FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

CHARTER BANCSHARES INC
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SIC: **6022** State commercial banks

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended MARCH 31, 1994

OR

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

For the transition period from to

Commission File Number : 0-13496

CHARTER BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)

74-1967164 (IRS employer identification number)

2600 CITADEL PLAZA DRIVE, SUITE 600, HOUSTON, TEXAS 77008
(Address of principal executive offices)

Registrant's telephone number, including area code: (713) 692-6121

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 ("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

The number of shares outstanding of each class of the registrant's capital stock as of March 31, 1994:

CLASS OF STOCK	SHARES OUTSTANDING
COMMON STOCK, PAR VALUE $1.00	5,498,554
CLASS B SPECIAL COMMON STOCK, PAR VALUE $1.00	199,301
PREFERRED STOCK, $50.00 PAR VALUE, 8% PER ANNUM	14,201

<TABLE>
PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS
CHARTER BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
<CAPTION>

ASSETS	MARCH 31, 1994	December 31, 1993
	(in thousands)	
<S>	<C>	<C>
Cash and due from banks	$ 37,070	$ 32,745
Federal funds sold and securities purchased under agreements to resell	21,710	39,617
Interest-bearing deposits in financial institutions	--	3
Trading account assets	10,297	--
Securities held for investment (market value of $187,703,000 at March 31, 1994, and $141,101,000 at December 31, 1993, respectively)	189,850	139,797
Securities available for sale (market value of $124,766,000 at March 31, 1994, and $145,581,000 at December 31, 1993)	124,766	143,932
Loans	252,923	290,674
Less: Allowance for credit losses (Note 2)	4,367	4,616
Loans, Net	248,556	286,058
Premises and equipment	12,903	13,006
Accrued interest receivable	3,704	3,687
Other real estate, net (Note 3)	2,016	2,178
Intangibles assets, net	2,200	2,220
Other assets	5,928	3,853

TOTAL ASSETS	$659,000	$667,096

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Deposits:		
Non-interest-bearing demand	$169,248	$173,862
Savings	36,627	35,356
Interest-bearing demand	95,613	98,982
Money market savings	111,549	107,665
Time over $100,000	58,474	60,182
Time under $100,000	106,890	112,707
Total Deposits	578,401	588,754
Securities sold under agreements to repurchase	14,921	12,941
Accrued interest payable	1,044	979
Other liabilities	5,352	4,843
Long-term debt (Note 10)	12,550	13,550
Mandatory convertible subordinated debentures	--	2
Total Liabilities	612,268	621,324
Shareholders' Equity (Notes 5 and 6):		
Preferred stock (400,000 shares authorized; issued: 1994 and 1993 - 14,204 shares)	710	710
Common stock (12,000,000 shares authorized; issued: 1994 - 5,660,722 shares; 1993 - 5,642,682 shares)	5,661	5,643
Class B special common stock (200,000 shares authorized; issued: 1994 - 199,301 shares; 1993 - 199,282 shares)	199	199
Series C special common stock (50,000 shares authorized; issued: 1994 and 1993 - 44,915 shares)	45	45
Capital surplus	31,406	31,159
Retained earnings	9,874	8,749
Unrealized appreciation (depreciation) on securities available for sale (Note 8)	(425)	--
Treasury stock at cost (1994 - 162,168 shares common and 3 preferred; 1993 - 161,529 shares common and 3 preferred)	(738)	(733)
Total Shareholders' Equity	46,732	45,772
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$659,000	$667,096

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

CHARTER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended March 31,	
	1994	1993
	(in thousands, except per share amounts)	
Interest Income:		
Loans, including fees	$ 5,044	$ 4,359
Securities:		
Taxable	3,866	3,827
Non-taxable	6	2
Trading account assets	29	131
Federal funds sold	272	271
Securities purchased under agreements to resell	29	7
Interest-bearing deposits	--	5
Total Interest Income	9,246	8,602
Interest Expense:		
Deposits:		
Interest-bearing demand	422	629
Savings	227	151
Money market savings	719	668
Time over $100,000	502	565
Time under $100,000	924	955
Securities sold under agreements to repurchase	92	90
Long-term debt	274	165
Total Interest Expense	3,160	3,223
Net interest income	6,086	5,379
Provision for credit losses (Note 2)	67	285
Net Interest Income After Provision for Credit Losses	6,019	5,094

Non-Interest Income:		
Service charges on deposit accounts	1,323	1,182
Trust fees	215	89
Trading account profits	1	--
Securities gains	6	181
Other	585	419
Total Non-Interest Income	2,130	1,871
Non-Interest Expense:		
Salaries and employee benefits	3,058	2,717
Net premises and equipment expenses	950	786
Advertising	198	143
Data processing	322	275
Legal fees	218	113
Losses and carrying costs of other real estate (Note 3)	55	1,146
Deposit insurance premiums	319	306
Amortization of core deposit intangibles	20	112
Other	749	1,001
Total Non-Interest Expense	5,889	6,599
Earnings before income taxes	2,260	366
Income tax expense	757	164
Earnings before effect of change in accounting principle	1,503	202
Cumulative effect on prior years of a change in accounting for income taxes (Note 4)	--	2,950
NET EARNINGS	$ 1,503	$ 3,152
Earnings per common share (Note 6):		
Primary earnings before change in accounting principle	$ 0.26	$ 0.02
Fully diluted earnings before change in accounting principle	0.26	0.02
Cumulative effect of change in accounting for income taxes	--	0.52
Primary	0.26	0.54
Fully diluted	0.26	0.54
Weighted Average Shares Outstanding:		
Primary	5,725,544	5,725,227
Fully diluted	5,742,770	5,742,647

The accompanying notes are an integral part of the consolidated financial statements.

CHARTER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	THREE MONTHS ENDED MARCH 31, 1994	Year Ended December 31, 1993
	(in thousands)	
Preferred stock, ($50.00 par value)		
Balance at beginning of year	$ 710	$ 710
Balance at end of period (14,204 shares issued and 14,201 shares outstanding)	710	710
Common stock ($1.00 par value)		
Balance at beginning of year	5,643	5,374
Stock dividend (268,472 shares in 1993)	--	269
Conversion of debentures (18,040 shares in 1994 and 123 shares in 1993)	18	--
Balance at end of period (5,660,722 shares issued and 5,498,554 shares outstanding)	5,661	5,643
Class B special common stock ($1.00 par value)		
Balance at beginning of year	199	190
Conversion of debentures (19 shares in 1994)	--	--
Stock dividend (9,484 in 1993)	--	9
Balance at end of period (199,301 shares issued and outstanding)	199	199
Series C special common stock ($1.00 par value)		

Balance at beginning of year	45	43
Stock dividend - common stock (2,138 shares in 1993)	--	2
Balance at end of period (44,915 shares issued and outstanding)	45	45
Capital surplus		
Balance at beginning of year	31,159	27,726
Conversion of debentures	247	2
Stock dividend - common stock	--	3,431
Balance at end of period	31,406	31,159
Retained earnings		
Balance at beginning of year	8,749	5,326
Cash dividends - preferred stock	(28)	(57)
Cash dividend - common stock	(350)	(1,015)
Stock dividend - common stock	--	(3,711)
Net earnings	1,503	8,206
Balance at end of period	9,874	8,749
Unrealized appreciation (depreciation) on securities available for sale	(425)	--
Treasury stock		
Balance at beginning of period	(733)	(733)
Treasury stock acquired through conversion of debentures (639 shares in 1994)	(5)	--
Balance at end of period (162,168 shares common and 3 shares preferred)	(738)	(733)
Total Shareholders' Equity (Notes 5 and 6)	$ 46,732	$ 45,772

The accompanying notes are an integral part of the consolidated financial statements.

<TABLE>
CHARTER BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(in thousands)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$ 1,503	$ 3,152
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	449	304
Amortization of core deposit intangibles	20	112
Net amortization of premiums and discounts on securities	951	858
Provision for credit losses	67	285
Provision for other real estate losses	--	1,061
Net gain on sales of securities	(6)	(211)
Writedown of securities	--	30
Net trading account activity	(10,297)	--
Net gain on sales of fixed assets, other real estate and collateral acquired	(6)	(7)
Net increase in other assets and interest receivable	(587)	(498)
Net decrease in other liabilities and interest payable	(1,549)	(113)
Net (increase) decrease in deferred tax asset	749	(3,144)
Increase (decrease) in outstanding expense and interest checks	134	(16)
Total Adjustments	(10,075)	(1,339)
Net Cash Provided by (Used in) Operating Activities	(8,572)	1,813
Cash flows from investing activities:		
Net decrease in interest-bearing deposits	3	490
Proceeds from sales of securities	6,043	3,249
Proceeds from maturities and prepayments of securities	32,120	34,530
Purchase of securities	(70,659)	(37,882)
Net decrease in loans	37,514	20,191
Capital expenditures	(361)	(188)
Proceeds from sales of other real estate	215	77
Net Cash Provided by (Used in) Investing Activities	4,875	20,467

Cash flows from financing activities:		
Net decrease in non-interest-bearing, demand, savings, interest-bearing demand and money market accounts	(2,962)	(21,928)
Net decrease in certificate of deposits	(7,525)	(14,197)
Net increase (decrease) in securities sold under agreements to repurchase	1,980	(7,319)
Payment of long term debt	(1,000)	--
Payment of common dividends	(350)	(167)
Payment of preferred dividends	(28)	(28)
Net Cash Provided by (Used in) Financing Activities	(9,885)	(43,639)
Net Increase (Decrease) in Cash and Cash Equivalents	(13,582)	(21,359)
Cash and Cash Equivalents at Beginning of Period	72,362	81,603
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 58,780	$ 60,244
SUPPLEMENTAL DISCLOSURE:		
Interest paid	$ 3,095	$ 3,408
Taxes paid	20	90
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate and collateral acquired	$ 205	$ 381
Loans made to finance sales of other real estate	--	10

The accompanying notes are an integral part of the consolidated financial statements.
</TABLE>

CHARTER BANCSHARES, INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accounting and reporting policies of Charter Bancshares, Inc. ("Charter" or "the Company") conform to generally accepted accounting principles and to general practices within the banking industry. The accompanying consolidated financial statements include the accounts of Charter and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation. Certain amounts have been reclassified in the accompanying consolidated financial statements from those previously reported for the quarter ended March 31, 1993 to conform to current year financial statement classifications.

The accompanying consolidated financial statements were not audited by independent certified public accountants, but in the opinion of management reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of same.

NOTE 2 - ALLOWANCE FOR CREDIT LOSSES

The following table is an analysis of the activity in the allowance for credit losses for the three months ended March 31, 1994 and 1993:

	1994	1993
	(in thousands)	
Balance at beginning of period	$ 4,616	$ 3,792
Provision charged to operating expenses	67	285
Loans charged off	(501)	(287)
Less recoveries on loans previously charged off	185	47
Net loan charge-offs	(316)	(240)
Balance at end of period	$ 4,367	$ 3,837

NOTE 3 - ALLOWANCE FOR OTHER REAL ESTATE LOSSES

Other real estate ("ORE") is reflected on the consolidated balance sheets net of an allowance for anticipated losses on other real estate. The following table is an analysis of activity in the allowance for anticipated losses on other real estate for the three months ended March 31, 1994 and 1993:

	1994	1993
	(in thousands)	
Balance at beginning of period	$ 2,418	$ 3,569
Provision charged to operating expenses	--	1,061
Reductions	(32)	--
Balance at end of period	$ 2,386	$ 4,630

NOTE 4 - INCOME TAXES

The Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," was adopted by Charter effective January 1, 1993. This new standard provides for a deferred tax asset to be recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The adoption of SFAS No. 109 has been reported as the effect of a change in accounting principle. Management determined that a net deferred tax asset of approximately $2,950,000 should be recognized as of January 1, 1993.

NOTE 5 - DIVIDENDS

Charter's board of directors declared cash dividends totalling $378,000 and $195,000 that were respectively paid March 31, 1994 and 1993 to shareholders of common and preferred stock. $28,000 was paid to holders of the initial series preferred stock and the remainder was paid on the common stock.

NOTE 6 - EARNINGS PER COMMON SHARE

Earnings per common share are computed as follows:

	Three Months Ended March 31,	
	1994	1993
	(in thousands, except per share amounts)	
Earnings before cumulative effect of a change in accounting principle	$ 1,503	$ 202
Cumulative effect on prior years of a change in accounting for income taxes	--	2,950
Net earnings	1,503	3,152
Less preferred dividend requirements	28	28
Primary earnings applicable to common shareholders	1,475	3,124
Interest expense on debentures	5	5
Fully diluted earnings applicable to common shareholders	$ 1,480	$ 3,129
Primary earnings per common share:		
Earnings before cumulative effect of a change in accounting principle	$ 0.26	$ 0.02
Cumulative effect of a change in accounting for income taxes	--	0.52
Net earnings	$ 0.26	$ 0.54
Fully diluted earnings per common share:		
Earnings before cumulative effect of a change in accounting principle	$ 0.26	$ 0.02
Cumulative effect of a change in accounting for income taxes	--	0.52
Net earnings	$ 0.26	$ 0.54
Weighted average common shares outstanding:		
Primary	5,725,544	5,725,227
Fully diluted	5,742,770	5,742,647

Primary earnings per share amounts are computed by dividing net earnings less current period preferred dividends by the weighted average number of common shares outstanding during the period. Fully diluted earnings per share amounts are similarly computed but include the pro forma effect from conversion of Charter's other potentially dilutive securities.

NOTE 7 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values were estimated by management as of March 31, 1994 which required the exercise of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts Charter could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated values presented.

The estimated fair values of Charter's financial instruments were as follows:

	MARCH 31, 1994		December 31, 1993	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
Financial Assets:				
Cash and short-term investments	$ 58,780	$ 58,780	$ 72,365	$ 72,365
Securities	314,616	312,469	283,729	286,682
Loans	252,923	254,516	290,674	292,602
Less: allowance for credit losses	(4,367)	(4,367)	(4,616)	(4,616)
Loans, net	$248,556	$250,149	$286,058	$287,986
Financial Liabilities:				
Deposits	$578,401	$579,404	$588,754	$589,794
Securities sold under agreements to repurchase	14,921	14,921	12,941	12,941
Long-term debt and debentures	12,550	10,955	13,550	12,133
Unrecognized financial instruments:				
Commitments to extend credit	$ 40,562	$ 40,562	$ 41,371	$ 41,371
Standby letters of credit	8,313	8,313	4,165	4,165

NOTE 8 - SECURITIES

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," was adopted by Charter effective January 1, 1994. Under the new rules, debt securities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost. Debt securities that the Company does not have the positive intent and ability to hold to maturity and all marketable equity securities are classified as available-for-sale or trading and carried at fair value. Unrealized holding gains and losses on securities classified as available-for-sale are carried as a separate component of shareholders' equity. Unrealized holding gains and losses on securities classified as trading are reported in earnings.

Presently, the Company classifies $124,766,000 of its debt securities as available for sale and carries them at fair value. Application of the new rules resulted in an estimated decrease of approximately $425,000 in shareholders' equity as of March 31, 1994, representing the recognition in shareholders' equity of unrealized appreciation, net of taxes, for the Company's investment in debt and equity securities determined to be available-for-sale.

NOTE 9 - ACQUISITIONS

On April 8, 1994, Charter consummated the acquisition of certain assets and liabilities that comprise an aggregate of four branches which are located in Fiesta Mart supermarkets in the Houston, Harris County area. These Fiesta Mart branches had total deposits in excess of $20 million at April 8, 1994. The purchase price for the Fiesta Mart branches was equal to the net book value of the acquired assets less the assumed liabilities, plus a premium of $775,000.

On April 27, 1994, Charter consummated the acquisition of certain assets and liabilities of Capital Standard Mortgage, Inc. ("Capital Standard"). Capital Standard has become a 90-percent owned subsidiary of Charter National Bank - Houston. The remaining 10-percent of Capital Standard's stock is owned by principals of Capital Standard. Capital Standard presently operates mortgage production offices in Houston, Austin, Dallas, Plano and Arlington. The servicing portfolio totals approximately $126 million and loans in the pipeline total approximately $80 million; both the servicing portfolio and the pipeline are comprised of relatively low rate mortgages with a weighted average coupon of approximately 7.5%, which should be resistant to accelerated prepayments.

Each of these acquisitions do not have an immediate material impact on the consolidated financial position of Charter. However, these acquisitions provide Charter with an access to new markets, an increase in potential revenues and, with the addition of the mortgage company, an ability to offer a wider range of mortgage-related products and services.

NOTE 10 - LONG TERM DEBT

At March 31, 1994, Charter Venture Group, Inc. elected to prepay its $1,000,000 subordinated debenture guaranteed by the Small Business Administration because management did not anticipate an alternative use of such funds prior to the scheduled maturity of December 1, 1994.

Charter issued a $2,500,000 subordinated debenture in April, 1994 in connection with the purchase of the Fiesta Mart branches. The subordinated debenture matures April 8, 2006 and bears interest at a fixed rate of 8.11% per annum, payable semi-annually.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(A) ANALYSIS OF RESULTS OF OPERATIONS

CONDENSED STATEMENTS OF OPERATIONS

The following is a comparison of Charter's condensed statements of operations for the three-month periods ended March 31, 1994 and 1993:

	Three Months Ended March 31, 1994	1993	Increase (Decrease)
	(in thousands)		
Interest income	$ 9,246	$ 8,602	$ 644
Interest expense	3,160	3,223	(63)
Net interest income	6,086	5,379	707
Provision for credit losses	67	285	(218)
Non-interest income	2,130	1,871	259
Non-interest expense	5,889	6,599	(710)
Earnings before income taxes	2,260	366	1,894
Income tax expense	757	164	593
Earnings before effect of change in accounting principle	1,503	202	1,301
Cumulative effect on prior years of a change in accounting for income taxes	--	2,950	(2,950)
NET EARNINGS	$ 1,503	$ 3,152	$ (1,649)

Earnings before income taxes increased $1.9 million for the first quarter 1994 as compared to the first quarter of 1993 primarily due to a $1.1 million decrease in losses and carrying costs of other real estate. Net earnings decreased for the first three months of 1994 to $1,503,000 as compared to $3,152,000 for the first three months of 1993 primarily due to the adoption of SFAS No. 109 in 1993. In the following sections, the major factors affecting the components of income and expense are examined. Information concerning assets and liabilities are subsequently provided so that an evaluation can be made of capitalization and liquidity as they may affect Charter's future outlook.

NET INTEREST INCOME

The data used in the analysis of the changes in net interest income is derived from the daily average levels of earning assets and interest-bearing liabilities as well as from the rates earned and paid on such amounts. The schedule below gives a comparative analysis of Charter's daily average interest-earning accounts (including non-accruing loans) and interest-bearing accounts for the three-month periods ended March 31, 1994 and 1993. The rates earned and paid on each major type of asset and liability account are then shown beside the average balance in the account for the period. The average yields on all interest-earning assets (including non-accruing loans) and the average cost of all interest-bearing liabilities also are summarized.

<TABLE>
Comparative Net Interest Margin
<CAPTION>

Three Months Ended March 31,	1994 Average Balance	1994 Interest	1994 Yield or Rate	1993 Average Balance	1993 Interest	1993 Yield or Rate
			(in thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:						
Loans	$257,724	$ 5,044	7.94%	$ 215,344	$ 4,359	8.21%
Interest-earning deposits	--	--	--	613	5	3.31
Trading account assets	2,419	29	4.79	17,520	131	2.97

Securities:						
Taxable	299,994	3,866	5.15	247,885	3,827	6.26
Non-taxable	487	6	4.79	110	2	8.56
Total Securities	300,481	3,872	5.15	247,995	3,829	6.18
Federal funds sold and securities purchased under agreements to resell	32,799	301	3.72	36,785	278	3.06
Total Earning Assets/Yield	593,423	$9,246	6.31%	518,257	$ 8,602	6.73%
Cash and due from banks	33,565			30,835		
Other assets	26,637			26,134		
Allowance for credit losses	(4,633)			(3,899)		
Total Assets	$648,992			$ 571,327		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	$ 98,437	$ 422	1.74%	$ 90,148	$ 629	2.83%
Savings deposits	35,999	227	2.56	22,476	151	2.72
Money market savings	110,153	719	2.64	89,954	668	3.01
Other time deposits	166,949	1,426	3.41	164,058	1,520	3.71
Securities sold under agreements to repurchase	13,307	92	2.81	15,519	90	2.35
Long-term debt	13,782	274	8.07	7,770	165	8.61
Total Interest-Bearing Liabilities/Rate	438,627	$ 3,160	2.92%	389,925	$ 3,223	3.35%
Demand deposits	157,342			134,985		
Other liabilities	6,441			5,303		
Total Liabilities	602,410			530,213		
Shareholders' Equity	46,582			41,114		
Total Liabilities and Shareholders' Equity	$ 648,992			$ 571,327		
Interest Rate Spread			3.39%			3.38%
Net Interest Margin			4.16%			4.21%

</TABLE>

The 13% increase in net interest income in the first quarter of 1994 is due to an increase in earning assets. The interest rate spread of 3.39% and the net interest margin of 4.16% were relatively unchanged from their levels in the same quarter for the prior year. A further understanding of the factors responsible for the year-to-year increase in net interest income can be obtained by examining the changes in: (1) the volume of earning assets and (2) the net interest income produced after the related cost of funding these earning assets.

The following table allocates total interest income earned at the "interest spread" between assets funded with: (1) interest-bearing liabilities and (2) non-interest-bearing liabilities (primarily non-interest-bearing demand deposits) and equity capital. The interest spread on earning assets funded by interest-bearing liabilities is defined as the difference between the average rate earned on total earning assets and the average rate paid on interest-bearing liabilities. The interest spread on assets funded with non-interest-bearing sources of funds is simply the rate earned on total earning assets.

<TABLE>
ANALYSIS OF NET INTEREST INCOME
<CAPTION>

Three Months Ended March 31,

(in thousands)

Source of Funding	Average Earning Assets	Interest Spread	Net Interest Income	Average Earning Assets	Interest Spread	Net Interest Income
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-bearing liabilities	$438,627	3.39%	$ 3,717	$389,925	3.38%	$ 3,295
Non-interest-bearing liabilities and equity capital	154,796	6.31	2,369	128,332	6.73	2,084
Total	$593,423		$ 6,086	$518,257		$ 5,379

</TABLE>

The $707,000 increase in total net interest income between the first quarter of 1994 and the first quarter of 1993 can be attributed entirely to a higher level of earning assets ($593,423,000 in 1994 versus $518,257,000 in 1993). This factor more than offset the impact of a substantially lower interest spread (6.31% in 1994 versus 6.73% in 1993) on a higher level of earning assets funded with non-interest-bearing funds.

Increases in non-interest-bearing sources of funds reflect the increases in non-interest-bearing deposits, which were approximately 29% of total deposits at March 31, 1994. The high level of this type of deposit favorably impacts net interest income. However, the impact is more favorable in periods of relatively higher interest rates than in the current period of low interest rates. Accordingly, the net interest income on earning assets funded with these non-interest-bearing funds would benefit from a rise in interest rates due to the resulting increase in the interest spread.

PROVISION FOR CREDIT LOSSES

The allowance for credit losses at March 31, 1994 of $4,367,000 represented 1.73% of outstanding loans. A year earlier, this ratio was 1.77% and at December 31, 1993, it was 1.59%. Annualized net loans charged off as a percent of average loans outstanding increased to 0.50% during the first quarter of 1994 as compared to 0.45% during the first quarter of 1993. The provision for credit losses charged against earnings was $67,000 for the three months ended March 31, 1994, as compared to $285,000 for the corresponding period in 1993.

The following table is an analysis of the activity in the allowance for credit losses for the three-month periods ended March 31, 1994 and 1993:

	Three Months Ended March 31,	
	1994	1993
(in thousands)		
Average loans outstanding	$258,449	$ 216,594
Loans outstanding at end of period	252,923	216,455
Transactions in the allowance for credit losses:		
Balance at beginning of period	4,616	3,792
Provision charged to operating expenses	67	285
Loans charged off:		
Real estate	229	49
Commercial	170	74
Individuals	102	164
Total loans charged off	501	287
Recoveries of loans previously charged off:		
Real estate	107	18
Commercial	22	5
Individuals	56	24
Total recoveries	185	47
Net loans charged off	(316)	(240)
Balance at end of period	$ 4,367	$ 3,837
Ratios:		
Allowance as a percent of loans outstanding at end of period	1.73%	1.77%
Allowance as a percent of average loans	1.69	1.77
Net loans charged off as a percent of average loans outstanding (annualized)	0.50	0.45

NON-INTEREST INCOME

Non-interest income increased 13.8% during the first three months of 1994 as compared to the same period in 1993. Excluding the effect of securities transactions for the three months ended March 31 of each year, non-interest income increased 25.6% in 1994 following a 3.8% increase in 1993. Service charges on deposits, the largest component of non-interest income, increased by 11.9% to $1,323,000 for the three months ended March 31, 1994, as compared to $1,182,000 for the same period in 1993. The increase in service charge income was primarily due to an increase in the average volume of transaction deposit accounts, particularly non-interest-bearing demand accounts, which generate the majority of this fee income. Average non-interest-bearing demand accounts increased by approximately $22 million, or 16.6% for the first quarter 1994 as compared to the same period in 1993. The acquisition of University Bank-Galveston in April 1993 contributed to the growth in deposit accounts. At March 31, 1994, non-interest-bearing demand accounts and total deposits at University Bank-Galveston were $13,012,000 and $84,906,000, respectively. Service charges from University Bank-Galveston's deposits included in Charter's consolidated financial statements for the first quarter 1994 were approximately $151,000.

Investment securities gains decreased by $175,000 for the first quarter 1994 as compared to the same period in 1993. Trust fees represent revenues earned by services provided to customers of Charter's Asset Management and Trust Services Department. First quarter 1994 trust fees increased $126,000 to $215,000 compared to the first quarter of 1993, due to an increase in the assets under administration which grew to approximately $175 million at the end of March 1994, compared to $143 million at the end of March 1993.

The components of the "other" category of non-interest income consist of rental income on other real estate owned, fees generated from customers engaged in international trade such as foreign exchange fees and letter of credit fees, plus miscellaneous fees such as collection fees, credit card fees, safe deposit rentals, research fees, check printing fees, discount brokerage commissions and wire transfer fees. These fees correlate to the level of transactions in each of the referenced categories. Other non-interest income increased $166,000, or 39.6% in the first quarter of 1994 compared to the first quarter of 1993. Fees from components within the "other" category which improved in 1994 include a $50,000 increase in fees generated from customers engaged in international trade. Furthermore, the acquisition of University Bank-Galveston added approximately $59,000 this "other" category of fee income.

The following table sets forth by category the non-interest income and the percentage change from the prior period:
<TABLE>

	Three Months Ended March 31,			
	1994		1993	
	Amount	Percent Change	Amount	Percent Change
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Service charges on deposits	$ 1,323	11.9%	$ 1,182	4.5%
Investment securities gains	6	(96.7)	181	(65.7)
Trading account profits (losses)	1	NM	--	(100.0)
Trust fees	215	141.6	89	64.8
Other	585	39.6	419	(5.4)
Total	$ 2,130	13.8%	$ 1,871	(10.0)%

"NM" denotes a comparison that is not meaningful.
</TABLE>

NON-INTEREST EXPENSE

Non-interest expense decreased 10.8% during the first three months of 1994 as compared to the same period in 1993. The most significant decrease in expenses was in the category of "other" and ORE losses and carrying costs. Charter has established an allowance for other real estate in order to recognize possible declines in fair values of foreclosed properties. This allowance is increased by provisions charged to earnings and reduced by writedowns upon the sale of ORE at a loss. ORE losses and carrying costs decreased by approximately $1.1 million primarily due to a declining balance in ORE. Total ORE, net of the allowance for other real estate, declined by approximately $3.0 million from a total of $5.0 million at December 31, 1992 to $2.0 million at March 31, 1994. The reduction in ORE has resulted in a substantial reduction in associated carrying costs. Management further anticipates that its efforts to dispose of some or all of the remaining ORE properties will be accompanied by additional reductions in associated carrying costs. The decrease in the "other" category of non-interest expense is primarily due to one-time expenses incurred in the first quarter 1993 related to the acquisition of University Bank-Galveston.

The largest single line item for non-interest expense continues to be salaries and benefits which increased by $341,000, or 12.6% for the first quarter 1994. Approximately $292,000 of the increase in salaries and benefits was generated by University Bank-Galveston. Excluding the impact of the acquisition of University Bank-Galveston, total salaries and benefits increased by $49,000, or 1.8% for 1994 as compared to 1993.

The acquisition of University Bank-Galveston was the primary source of increases in several categories of non-interest expense including net premises and equipment expense, advertising, electronic data processing and deposit insurance premiums. Expense incurred by University Bank-Galveston and reflected on the consolidated financial statements of Charter for 1994 in each of the preceding categories approximated $121,000, $28,000, $47,000, and $48,000, respectively.

The following table sets forth by category the operating expenses and the percentage change from the prior period:
<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994		1993	
	Amount	Percent Change	Amount	Percent Change
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Salaries and benefits	$ 3,058	12.6%	$ 2,717	4.3%
Occupancy expense	950	20.9	786	(2.8)
Advertising	198	38.5	143	38.8
Electronic data processing	322	17.1	275	26.7
Legal fees	218	92.9	113	(13.7)
ORE losses and carrying costs	55	(95.2)	1,146	25.9
Deposit insurance premiums	319	4.2	306	11.3
Amortization of core deposit intangibles	20	(82.1)	112	--
Other	749	(25.2)	1,001	12.9
Total	$ 5,889	(10.8)%	$ 6,599	9.1%

</TABLE>

(b) Analysis of Financial Condition

Total assets at March 31, 1994, were $659,000,000, as compared to Charter's total assets of $667,096,000 at December 31, 1993. Total securities increased $41 million as compared to December 31, 1993. Loans and federal funds sold decreased by approximately $38 million and $18 million, respectively, from year-end 1993. Normal recurring fluctuations increased cash and due from banks by $4.3 million since year-end. The most significant changes in sources of funds were in deposits which decreased in the aggregate by approximately $10.3 million, from year-end 1993.

CAPITAL RESOURCES

Under the guidelines published by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), Charter's aggregate risk-weighted assets and off-balance sheet exposures at March 31, 1994 and December 31, 1993 were approximately $305,144,000 and $310,489,000, respectively, calculated as follows:

RISK-WEIGHTED Assets	MARCH 31, 1994		December 31, 1993	
	AGGREGATE AMOUNT	RISK-WEIGHTED AMOUNT	Aggregate Amount	Risk-Weighted Amount
	(in thousands)			
Securities	$324,913	$ 43,891	$283,730	$ 37,982
Loans	252,923	210,168	290,674	224,687
Other earning assets	21,710	4,342	39,619	7,924
Cash and due from banks	37,070	3,875	32,745	3,772
All other assets	26,752	26,752	24,944	24,943
Total Adjusted Assets (1)	$663,368	289,028	$671,712	299,308
Total credit-equivalent amount of off-balance sheet items		16,116		11,181
Total Risk-Weighted Assets		$305,144		$310,489

(1) Total adjusted assets are total assets plus the allowance for credit losses.

The following table indicates Charter's risk-based capital as calculated in accordance with the Federal Reserve Board's guidelines:

RISK-WEIGHTED CAPITAL	MARCH 31, 1994	December 31, 1993
	(in thousands)	
Core Capital (Tier 1):		

Common equity	$ 46,447	$ 45,062
Preferred equity	710	710
Total Core Capital	47,157	45,772
Supplementary Capital (Tier 2):		
Allowance for credit losses	3,814	3,881
Mandatory convertible debt	--	257
Subordinated debt	1,650	1,650
Total Supplementary Capital	5,464	5,788
Total Capital	$ 52,621	$51,560
Core capital (Tier 1) as a percentage of risk-weighted assets	15.48%	14.78%
Total capital (Tier 1 and Tier 2) as a percentage of risk-weighted assets	17.28%	16.65%
Core capital as a percentage of quarterly average assets (leverage ratio)	7.22%	6.90%
Tangible core capital as a percentage of quarterly average assets (tangible leverage ratio)	6.95%	6.64%

RATE-SENSITIVE ASSETS AND LIABILITIES

Interest rate sensitivity is a measure of the volatility of the net interest margin as a consequence of changes in market rates. The following table summarizes the rate sensitivity of earning assets and interest-bearing liabilities of Charter at March 31, 1994. Charter monitors the rate sensitivity gap (rate-sensitive, earning assets less rate-sensitive, interest-bearing liabilities) at least monthly in the normal process of asset and liability management. Money market saving accounts are included in the 31-90 days category. Passbook savings accounts and regular interest-bearing demand accounts with balances at March 31, 1994, of approximately $37 million and $96 million, respectively, are included in the 91-180 days category. Although repricing on such accounts is possible at any time, the historical stability of the rates paid on such accounts supports this classification.

At March 31, 1994, the table shows a positive (asset-sensitive) rate sensitivity gap of $170 million in the 1-30 day repricing category. The gap beyond thirty days becomes more liability-sensitive as interest-bearing liabilities that reprice within 90 days, 180 days and one year become greater in volume than rate-sensitive assets that are subject to repricing in the same respective time periods.

<TABLE>
<CAPTION>

	Rate Sensitive Within						
	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	1-5 Years	Over 5 Years	Total
						(in thousands)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earning Assets:							
Loans	$ 164,953	$ 8,506	$ 11,385	$ 17,900	$ 29,980	$ 20,199	$ 252,923
Securities	26,002	28,944	36,557	74,062	79,936	69,115	314,616
Other earning assets	32,007	--	--	--	--	--	32,007
Total Earning Assets	222,962	37,450	47,942	91,962	109,916	89,314	599,546
Interest-Bearing Liabilities:							
Interest-bearing deposits	50,668	144,562	173,036	28,363	27,443	--	424,072
Borrowed funds	2,750	--	--	200	2,100	7,500	12,550
Total Interest-Bearing Liabilities	53,418	144,562	173,036	28,563	29,543	7,500	436,622
Interest-Bearing Assets Less Interest-Bearing Liabilities	$ 169,544	$(107,112)	$(125,094)	$ 63,399	$ 80,373	$ 81,814	$ 162,924
Cumulative Gap	$ 169,544	$ 62,432	$(62,662)	$ 737	$ 81,110	$ 162,924	--
Cumulative Amounts as a Percentage of Total Interest-Earning Assets	76.04%	23.97%	(20.32)%	0.18%	15.90%	27.17%	--
Cumulative Ratio	4.17X	1.32X	0.83X	1.00X	1.19X	1.37X	1.37X

</TABLE>

The foregoing table shows the interval of time in which given volumes of earning assets and interest-bearing liabilities would be responsive to changes in market interest rates based on their contractual maturities or terms for repricing. It is, however, only a static, single-day depiction of Charter's rate sensitivity structure, which can be adjusted in response to changes in forecasted interest rates. Various off-balance sheet instruments may be used in managing Charter's interest rate sensitivity. Instruments which may be used include interest rate swaps, futures and forward rate agreements which serve to hedge interest rate risk by matching the maturity rate of securities and loans with funding sources. Charter evaluates the creditworthiness of the counterparties to these agreements under its credit policy guidelines. Off-balance sheet instruments which complement discretionary balance sheet management may be incorporated in overall interest rate risk analysis. As of March 31, 1994, $40 million notional amount of "prime" rate caps had been sold and were outstanding. This strategy is expected to stabilize net interest income in the event of a decline in the prime lending rate below the national rate of 6%. Furthermore, $40 million notional amount of "prime" rate caps had been purchased and were outstanding. This strategy was expected to stabilize the impact on net interest income from the interest rate caps sold in the event of rapidly rising interest rates, which may result in an increase in the prime lending rate above 8.5%. These interest rate agreements, along with the availability of other mechanisms such as interest rate futures, swaps and future rate agreements, provide Charter the flexibility to change the rate sensitivity gap should the interest rate outlook change. At March 31, 1994, there were no interest rate swaps in effect.

LIQUIDITY

Like any commercial bank, the liability structure of Charter's subsidiary banks requires that Charter maintain an appropriate level of liquid resources to meet normal day-to-day fluctuations in deposit volume and to make new loans and investments as opportunities arise. Liquidity can be provided by either assets or liabilities. Traditional sources of liquidity include cash and due from demand balances, money market investments, investment security maturities and prepayments, loan maturities and repayments, and core deposit growth. Other sources of asset liquidity readily available to Charter include interest-bearing deposits with other financial institutions and trading account assets. At March 31, 1994, Charter had $37,070,000 in cash, $21,710,000 in federal funds sold and a $314,616,000 total securities portfolio in which the market value was approximately $2,147,000 less than the carrying value. The average loan-to-deposit ratio for the three-month period ended March 31, 1994 was 45.4%.

A financial service company's activities consist primarily of financing and investing activities. These activities result in large cash flows. Charter's Consolidated Statements of Cash Flows on page 4 indicate the sources of these cash flows. In addition to the assets which could be readily converted to cash during the first quarter of 1994, Charter received $32,120,000 in proceeds from maturities and prepayments of securities.

Charter has substantial liability liquidity through its customer base. In addition to normal core deposit growth, liability liquidity is available through various sources of purchased funds. Charter emphasizes direct issuance of liabilities in order to develop stable, long-lasting funding relationships. At March 31, 1994, Charter had $14,921,000 in securities sold under agreements to repurchase, all of which were transactions effected through existing deposit customers, rather than through the national markets. There were no federal funds purchased or other short-term borrowings, reflecting management's continuing effort to limit the use of more expensive purchased funds. The liquidity of Charter also may be maintained through access to the Federal Reserve System's "discount window," which is a liquidity source all banks may avail themselves of if needed. Liquidity and matched funding may also be obtained from the Federal Home Loan Bank of Dallas, of which Charter-Houston and University Bank-Galveston are members.

LOANS

Total loans have decreased $37,751,000, or 12.99%, from December 31, 1993 to March 31, 1994. The following is a schedule of loans outstanding classified by type:

	March 31, 1994	December 31, 1993
	(in thousands)	
Commercial, financial and industrial	$ 62,602	$ 58,421
Commercial real estate	48,457	50,467
Real estate-construction	7,517	6,477
Real estate-multi-family	17,574	16,573
Real estate-1-4 family	59,541	101,375
Loans to individuals	57,232	57,361
Total Loans	$252,923	$290,674

NON-PERFORMING ASSETS AND PAST DUE LOANS

The following table sets forth the components of non-performing assets and past due loans as of March 31, 1994 and December 31, 1993:

	March 31, 1994	December 31, 1993
	(in thousands)	
Non-accrual loans:		
Real estate	$ 963	$ 1,172
Commercial and industrial	571	464
Individual	63	98
Other	--	--
Total non-accrual loans	1,597	1,734
Restructured loans:		
Real estate	213	213
Commercial and industrial	--	--
Individual	--	--
Other	--	--
Total restructured loans	213	213
Other real estate, net and collateral acquire	2,091	2,218
Total non-performing assets	$ 3,901	$ 4,165
Loans past due 90 days or more and still accruing interest:		
Real estate	$ 664	$ 207
Commercial and industrial	598	19
Individual	77	342
All other loans	3	9
Total loans past due 90 days or more and still accruing interest	$ 1,342	$ 177
Ratios:		
Allowance for credit losses as a percentage of loans	1.7%	1.6%
Allowance for credit losses as a percentage of non-accrual loans	273.4	266.2
Allowance for credit losses as a percentage of non-performing loans	138.5	182.9
Non-performing loans as a percentage of total loans	1.2	0.9
Total non-performing assets as a percentage of total assets	0.6	0.6

Total non-performing assets decreased $264,000 since year-end to $3,901,000 at March 31, 1994. Total non-performing assets as a percentage of total assets was 0.6% at both March 31, 1994, and December 31, 1993.

Charter has $91,000 in loans outstanding to foreign corporations or governments. At March 31, 1994 and December 31, 1993, Charter had $47,000 of properties subject to a sales contract and accounted for under the "deposit method" as defined in Statement of Financial Accounting Standards No. 66.

PART II
OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K
(b) Reports on Form 8-K

Charter has not filed any reports on Form 8-K during the period for which this report is filed.

All other items prescribed by Part II of Form 10-Q are inapplicable and accordingly have been omitted.

SIGNATURES

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

Charter Bancshares, Inc.
(Registrant)

By:

William S. Shropshire, Jr.
Chief Financial Officer
and Treasurer
(Principal financial and
accounting officer)

Date: May 11, 1994