid	(2,748,015)	(3,337,063)
	5,318,673	5,356,633
Cash flows from investing activities		
Certificates of deposit purchased, net of maturities	(9,910,482)	(3,671,107)
Proceeds from maturities of investments available for sale	23,360,000	16,000,000
Purchase of investments available for sale	(13,438,682)	(29,458,743)
Proceeds from maturities of investments held to maturity	17,000,000	33,450,000
Purchase of investments held to maturity	(25,000,000)	(22,171,766)
Loans made, net of principal collected	2,881,941	4,422,689
Proceeds from sale of equipment	-	8,224
Purchases of premises, equipment, and computer software	(239,230)	(373,516)
	(5,346,453)	(1,794,219)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	5,355,891	16,669,168
Other deposits	9,093,559	(3,683,463)
Securities sold under agreements to repurchase	2,619,801	(761,816)
Payments on note payable	(17,898)	(16,858)
Common shares repurchased	(1,775,540)	(1,613,413)
Dividends Paid	(3,972,268)	-
	11,303,545	10,593,618
Net increase in cash and cash equivalents	11,275,765	14,156,032
Cash and cash equivalents at beginning of period	40,568,264	45,771,812
Cash and cash equivalents at end of period	$ 51,844,029	$ 59,927,844

See accompanying Notes to Consolidated Financial Statements

Calvin B. Taylor Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30	2008	2007
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 4,971,278	$ 5,645,171
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	75,015	-
Amortization of premiums and accretion of discount, net	(115,289)	(450,380)
Depreciation and amortization	431,401	419,498
Deferred income taxes	-	118
(Gain) loss on disposition of assets	-	106
Decrease (increase) in		
Accrued interest receivable	312,799	36,544
Cash surrender value of bank owned life insurance	(150,060)	(141,960)
Other assets	72,547	(156,201)
Increase (decrease) in		
Accrued interest payable	(150,992)	151,461
Other liabilities	(128,026)	(147,724)
	$ 5,318,673	$ 5,356,633
Composition of cash and cash equivalents		
Cash and due from banks	$ 12,103,008	$ 17,169,053
Federal funds sold	39,722,207	42,751,013
Interest-bearing deposits, except for time deposits	18,814	7,778
	$ 51,844,029	$ 59,927,844

See accompanying Notes to Consolidated Financial Statements

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements conform with accounting principles generally accepted in the United States of America and to the instructions to Form 10-Q. Interim financial statements do not include all the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of financial position and results of operations for these interim periods have been made. These adjustments are of a normal recurring nature. Results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected in any other interim period or for the year ending December 31, 2008. For further information, refer to the audited consolidated financial statements and related footnotes included in the Company's Form 10-K for the year ended December 31, 2007.

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

Cash Flows

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

Per share data

Earnings per common share are determined by dividing net income by the weighted average number of common shares outstanding for the period, as follows:

	2008	2007
Three months ended September 30	3,063,966	3,113,341
Nine months ended September 30	3,084,485	3,132,836

2. Comprehensive Income

Comprehensive income consists of:

For the nine months ended September 30	2008	2007
Net income	$ 4,971,278	$ 5,645,171
Unrealized gain (loss) on investment securities available for sale, net of income taxes	72,926	94,659
Comprehensive income	$ 5,044,204	$ 5,739,830

3. Loan commitments

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. As of September 30, outstanding loan commitments and letters of credit consist of:

	September 30, 2008	December 31,2007
Loan commitments	$ 33,118,815	$ 33,362,846
Standby letters of credit	$ 1,839,759	$ 1,385,719

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

4. Assets Measured at Fair Value on a Recurring Basis

The Company values investment securities classified as available for sale at fair value. The fair value hierarchy established in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* defines three input levels for fair value measurement. Level 1 is based on quoted market prices in active markets for identical assets. Level 2 is based on significant observable inputs other than those in Level 1. Level 3 is based on significant unobservable inputs. The Company values US Treasury and government agency securities under Level 1, and municipal debt securities and equity investments under Level 2. The Company has no assets measured at fair value on a recurring basis that are valued under Level 3 criteria. At September 30, 2008, values for available for sale investment securities were established as follows:

	Total	Level 1 Inputs	Level 2 Inputs
Investment securities available for sale	$ 32,555,778	$ 28,342,632	$ 4,213,146

5. New accounting standards

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

FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements" improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Management does not expect SFAS No. 160 to have a material impact on the Company’s consolidated financial statements.

FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," do not provide adequate information about how derivative and hedging activities affect an entity’s financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Management does not expect SFAS No. 161 to have a material impact on the Company’s consolidated financial statements.

FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles"

identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC’s approval of the PCAOB amendments to AU Section 411, "The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles.*" Management does not expect SFAS No. 162 to have a material impact on the Company’s consolidated financial statements.

FASB Statement No. 163, "Accounting for Financial Guarantee Insurance Contracts – an Interpretation of FASB Statement No. 60" clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. This Statement also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Disclosure requirements in paragraphs 30(g) and 31 are effective for the first period after issuance of the Statement, including interim periods. Early adoption of the Statement is not permitted except for the referenced paragraphs. Management does not expect SFAS No. 163 to have a material impact on the Company's consolidated financial statements.

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

6. Restatement of prior period balances

Certain reclassifications to the December 31, 2007, balance sheet have been made to conform to current presentation. No totals have changed.

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

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

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

General

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

The Company currently engages in no business other than owning and managing the Bank. The Bank employed 94 full time equivalent employees as of September 30, 2008. The Bank hires seasonal employees during the summer. The Company has no employees other than those hired by the Bank.

Critical Accounting Policies

The Company’s financial condition and results of operations are sensitive to accounting measurements and estimates of inherently uncertain matters. When applying accounting policies in areas that are subjective in nature, management uses its best judgment to arrive at the carrying value of certain assets. One of the most critical accounting policies applied is related to the valuation of the loan portfolio.

The allowance for loan losses (ALLL) represents management’s best estimate of inherent probable losses in the loan portfolio as of the balance sheet date. It is one of the most difficult and subjective judgments. The adequacy of the allowance for loan losses is evaluated no less than quarterly. The determination of the balance of the allowance for loan losses is based on management’s judgments about the credit quality of the loan portfolio as of the review date. It should be sufficient to absorb losses in the loan portfolio as determined by management’s consideration of factors including an analysis of historical losses, specific reserves for non-performing or past due loans, delinquency trends, portfolio composition (including segment growth or shifting of balances between segments, products and processes, and concentrations of credit, both regional and by relationship), lending staff experience and changes, critical documentation and policy exceptions, risk rating analysis, interest rates and the competitive environment, economic conditions in the Bank’s service area, and results of independent reviews, including audits and regulatory examinations.

In 2007, the Company determined that the allowance for loan losses was overstated as a result of provisions charged to earnings in years prior to 2003. A prior period adjustment to revalue the ALLL was recorded, resulting in the restatement of average balances and ratios previously reported for quarter ended September 30, 2007. The prior period adjustment has no impact on previously reported earnings. The result of the restatement of prior periods was to increase average net loans, total assets, the net credit for deferred income taxes, and retained earnings in each restated period. The Company’s Annual Report on Form 10-K for the year ended December 31, 2007, filed on March 17, 2008, contains details regarding the restatement. It is the belief of management that the restatement of average balances, yields and various ratios as of September 30, 2007, will not alter conclusions drawn by those who relied on the Company’s originally filed statements for that period.

Financial Condition

Total assets of the Company increased $16.1 million from December 31, 2007 to September 30, 2008. Combined deposits and customer repurchase agreements increased $17.1 million during the same period. Management believes that some of the growth in deposit balances results from market instability that is part of a continuing general economic downturn. In recent months, stock values have plunged, investment banks have failed and commercial mega-banks are reporting staggering losses often related to subprime lending and the securitization of subprime loans. At such times, consumers seek the safety of conservatively run community banks. Additionally, due to the effect of seasonal resort business, it is normal for third quarter assets to be higher than the beginning or end of the same year. For further discussion of seasonal activity, see the section titled Liquidity.

Average total assets and average total deposits decreased $6.5 million and $8.7 million, respectively, from third quarter 2007 to third quarter 2008. Management carefully monitors deposit reductions and the resulting effect on liquidity. Deposit decreases have been funded by reductions in the investment portfolio.

Loan Portfolio

From December 31, 2007 to June 30, 2008 the loan portfolio had grown $3.5 million. During the third quarter, gross loans dropped by $6.5 million resulting in a reduction of $3.0 million for the year to date. The repayment of a single $5.0 million loan accounts for most of this decline. Funds made available by reductions in the loan portfolio have been invested in insured deposits at other financial institutions. Because loans earn at higher average rates than investments, this shift has a negative effect on earnings. There is no adverse impact on the Company’s ability to meet liquidity demands resulting from this shift in earning assets.

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

Loan Quality and the Allowance for Loan Losses

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

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

The Company evaluates loan portfolio risk for the purpose of establishing an adequate allowance for loan losses. In determining an adequate level for the formula-based portion of the ALLL, management considers historical loss experience for major types of loans. Homogenous categories of loans are evaluated based on loss experience in the most recent five years, applied to the current portfolio. This formulation gives weight to portfolio size and loss experience for categories of real estate construction loans, other real estate secured loans, other loans to commercial borrowers, and other consumer loans. However, historical data may not be an accurate predictor of loss potential in the current loan portfolio. Management also evaluates trends in delinquencies, the composition of the portfolio, concentrations of credit, and changes in lending products, processes, or staffing. Management further considers external factors such as the interest rate environment, competition, current local and national economic trends, and the results of recent independent reviews by auditors and banking regulators.

The ongoing slow-down in the real-estate market has affected both the price and time to market residential and commercial properties. Management closely monitors such trends and the potential effect on the Company, but to date in management’s opinion, they have not impacted the quality of or loss potential in the Bank’s real estate secured loan portfolio. For all periods presented, there were no specific adjustments made to the ALLL in connection with management’s evaluation of these trends as management determined that they have not impacted the quality of the loan portfolio. Although the real estate market is less robust than in recent years, management does not expect losses in the real estate portfolio due to the Bank’s conservative underwriting practices. Management closely monitors conditions that might indicate deterioration of collateral value on significant loans and obtains additional collateral as required to protect the Bank from exposure.

Management employs a risk rating system which gives weight to collateral status (secured vs. unsecured), and to the absence or improper execution of critical contract or collateral documents. Unsecured loans and those loans with critical documentation exceptions, as defined by management, are considered to have greater loss exposure. Management incorporates these factors in the formula-based portion of the ALLL. Additionally, consideration is given to those segments of the loan portfolio which management deems to pose the greatest likelihood of loss.

Management believes that in a general economic slow-down, such as the region is experiencing in 2008, the Bank's greatest likelihood of loss is in unsecured loans - commercial and consumer, and in secured consumer loans. Reserves for these segments of the portfolio are included in the formula-based portion of the ALLL. As of September 30, 2008, management reserved 40 bp against unsecured loans, and 35 bp against consumer loans secured by other than real estate. Both of these reserves were increased during the first and third quarters of this year in recognition of the prolonged economic challenges to regional, national, and global economies. Additionally, management identified overdrawn checking accounts as a distinct risk category and reserved 10.0% against overdrawn deposit accounts as of September 30, 2008.

Historically, the absence or improper execution of a document has not resulted in a loss to the Bank, however, management recognizes that the Bank's loss exposure is increased until a critical contract or collateral documentation exception is cured. At September 30, 2008, management reserved 10 bp against the outstanding balances of loans identified as having critical documentation exceptions.

The provision for loan losses is a charge to earnings in the current period to maintain the allowance at a level management has determined to be appropriate. The allowance is increased by current period provisions and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Adjustments made to bring the balance in the allowance to the level established by management may result in an increase or decrease to expense. A provision of ($1,478) was made in the third quarter of 2008. A total of $75,015 has been provided in 2008. No provision for loan losses was made in the third quarter or the year to date ending September 30, 2007.

Management considers the September 30, 2008 allowance appropriate and adequate to absorb identified and inherent losses in the loan portfolio. As of September 30, 2008, management has not identified any loans which are anticipated to be charged-off within the next 12 months. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

The following is a schedule of transactions in the allowance for loan losses. The Bank experienced net charge-offs of $787 last year and $71,065 in the current year to date. Management does not detect any meaningful trend in this increase. Rather, these are natural swings of activity in a loan portfolio that experiences minimal losses.

Allowance for Loan Losses	For nine months ended September 30 2008	2007	For the year ended December 31 2007
Balance at beginning of year	$ 195,525	$ 196,083	$ 196,083
Loans charged-off:			
Commercial	59,199	-	-
Real estate - construction	-	-	-
Real estate - mortgage	-	-	-
Consumer	12,216	6,263	6,263
Total loan losses	71,415	6,263	6,263
Recoveries on loans previously charged off:			
Commercial	-	-	-
Real estate - construction	-	-	-
Real estate - mortgage	-	-	-
Consumer	350	5,476	5,705
Total loan recoveries	350	5,476	5,705
Net loan charge-offs (recoveries)	71,065	787	558
Provision for loan losses charged to expense	75,015	-	-
Balance at end of period	$ 199,475	$ 195,296	$ 195,525
Average loans outstanding during the period	$ 238,446,661	$ 233,543,038	$ 235,013,815
Annualized net charge-offs as a percentage of average loans outstanding during the period	0.04%	0.00%	0.00%

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

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. Nonperforming assets are comprised of nonperforming loans combined with real estate acquired in foreclosure and held for sale. There were no nonperforming assets other than nonperforming loans as of September 30, 2008 or December 31, 2007, as shown in the following table.

	September 30, 2008	September 30, 2007	December 31, 2007
Loans 90 days or more past due and still accruing	$ 224,280	$ 432,856	$ 9,100
Nonaccruing loans	15,978	-	40,916
Total nonperforming loans	$ 240,258	$ 432,856	$ 50,016
Interest not accrued on nonaccruing loans	$ 84	$ -	$ 1,509
Interest included in net income on nonaccruing loans, year-to-date	$ 1,540	$ -	$ -

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, although management may categorize a performing loan as impaired based on knowledge of the borrower's financial condition, devaluation of collateral, or other circumstances that are deemed relevant to loan collection. Impaired loans may have specific reserves, or valuation allowances, allocated to them in the ALLL. Estimates of loss reserves on impaired loans may be determined based on any of the three measurement methods described in Financial Accounting Standard 114 (FAS 114): (1) the present value of future cash flows, (2) the fair value of collateral, if repayment of the loan is expected to be provided by underlying collateral, or (3) the loan's observable fair value. The Bank selects and applies, on a loan-by-loan basis, the appropriate valuation method. Loans determined to be impaired, but for which no specific valuation allowance is made because management believes the loan is secured with adequate collateral or the Bank will not take a loss on such loan, are grouped with other homogeneous loans for evaluation under formula-based criteria described previously.

Impaired loans including nonaccruing loans totaled $592,127 and $595,774, at September 30, 2008 and December 31, 2007, respectively. Principal balances of impaired loans include $419,770 and $436,802 which is guaranteed by a government agency at September 30, 2008 and December 31, 2007, respectively.

	September 30, 2008	December 31, 2007
Impaired loans with valuation allowances, including nonaccruing loans	$ 542,854	$ 595,774
Valuation allowances on impaired loans	$ 114,013	$ 138,514
Impaired loans with no valuation allowances	$ 49,273	$ -

Liquidity

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

Due to its location in a seasonal resort area, the Bank typically experiences a decline in deposits, federal funds sold and investment securities throughout the first quarter of the year when business customers are using their deposits to meet cash flow needs. Beginning late in the second quarter and throughout the third quarter, additional sources of liquidity become more readily available as business borrowers start repaying loans, and the Bank receives deposits from seasonal business customers, summer residents and tourists. In keeping with this pattern, average assets grew by $22,985,662 (6.46%) from $355,994,564 for the second quarter to $378,980,226 for the third quarter of 2008. Average deposits grew by $20,790,020 (7.52%) from $276,310,460 for the second quarter to $297,100,480 for the third quarter of 2008.

Average liquid assets (cash and amounts due from banks, interest-bearing deposits in other banks, federal funds sold, and investment securities) compared to average deposits and retail repurchase agreements were 41.92% for the third quarter of 2008 compared to 44.50% for the same quarter of 2007.

The Company has available lines of credit, including overnight federal funds, reverse repurchase agreements and letters of credit, totaling $27,000,000 as of September 30, 2008.

Average net loans to average deposits were 80.19% versus 76.31% as of September 30, 2008 and 2007, respectively. Average loans increased by 2.10% while average deposits fell by 2.83%. Funding for loan growth and reductions in deposit balances was provided by a reduction of the investment portfolio and federal funds sold. As loans earn at higher average rates than investments, this shift has a positive effect on earnings. Average deposit balance reductions occurred in both interest-bearing and non-interest bearing accounts. While earnings are reduced by the shift of demand and savings deposits to higher rate time deposits, neither this movement nor the increase in loans has a negative impact on the Company’s ability to meet liquidity demands.

Interest Rate Sensitivity

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

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

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

On the liability side, deposit products are structured to offer incentives to attain the maturity distribution desired. Competitive factors sometimes make control over deposits more difficult and, therefore, less effective as an interest rate sensitivity management tool.

The asset mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources, and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

As of September 30, 2008, the Company was cumulatively asset-sensitive for all time horizons. For asset-sensitive institutions, if interest rates should decrease, the net interest margins should decline. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity.

Results of Operations

Net income for the three months ended September 30, 2008, was $1,706,142 or $.56 per share, compared to $1,961,144 or $.63 per share for the third quarter of 2007. This represents a decrease of $255,002 or 13.00% from the prior year. Year to date net income has decreased $673,893 or $.19 per share from $5,645,171 or $1.80 in 2007 to $4,971,278 or $1.61 in 2008. The key components of net income are discussed in the following paragraphs.

For the first nine months of 2008 compared to 2007, net interest income decreased $751,343 (5.86%). Net interest income decreased $321,818 (7.30%) in the third quarter of 2008 compared to the third quarter of 2007. The decrease in revenue is primarily attributable to market rate reductions which have resulted in the downward repricing of overnight federal funds. Interest expense in the third quarter of 2008 was $302,834 (24.55%) less than in the comparable period last year, due to lower rates on time deposits.

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 approximately 5.9% in net interest income. Conversely, if prime were to increase one hundred basis points, and all assets and liabilities maturing within that period were fully adjusted for the rate change, the Company would experience an increase in net interest income of the same percentage. The sensitivity analysis does not consider the likelihood of these rate changes nor whether management’s reaction to this rate change would be to reprice its loans or deposits or both.

The tax-equivalent quarterly yield on interest-earning assets decreased by 65 basis points from 6.40% for third quarter 2007 to 5.75% in 2008. The quarterly yield on interest-bearing liabilities decreased by 50 basis points from 2.20% in 2007 to 1.70% in 2008. In combination, these shifts contribute to a decrease in net margin on interest-earning assets of 32 basis points.

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

Average Balances, Interest, and Yields For the quarter ended For the quarter ended September 30, 2008 September 30, 2007 - Restated Average Average balance Interest Yield balance Interest Yield Assets Federal funds sold $ 43,752,965 $ 221,938 2.02% $ 47,006,543 $ 608,500 5.14% Interest-bearing deposits 10,899,809 87,138 3.18% 4,071,750 51,474 5.02% Investment securities 60,345,351 608,017 4.01% 70,316,915 867,151 4.89% Loans, net of allowance 238,243,801 4,186,781 6.99% 233,344,041 4,197,629 7.14% Total interest-earning assets 353,241,926 5,103,874 5.75% 354,739,249 5,724,754 6.40% Noninterest-bearing cash 12,096,712 17,044,550 Other assets 13,641,588 13,685,396 Total assets $ 378,980,226 $ 385,469,195 Liabilities and Stockholders' Equity Interest-bearing deposits NOW $ 48,928,744 56,726 0.46% $ 51,798,447 46,082 0.35% Money market 32,345,651 77,261 0.95% 32,766,614 77,517 0.94% Savings 41,724,294 77,858 0.74% 44,127,495 82,274 0.74% Other time 88,782,767 693,166 3.11% 88,056,153 1,016,474 4.58% Total interest-bearing deposits 211,781,456 905,011 1.70% 216,748,709 1,222,347 2.24% Securities sold under agreements to repurchase & federal funds purchased 6,102,057 24,274 1.58% 5,353,325 9,421 0.70% Borrowed funds 82,283 1,264 6.11% 105,956 1,615 6.05% Total interest-bearing liabilities 217,965,796 930,549 1.70% 222,207,990 1,233,383 2.20% Noninterest-bearing deposits 85,319,024 89,017,589 303,284,820 930,549 1.22% 311,225,579 1,233,383 1.57% Other liabilities 1,509,882 1,200,621 Stockholders' equity 74,185,524 73,042,995 Total liabilities and stockholders' equity $ 378,980,226 $ 385,469,195 Net interest spread 4.05% 4.20% Net interest income $ 4,173,325 $ 4,491,371 Net margin on interest-earning assets 4.70% 5.02% Tax equivalent adjustment in: Investment income $ 41,408 $ 48,917 Loan income $ 45,893 $ 34,612

Provisions for loan losses of ($1,478) and $75,015 were recorded during the three and nine months periods ended September 30, 2008. There was no provision recorded in the three and nine months periods ended September 30, 2007. Net loans charged-off were $71,065 and $787 during the first three quarters of 2008 and 2007, respectively. Management does not detect any meaningful trend in the year-to-year relationship of net charge-offs to net recoveries. Rather, these are natural swings of activity in a loan portfolio that experiences minimal losses. See Loan Quality and the Allowance for Loan Losses for a discussion of the provision for loan losses.

Noninterest revenue for the third quarter of 2008 is $31,675 (6.41%) higher than the comparable period last year. Noninterest revenue for the year-to-date is $64,230 (4.38%) more than last year. For both the quarter and the year-to-date, increased ATM and VISA debit card revenues are volume related. Increased service charges on deposit accounts and miscellaneous fees such as wire transfer fees reflect fee increases as well as increased volume.

Noninterest expense for the third quarter of 2008 is $84,337 (4.58%), more than last year. Noninterest expense year-to-date is $280,265 (5.15%) more than last year. The increase of $28,146 (15.66%) in data processing expenses for the nine month period is due to (1) increased software maintenance contract costs resulting from expanded product offerings and services, and (2) computer consulting fees. Other operating expenses include increased correspondent bank fees that result from carrying lower reserve balances and increased legal fees.

Income taxes for the nine months ended September 30, 2008 are $368,500 lower than the same period last year, on a pre-tax income decrease of $1,042,393. This is consistent with the Company's effective tax rate of 36.33%.

Plans of Operation

The Bank offers a full range of deposit services including checking, NOW, Money Market, and savings accounts, and time deposits including certificates of deposit. The transaction, savings, and certificate of deposit accounts are tailored to the Bank's principal market areas at rates competitive to those offered in the area. The Bank also offers Individual Retirement Accounts (IRA), Health Savings Accounts, and Education Savings Accounts. All deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount allowed by law (generally, $100,000 per depositor, except for $250,000 per depositor for certain retirement accounts, subject to aggregation rules and a temporary insurance limit increase as described in the next paragraph). The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities. The Bank offers individual customers up to $50 million in FDIC insured deposits through the Certificate of Deposit Account Registry Services® network.

Effective October 3, 2008, FDIC deposit insurance has been temporarily increased from $100,000 to $250,000 per depositor through December 31, 2009.

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

Other bank services include cash management services, 24-hour ATM's, debit cards, safe deposit boxes, travelers' checks, direct deposit of payroll and social security funds, and automatic drafts for various accounts. The Bank offers bank-by-phone and Internet banking services, including electronic bill-payment, to both commercial and retail customers. Early in 2008, the Bank began offering a remote capture service that enables commercial customers to electronically capture check images and make on-line deposits. The Bank also offers non-deposit products including retail repurchase agreements and discount brokerage services through a correspondent bank.

Capital Resources and Adequacy

Total stockholders' equity decreased $703,604 from December 31, 2007 to September 30, 2008. This decrease is attributable to comprehensive income recorded during the period, as detailed in Note 2 of the Notes to Financial Statements, reduced by $1,775,540 used to repurchase and retire 47,220 shares of common stock, and cash dividends paid to shareholders of $3,972,268.

Under the capital guidelines of the Federal Reserve Board and the FDIC, the Company and Bank are currently required to maintain a minimum risk-based total capital ratio of 8%, with at least 4% being Tier 1 capital. Tier 1 capital consists of stockholders' equity less accumulated other comprehensive income. In addition, the Company and the Bank must maintain a minimum Tier 1 leverage ratio (Tier 1 capital to total assets) of at least 4%, but this minimum ratio is increased by 100 to 200 basis points for other than the highest-rated institutions.

Tier one risk-based capital ratios of the Company as of September 30, 2008 and December 31, 2007 were 32.8% and 33.1%, respectively. Both are substantially in excess of regulatory minimum requirements.

Management does not anticipate participating in the troubled asset relief program (TARP) implemented by the government as a way to relieve financial institutions stressed by investments in defaulting mortgages. The Bank has not engaged in subprime mortgage lending, and has no investments in mortgage backed securities.

Website Access to SEC Reports

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

At September 30, 2008, the Company's interest rate sensitivity, as measured by gap analysis, showed the Company was asset-sensitive with a one-year cumulative gap of 29.22%, as a percentage of interest-earning assets. Generally asset-sensitivity indicates that assets reprice more quickly than liabilities and in a rising rate environment net interest income typically increases. Conversely, if interest rates decrease, net interest income would decline. The Bank has classified its demand mortgage and commercial loans as immediately repriceable. Unlike loans tied to prime, these rates do not necessarily change as prime changes since the decision to call the loans and change the rates rests with management.

Item 4. Controls and procedures

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

The Company's management, including the CEO and Treasurer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2008. Based on that evaluation, the Company's management, including the CEO and Treasurer, has concluded that the Company's disclosure controls and procedures are effective. The projection of an evaluation of controls to future periods is subject to the risk that procedures may become inadequate due to changes in conditions including the degree of compliance with procedures.

Changes in Internal Controls

During the quarter ended on the date of this report, there were no significant changes in the Company's internal control over financial reporting that have had or are reasonably likely to have a material effect on the Company's internal control over financial reporting. As of September 30, 2008, the Company's management, including the CEO and Treasurer, has concluded that the Company's internal controls over financial reporting are effective.

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

Item 1 Legal Proceedings
Not applicable

Item 1A Risk Factors

The Company and the Bank are subject to various types of risk during the normal conduct of business. There has been no material increase in any level of risk incurred by the Company or the Bank during the quarter covered by this report. Following are descriptions of the significant categories of risk most relevant to the Company.

Credit risk is the risk to the Company's earnings or capital from the potential of an obligor failing to fulfill its contractual commitment to the Company. Credit risk is most closely associated with the Company's lending activities.
Interest rate risk is the risk to earnings or capital from the potential movement in interest rates. It is the sensitivity of the Company's future earnings to interest rate changes.
Liquidity risk is the risk to earnings or capital from the Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.
Market risk is the risk to earnings or capital from changes in the value of portfolios of financial instruments. For the Company, market risk is the risk of a decline in market value of its securities portfolio.
Transaction risk is the risk to earnings or capital arising from problems with service or product delivery. Transaction risk is the risk of a failure in the Company's operating processes, such as automation, employee integrity, or internal controls.
Compliance risk is the risk to earnings or capital from noncompliance with laws, rules, and regulations. Compliance risk is one of the greatest risks the Company faces.
Reputation risk is the risk to earnings or capital from negative public opinion. Customer and public relations are critical to the Company's success. Accordingly, the Company's reputation is extremely important and anything that would impair that reputation is a significant risk.
Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table presents information about the Company's repurchase of its equity securities during the calendar quarter ended on the date of this report.

Period	(a) Total Number of Shares Puchased	(b) Average Price Paid per Share	(c) Total number of Shares Puchased as Part of a Publicly Announced Program	(d) Maximum number of Shares that may yet be Purchased Under the Program
July	22,742	37.04	22,742	240,540
August	11,600	38.24	11,600	228,940
September	300	37.00	300	228,640
Totals	34,642	37.44	34,642	

The Company publicly announced on August 14, 2003, that it would repurchase up to 10% of its outstanding equity stock at that time, which equated to a total of 324,000 common shares available for repurchase. As of January 1, 2005, and again on May 18, 2007, this plan was renewed by public announcement, making up to 10% of the Company's outstanding equity stock available for repurchase at the time of each renewal. This equated to a total of 314,072 common shares available for repurchase as of May 18, 2007.

There is no expiration date for this program. No other stock repurchase plan or program existed or exists simultaneously, nor has any other plan or program expired during the period covered by this table. Common shares repurchased under this plan are retired.

Item 3 Defaults Upon Senior Securities

Not applicable

Item 4 Submission of Matters to a Vote of Security Holders

There have been no matters submitted to a vote of security holders during the period covered by this report.

Item 5 Other information

There is no information required to be disclosed in a report on Form 8-K during the period covered by this report, which has not been reported.

Item 6 Exhibits and Reports on Form 8-K

a) Exhibits

31. Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32. Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1
Certification - Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter that has or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Calvin B. Taylor Bankshares, Inc.

Date: November 5, 2008

By:

/s/ Raymond M. Thompson

Raymond M. Thompson

Chief Executive Officer

Exhibit 31.2
Certification - Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jennifer G. Hawkins, certify that:
I have reviewed this quarterly report on Form 10-Q of Calvin B. Taylor Bankshares, Inc.;
1. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
3. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the most recent fiscal quarter that has or is reasonably likely to materially affect the registrant’s internal control over financial reporting; and

4. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Calvin B. Taylor Bankshares, Inc.

Date: November 5, 2008

By:

/s/ Jennifer G. Hawkins

Jennifer G. Hawkins

Treasurer (Principal Financial Officer)

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

We, the undersigned, certify that to the best of our knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended June 30, 2008 of the Registrant (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Calvin B. Taylor Bankshares, Inc.

Date: November 5, 2008

By:

/s/ Raymond M. Thompson

Raymond M. Thompson

Chief Executive Officer

Date: November 5, 2008

By:

/s/ Jennifer G. Hawkins

Jennifer G. Hawkins

Treasurer (Principal Financial Officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Calvin B. Taylor Bankshares, Inc.

Date: November 5, 2008

By:

/s/ Raymond M. Thompson

Raymond M. Thompson

Chief Executive Officer

Date: November 5, 2008

By:

/s/ Jennifer G. Hawkins

Jennifer G. Hawkins

Treasurer (Principal Financial Officer)