

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

FIRST CHARTER CORP /NC/

CIK: **717306** | IRS No.: **561355866** | State of Incorporation: **NC** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-15829** | Film No.: **95536273**
SIC: **6022** State commercial banks

Mailing Address
22 UNION ST N
CONCORD NC 28025

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22 UNION ST N
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7047863300

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended March 31, 1995

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 0-15829

FIRST CHARTER CORPORATION
(Exact name of registrant as specified in its charter)

North Carolina 56-1355866
(State or other jurisdiction of (IRS Employer Identification No.
incorporation or organization)

22 Union Street, North, Concord, North Carolina 28025
(Address of principal executive offices) (Zip Code)

(704) 786-3300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year,
if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and
reports required to be filed by Sections 12, 13 or 15(d) of the Securities
Exchange Act of 1934 subsequent to the distribution of securities under a plan
confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date.

4,631,720 shares of Common Stock, \$5.00 par value, outstanding as of May 9,
1995.

PART 1. FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS

FIRST CHARTER CORPORATION AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 1995	December 31, 1994
Cash and due from banks	\$ 16,255,476	\$ 18,110,298
Securities available for sale:		
U.S. Government obligations	12,396,876	16,083,594
U.S. Government agency obligations	8,953,017	8,911,518
 Mortgage-backed securities	 2,635,604	 2,519,763
Other	3,568,767	3,288,447
Total securities available for sale	27,554,264	30,803,322
Investment securities:		
(Market value of \$57,623,868, and \$58,602,959 at 3/31/95 and 12/31/94, respectively)		
U.S. Government agency obligations	7,978,951	7,985,901
Mortgage-backed securities	14,029,940	16,260,021
State and municipal obligations, nontaxable	36,410,735	36,792,641
Total investment securities	58,419,626	61,038,563
Loans	209,712,744	203,935,504
Less: Unearned income	(223,723)	(201,331)
 Allowance for loan losses	 (2,894,358)	 (2,816,172)
Loans, net	206,594,663	200,918,001
Premises and equipment, net	7,642,200	7,247,098
Other assets	5,318,561	5,931,370
Total assets	\$321,784,790	\$ 324,048,652
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits, domestic:		
Noninterest-bearing	\$ 47,434,195	\$ 48,037,213
Interest-bearing	219,575,287	218,315,321
Total deposits	267,009,482	266,352,534
Short-term borrowings	13,343,507	17,734,069
Other liabilities	2,838,720	2,498,467
 Total liabilities	 283,191,709	 286,585,070
Shareholders' equity:		
Common stock - \$5 par value; authorized 10,000,000 shares, issued and outstanding, 4,629,278 shares at 3/31/95 and 4,632,250 shares at 12/31/94	 23,146,390	 23,161,250
Additional paid-in capital	8,268	672
Unrealized gain on securities available for sale	 407,663	 96,150
Retained earnings	15,030,760	14,205,510
Total shareholders' equity	38,593,081	37,463,582
Total liabilities and shareholders' equity	\$321,784,790	\$324,048,652

See accompanying notes to consolidated financial statements.

<TABLE>

FIRST CHARTER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

<CAPTION>

	For the Three Months	
	March 31, 1995	March 31, 1994
Interest Income		
<S>	<C>	<C>
Interest and fees on loans	\$ 4,938,810	\$ 3,520,909
Federal funds sold	20,448	33,222
Securities available for sale:		
U.S. Government obligations	256,338	307,445
U.S. Government agency obligations	139,108	10,407
Mortgage-backed securities	35,199	17,432
Other	39,963	31,780
Investment securities:		
U.S. Government obligations	--	10,882
U.S. Government agency obligations	44,357	26,220
Mortgage-backed securities	261,589	332,761
State and municipal obligations, nontaxable	499,639	564,703
Total interest income	6,235,451	4,855,761
Interest Expense:		
Deposits:		
Demand	255,136	235,066
Money Market	220,662	187,193
Savings and time	1,588,115	1,153,696
Short-term borrowings	172,067	71,373
Total interest expense	2,235,980	1,647,328
Net interest income	3,999,471	3,208,433
Provision for loan losses	125,000	75,000
Net interest income after provision for loan losses	3,874,471	3,133,433
Noninterest income:		
Trust income	317,770	389,572
Service charges on deposit accounts	366,742	375,485
Insurance and other commissions	44,942	50,641
Securities available for sale transactions, net	25,894	16,729
Investment securities transactions, net	4,298	9,211
Other	79,367	89,642
Total noninterest income	839,013	931,280
Noninterest expense:		
Salaries and fringe benefits	1,389,737	1,388,022
Occupancy and equipment	363,383	332,945
Other	761,293	806,997
Total noninterest expense	2,514,413	2,527,964
Income before income taxes	2,199,071	1,536,749
Income taxes	656,000	376,000
Net Income	\$ 1,543,071	\$ 1,160,749

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

FIRST CHARTER CORPORATION AND SUBSIDIARY
EARNINGS PER SHARE DATA

<CAPTION>

For the Three Months
March 31, March 31,
1995 1994

<u><S></u>	<u><C></u>	<u><C></u>
Primary income per share data:		
Net income	\$0.33	\$0.25
Average common equivalent shares	4,681,993	4,715,047
Income per share data assuming full dilution:		
Net income	\$0.33	\$0.25
Average common equivalent shares	4,682,954	4,720,212
Cash dividends declared	\$0.13	\$0.09

All per share data has been retroactively adjusted to reflect a stock split effected in the form of a 33 1/3% stock dividend declared in the fourth quarter of 1994.

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

FIRST CHARTER CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the three months ended March 31, 1995

<CAPTION>

<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>
	Common Stock	Add'l Paid-in Capital	Retained Earnings	Unrealized Gain in value of securities	Total
Balance, December 31, 1994	\$ 23,161,250	\$ 672	\$ 14,205,510	\$ 96,150	\$37,463,582
Net income for the three months ended March 31, 1995	--	--	1,543,071	--	1,543,071
Cash dividends of \$.13 per share	--	--	(603,071)	--	(603,071)
Purchase and retirement of common stock	(85,500)	(58,775)	(114,750)	--	(259,025)
Stock options exercised and Dividend Reinvestment Plan stock issued	70,640	66,371	--	--	137,011
Unrealized gain on securities available for sale	--	--	--	311,513	311,513
Balance, March 31, 1995	\$ 23,146,390	\$ 8,268	\$ 15,030,760	\$ 407,663	\$38,593,081

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

FIRST CHARTER CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	For the Three Months Ended March 31, 1995	March 31, 1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 1,543,071	\$ 1,160,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	125,000	75,000
Depreciation	160,210	139,114
Premium amortization and discount accretion, net	(23,112)	41,417
Net gain on investment securities transactions	(4,298)	(9,211)
Net gain on securities available for sale transactions	(25,894)	(16,729)
Net loss on sale of premises and equipment	2,477	--
Decrease (increase) in other assets	413,646	(152,243)
Increase (decrease) in other liabilities	308,379	(146,832)
Net cash provided by operating activities	2,499,479	1,091,265
Cash flows from investing activities:		
Proceeds from sales of investment securities	1,725,292	3,010,937
Proceeds from sales of securities available for sale	8,058,438	31,936
Proceeds from maturities and issuer calls of investment securities, net	8,877,946	3,626,779
Proceeds from maturities of securities available for sale	4,043,037	30,709
Purchase of investment securities	(7,948,696)	(5,980,050)
Purchase of securities available for sale	(8,324,042)	(5,378,601)
Net increase in loans	(5,801,662)	(3,778,047)
Proceeds from sale of premises and equipment	8,125	--
Purchase of premises and equipment	(550,914)	(196,636)
Net cash provided (used) in investing activities	87,524	(8,632,973)
Cash flows from financing activities:		
Net increase in demand, NOW, Money Market and savings accounts	1,058,008	4,622,853
Net increase (decrease) in certificates of deposit	(401,060)	662,360
Net increase (decrease) in securities sold under repurchase agreements and other short-term borrowings	(4,390,562)	5,387,488
Net increase in advances for taxes and insurance	16,874	19,473
Purchase of common stock	(259,025)	(464,511)
Proceeds from issuance of common stock	137,011	237,965
Dividends paid	(603,071)	(419,423)
Net cash provided (used) by financing activities	(4,441,825)	10,046,205
Net increase (decrease) in cash and cash equivalents	(1,854,822)	2,504,497
Cash and cash equivalents at beginning of period	18,110,298	12,857,677
Cash and cash equivalents at end of period	\$ 16,255,476	\$ 15,362,174

(Continued)

</TABLE>

<TABLE>
 FIRST CHARTER CORPORATION AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

<CAPTION>

	For the Three Months Ended	
	March 31, 1995	March 31, 1994
<S>	<C>	<C>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 2,160,387	\$ 1,608,851
Income taxes	\$ 5,971	\$ 22,643
Supplemental disclosure of non-cash transactions:		
Transfer of loans and premises and equipment to other real estate owned	--	\$ 29,901
Unrealized gains (loss) in value of securities available for sale (net of tax effect of \$199,164 and \$(125,697) for 1995 and 1994, respectively)	\$ 311,513	\$ (196,603)

See accompanying notes to consolidated financial statements.

</TABLE>

FIRST CHARTER CORPORATION AND SUBSIDIARY
 NOTES TO INTERIM FINANCIAL STATEMENTS

1. Primary earnings per share and income per share assuming full dilution are computed based on the weighted average number of shares outstanding during the period, including Common Stock equivalent shares applicable to stock options, assuming the exercise of outstanding stock options at market value per share.
2. In certain instances, amounts reported in the 1994 financial statements have been reclassified to present them in the format selected for 1995. Such reclassifications have no effect on net income or shareholders' equity as previously reported.
3. The information furnished in this report reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations for the interim period. All such adjustments were of a normal recurring nature.
4. Effective January 1, 1995 the Corporation adopted Financial Accounting Standards Board ("Statement 114") No. 114 "Accounting by Creditors for Impairment of a Loan". This requires that all creditors value all specifically reviewed loans for which it is probable that the creditor will be unable to collect all amounts due (principal and interest) according to the terms of the loan agreement at either the present value of expected cash flows discounted at the loans's effective interest rate, or the fair value of the collateral for certain collateral dependent loans. At March 31, 1995 the allowance for loan losses related to loans that were identified for evaluation in accordance with Statement 114 was determined based on one of the methods discussed above.

The following table presents changes in the allowance for loan losses for

the period ended March 31, 1995:

Beginning Balance	\$2,816,172
Add:	
Provision charged to operations	125,000
	2,941,172
Less:	
Loan charge-offs	80,031
Less loan recoveries	33,217
Net loan charge-offs	46,814
Ending Balance	\$2,894,358

At March 31, 1995, the recorded investment in loans that were considered to be impaired under Statement 114 was \$2,370,515 (of which \$1,964,866 was on nonaccrual). The related allowance for loan losses on these loans was \$1,018,919. The average recorded investment in impaired loans for the quarter was \$2,385,441. For the quarter ended March 31, 1994, the Corporation recognized interest income on impaired loans of \$8,797, none of which was recognized using the cash method of income recognition.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated balance sheets of First Charter Corporation (the "Corporation") represent account balances for the Corporation and its wholly owned banking subsidiary, First Charter National Bank (the "Bank").

LIQUIDITY

The Bank's major source of liquidity is its core deposit base. Liquidity is further provided by maturities in the investment portfolio, the ability to secure public deposits, the availability of Federal fund lines at correspondent banks and the ability to borrow from the Federal Reserve Bank discount window. In addition to these sources, the Bank is a member of the Federal Home Loan Bank ("FHLB") System which provides access to FHLB lending sources. Another source of liquidity is the securities available for sale portfolio which may be sold in response to liquidity needs. Management believes the Bank's sources of liquidity are adequate to meet operating needs and deposit withdrawal requirements.

CAPITAL RESOURCES

At March 31, 1995, total shareholders' equity was \$38,593,081, or \$8.34 per share compared to \$37,463,582, or \$8.09 per share at December 31, 1994.

The following table represents the required capital guidelines as issued by the Federal Reserve Bank ("FRB") and the Corporation's compliance with the standards as of March 31, 1995.

	Risk-Based Capital		Tier 1 Capital		Total Capital	
	Leverage Capital Amount	% (1)	Amount	% (2)	Amount	% (2)
Actual	38,185	11.88	38,185	16.49	41,079	17.74
Required	12,855	4.00	9,263	4.00	18,526	8.00
Excess	25,330	7.88	28,922	12.49	22,553	9.74

(1) Percentage of total adjusted assets. The FRB minimum leverage ratio requirement is 3% to 5%, depending on the institution's composite rating as determined by its regulators. The FRB has not advised the Corporation of any specific requirements applicable to it.

(2) Percentage of risk-weighted assets.

REGULATORY RECOMMENDATIONS

Management is not presently aware of any current recommendations to the Corporation or to the Bank by regulatory authorities which, if they were to be implemented, would have a material effect on the Corporation's liquidity, capital resources, or operations.

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Net income for the quarter ended March 31, 1995 was \$1,543,071, or \$0.33 share versus \$1,160,749, or \$0.25 per share for the comparable period in 1994 which represents a 32.9% increase. The increase is primarily attributable to increases in net interest income. On an annualized basis, these results represent a return on average assets of 1.96% versus 1.60% at March 31, 1994 and a return on average equity of 16.00% versus 13.00%.

Loan demand was strong during the first quarter of 1995. As a result, gross loans increased 2.8% to \$209,712,744 from \$203,935,504 at December 31, 1994. Total deposits increased slightly to \$267,009,482 from \$266,352,534 at December 31, 1994. Investment securities totaled \$58,419,626 at March 31, 1995 for a decrease of approximately \$2.6 million from December 31, 1994. The decrease was primarily due to the sale of seasoned mortgage-backed securities with a greater than 85% paydown, paydowns in the mortgage backed portfolio and maturities of municipal securities. Investment securities had gross unrealized gains of \$1,061,872 and gross unrealized losses of \$1,857,630 at March 31, 1995. Securities available for sale totaled \$27,554,264 at March 31, 1995 for a decrease of approximately \$3.2 million. Proceeds from sales and maturities in the investment and securities available for sale portfolios were used to fund the increased loan demand and to reinvest in additional securities. The carrying value of securities available for sale was \$668,300 above their amortized cost at March 31, 1995. Total assets at March 31, 1995 were \$321,784,790 compared to \$324,048,652 at December 31, 1994.

First quarter net interest income before provision for loan losses increased \$791,038, or 24.7% for the period ending March 31, 1995 over the comparable 1994 quarter. The increase is attributable to an increase in the level of interest earning assets, as well as an improvement in the net interest margin to 5.85% at March 31, 1995 compared to 5.16% at March 31, 1994. The average yield on earning assets was 8.92% at March 31, 1995 compared to 7.67% at March 31, 1994. The average rate paid on interest-bearing liabilities was 3.93% at March 31, 1995 compared to 3.15% at March 31, 1994.

Management continues to assess interest rate risk based on an earnings simulation model. The Bank's balance sheet is liability sensitive, meaning that in a given period there will be more liabilities than assets subject to immediate repricing as market rates change. Because immediately rate sensitive interest-bearing liabilities exceed rate sensitive assets, the earnings position could improve in a declining rate environment and could deteriorate in a rising rate environment, depending on the correlation of rate changes in these two categories. Although rates increased during the periods analyzed, the earnings position improved because interest income was positively impacted by the increases in the prime rate of interest from 6.25% at March 31, 1994 to 9.0% at March 31, 1995. Funding costs increased, but not as quickly or in the same magnitude as the repricing of prime-based loans. As liabilities are repriced in

response to rising rates, net interest income could decline.

The provision for loan losses for the quarter ended March 31, 1995 was \$125,000 compared to \$75,000 for the quarter ended March 31, 1994. The increase in the provision was primarily attributable to the increase in gross loans outstanding. The allowance as a percentage of gross loans remained unchanged at

1.38% at March 31, 1995 compared to December 31, 1994. Management continues to perform a monthly analysis of the allowance utilizing a system for risk grading the portfolio. Based on this review, management believes the allowance to be adequate.

Nonperforming assets at March 31, 1995 were \$4,342,765 or 2.05% of gross loans and foreclosed properties compared to \$5,062,343 or 2.46% at December 31, 1994. The level of nonperforming assets is presented in the following table.

	March 31, 1995	December 31, 1994
Loans:		
Nonaccrual loans	\$2,078,946	\$2,033,122
Loans 90 days or more past due and still accruing	422,191	1,187,593
Foreclosed Property	1,527,666	1,527,666
Other Real Estate	313,962	313,962

Net charge-offs for the three month period ended March 31, 1995 were \$47,000 compared to \$90,000 for the same period in 1994.

Interest income that would have been recorded on nonaccrual loans for the three months ended March 31, 1995, had they performed in accordance with their original terms, amounted to \$52,082. Interest income on nonaccrual loans included in the results of operations for the three months ended March 31, 1995 amounted to approximately \$2,200.

Noninterest income decreased approximately \$92,000 or 9.9% for the three month period ended March 31, 1995 over the comparable period in 1994. The major components of this decrease were lower trust income due to the absence of one-time estate fees earned in 1994 and lower service charges due to lower commercial account service charges.

Noninterest expense decreased approximately \$14,000 or 0.5% for the three month period ended March 31, 1995 over the comparable period in 1994. Salaries and fringe benefits for the first quarter of 1995 were maintained at first quarter 1994 levels. Occupancy and equipment increased due to the initial cost of check imaging software and hardware. Efficiencies from this new process will not be realized until the latter part of 1995. Decreases have occurred in other professional fees, advertising, other insurance, foreclosed properties and other expenses.

Total income tax expense for the quarter ended March 31, 1995 was \$656,000 compared to \$376,000 for the comparable period in 1994. The increase is attributable to an increase in income before taxes and an increase in the effective tax rate.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibits No.
(per Exhibit Table
in item 601 of
Regulation S-K)

Description of Exhibits

3.1	Restated Charter of the Registrant, incorporated herein by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (Commission File No. 0-15829).
3.2	By-laws of the Registrant, as amended, incorporated herein by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992 (Commission File No. 0-15829).
11	Statements regarding computation of per share earnings.
27	Financial Data Schedules

(b) No reports on Form 8-K were filed this quarter.

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.

FIRST CHARTER CORPORATION
(Registrant)

Date: May 9, 1995

By \s\ Robert O. Bratton
Robert O. Bratton
Executive Vice President and
Principal Financial and
Accounting Officer

EXHIBIT INDEX

Exhibits No.
(per Exhibit Table
in item 601 of
Regulation S-K)

Description of Exhibits

Sequential
Page Number

11	Statements regarding computation of per share earnings.
27	Financial Data Schedules

<TABLE>

FIRST CHARTER CORPORATION
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

Exhibit 11

<CAPTION>

Three Months Ended
March 31, March 31,
1995 1994

NET INCOME PER SHARE COMPUTED AS FOLLOWS:

PRIMARY:

	<C>	<C>
1. Net income	\$ 1,543,071	\$ 1,160,749
2. Weighted average common shares outstanding	4,634,439	4,680,983
3. Incremental shares under stock options computed under the treasury stock method using the average market price of issuer's stock during the periods	47,554	34,064
4. Weighted average common shares and common equivalent shares outstanding	4,681,993	4,715,047
5. Net income per share (Item 1 Divided by Item 4)	\$ 0.33	\$ 0.25

FULLY DILUTED:

1. Net income	\$ 1,543,071	\$ 1,160,047
2. Weighted average common shares outstanding	4,634,439	4,680,983
3. Incremental shares under stock options computed under the treasury stock method using the higher of the average or ending market price of issuer's stock at the end of the periods	48,515	39,229
4. Weighted average common shares and common equivalent shares outstanding	4,682,954	4,720,212
5. Net income per share (Item 1 Divided by Item 4)	\$ 0.33	\$ 0.25

All per share data has been retroactively adjusted to reflect a stock split effected in the form of a 33 1/3% stock dividend declared in the fourth quarter of 1994.

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 9

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FIRST QUARTER 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-Q.

</LEGEND>

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