

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1999-07-27 | Period of Report: 1999-06-30
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FILER

REPUBLIC CORP /TX/

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SIC: 6021 National commercial banks

Mailing Address
5340 WESLAYAN P O BOX
270462
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270462
HOUSTON TX 77277

Business Address
5340 WESLAYAN
PO BOX 270462
HOUSTON TX 77277
7136229727

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Six Months Ended June 30, 1999.

COMMISSION FILE NUMBER 0-8597

THE REPUBLIC CORPORATION

TEXAS

74-0911766

(State of other jurisdiction of
incorporation or organization)

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

5340 WESLAYAN - P.O. BOX 270462, HOUSTON, TX

77277

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 713-993-9200

NONE

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 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 report(s), and (2) has been subject to such filing
requirements for the past 90 days.

YES X. NO .
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of June 30, 1999

COMMON STOCK, \$1.00 PAR VALUE

Shares 356,844

Outstanding at June 30,
1999, (including 23,119
shares held as treasury
shares)

THE REPUBLIC CORPORATION

Index to Quarterly Report on Form 10-Q

<TABLE>
<CAPTION>

<S>

Part I. Financial Information

Page

<C>

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheets

December 31, 1998, and June 30, 1999.

1

Consolidated Statements of Income for the three
months and six months ended June 30, 1998 and 1999.

2

</TABLE>

<TABLE>
<CAPTION>

REPUBLIC CORPORATION AND SUBSIDIARY
Balance Sheet

	June 30 1999	December 31 1998

<S>	<C>	<C>
Assets		
Cash and due from banks (demand)	\$ 4,869,681	\$ 3,682,131
Investment securities:		
Held-to-maturity		
Market value at 6-30-99 29,843,479		
Market value at 12-31-98 27,985,306	29,843,479	23,864,557
Available-for-sale		
Market value at 6-30-99 24,000		
Market value at 12-31-98 24,000	24,000	24,000
	-----	-----
	\$ 34,737,160	\$ 27,570,688
Loans	95,770,321	94,569,025
Plus: Uncollected earned interest	751,373	847,969
Less: Allowance for losses	(1,271,186)	(1,233,000)
Net loans and other receivables	95,250,508	94,183,994
	-----	-----
Federal funds sold	11,650,000	5,650,000
Property, equipment and vehicles (net)	2,555,830	2,610,729
Other real estate	19,998	47,658
Goodwill	436,079	436,079
Other assets	347,971	776,201
	-----	-----
Total assets	\$144,997,546	\$131,275,349
	-----	-----
Liabilities and Stockholders' Equity		
Deposits (Domestic):		
Demand (non-interest bearing)	\$ 18,251,069	\$ 16,718,279
Savings, time and demand (Interest-bearing)	112,695,369	100,632,666
	-----	-----
	\$130,946,438	\$117,350,945
Accounts payable and accrued interest payable	1,082,827	958,528
Accrued taxes payable	269,968	641,266
	-----	-----
Total liabilities	\$132,299,233	\$118,977,739
	-----	-----
Minority Interest in Consolidated Subsidiary	273,854	264,371
	-----	-----
Stockholders' Equity		
Common stock (par value \$1; 750,000 shares authorized, 356,844 shares issued including stock held in treasury)	356,844	356,844
Additional paid-in capital	234,931	234,931
Less cost of treasury stock (23,119 shares at 6-30-98 and 23,119 at 12-31-97)	(91,303)	(91,303)
	-----	-----
Total contributed capital	500,472	500,472
	-----	-----
Retained earnings	11,923,987	11,532,767
	-----	-----
Net Unrealized Gain (Loss) on Securities		
Available-for-Sale (Net of Taxes)	-0-	-0-
Stockholders' equity	12,424,459	12,033,239

Total liabilities and stockholders equity \$144,997,546 \$131,275,349

</TABLE>

The accompanying note is an integral part of these financial statements.

REPUBLIC CORPORATION AND SUBSIDIARY
Statement of Income

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	Three Months Ended		Six Months Ended	
	June 30 1999	June 30 1998	June 30 1999	June 30 1998
<S>	<C>	<C>	<C>	<C>
Interest Income				
Interest and fees on loans	\$ 2,038,011	\$ 1,909,769	\$ 4,037,712	\$ 3,684,687
Interest on funds sold and securities purchased under agreement to resell	128,919	156,246	196,632	293,052
Interest and dividends on investments				
Securities of U.S. Government and government agencies	334,500	361,454	630,862	741,778
Obligations of states, political subdivisions and other obligations secured by the government	-0-	-0-	-0-	-0-
Total interest on investments	463,419	517,700	827,494	1,034,830
Total interest income	2,501,430	2,427,469	4,865,206	4,719,517
Interest expense:				
Interest on deposits	1,211,978	1,118,535	2,311,865	2,245,408
Total Interest expense	1,211,978	1,118,535	2,311,865	2,245,408
Net interest income	1,289,452	1,308,934	2,553,341	2,474,109
Provision for loan losses	(57,979)	(69,823)	(107,734)	(118,181)
Net interest income after provision for loan losses	1,231,473	1,239,111	2,445,607	2,355,928
Other income:				
Service charges on deposit accounts	54,198	50,845	105,006	99,965
Other service charges, commission and fees	67,710	63,083	141,613	119,905
Gain on sale of securities	-0-	-0-	-0-	-0-
Net income- other real estate	15,839	33,277	15,839	33,277
Other income	17,469	17,859	34,011	31,409
Total other income	155,216	165,064	296,469	284,556
Other expenses:				
Salaries and wages	472,961	353,257	916,084	685,108
Employee benefits	116,492	87,656	220,499	160,370
Net occupancy expenses	77,556	73,573	140,924	133,037
Furniture and equipment expenses	21,427	18,402	65,520	53,133
Depreciation other than rental property	59,153	50,980	118,304	88,314
Net cost-other real estate	-0-	-0-	-0-	-0-
Computer service center	59,214	56,379	113,643	102,768
FDIC-insurance	3,419	10,023	10,566	13,424
Professional services	34,745	33,960	78,107	67,806
Advertising	36,905	29,847	62,342	43,234
Other operating expenses	188,809	156,795	374,385	316,809
Total other expenses	1,070,681	870,872	2,100,374	1,664,102
Income before income taxes	316,008	533,303	641,702	976,382
Less applicable income taxes (Current)	111,000	208,000	241,000	365,000
Income before reduction for minority interest	205,008	325,303	400,702	611,382
Less minority interest income (loss)	4,784	7,665	9,483	14,179

Net income	\$ 200,224	\$ 317,638	\$ 391,219	\$ 597,203
Earnings per share	\$.60	\$.95	\$ 1.17	\$ 1.79

</TABLE>

The accompanying note is an integral part of these financial statements.

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REPUBLIC CORPORATION AND SUBSIDIARY
Statement of Cash Flows

<TABLE>
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	Six Months Ended	
	June 30 1999	June 30 1998
<S>	<C>	<C>
Cash flows and operating activities:		
Net income (loss)	\$ 391,219	\$ 597,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	157,739	122,037
Provision for loan losses	107,734	118,181
Amortization (accretion) of discounts and Premium	(630,142)	(377,597)
Other real estate gains/net	(15,839)	(33,277)
Investment securities gains/net	-0-	-0-
Re-appraisal - other real estate	-0-	-0-
(Decrease) increase in interest payable	97,299	317,808
(Increase) decrease in interest receivable	96,596	(82,258)
(Increase) decrease in other assets	440,679	267,394
Increase (decrease) in other liabilities	(361,815)	(749,279)
Total adjustments	(107,749)	(416,991)
Net cash provided by (used in) operating activities	283,470	180,212
Cash flows from investing activities		
Proceeds from sales of investment securities	-0-	-0-
Proceeds from maturities of investment securities	50,000,000	32,000,000
Purchase of investment securities	(55,348,780)	(29,608,507)
Loans made to customers net cash activity	(1,239,102)	(6,831,695)
Capital expenditure	(102,841)	(620,208)
Proceeds from sale of other real estate	11,759	13,949
Net cash provided by (used in) investing activities	(6,678,964)	(5,046,461)
Cash flows from financing activities		
Net increase (decrease) in demand deposits, NOW account, savings accounts and certificates of deposit	13,595,493	3,519,482
Purchase of treasury stock	-0-	-0-
Net cash provided by (used in) financing	13,595,493	3,519,482
Net increase (decrease) in cash and cash equivalents	7,199,999	(1,346,767)
Cash and cash equivalents at beginning of year:		
Cash and due from banks	3,682,131	3,467,302
Federal funds sold	5,650,000	11,150,000
Cash and cash equivalents at beginning of year	9,332,131	14,617,302
Cash and cash equivalents at June 30, 1999		
Cash and due from banks	4,882,130	4,670,535
Federal funds sold	11,650,000	8,600,000
Cash and cash equivalents at June 30, 1999	\$ 16,532,130	\$ 13,270,535
Supplemental disclosures of cash flow information:		
Cash paid for interest	2,214,566	1,927,599

</TABLE>

The accompanying note is an integral part of these financial statements.

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REPUBLIC CORPORATION AND SUBSIDIARY
Notes to Consolidated Financial Statements

June 30, 1999

Note 1 -- BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements included herein have been prepared by The Republic Corporation, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. The condensed consolidated financial statements include the accounts of the company and its subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Republic Corporation believes that the disclosures are adequate to make the information presented not misleading; however, it is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto which are on Form 10-K for the fiscal year ended December 31, 1998. The financial data for the interim periods may not necessarily be indicative of results to be expected for the year.

Securities that will be held for indefinite periods of time, including securities that will be used as part of the Company's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments, and similar factors, are classified as Available-for-Sale and accounted for at fair value.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION

ASSET QUALITY

Non-accrual loans more than doubled from year-end, 1998 levels due to defaults and subsequent foreclosures on two, larger commercial credits. It is management's belief that, failing action to cure the default by the borrowers, the commercial properties that serve as collateral will be sold for amounts sufficient to cover the outstanding balances. The restructured loan total at period-end represents one troubled commercial credit which has received a below-market interest rate.

TABLE 1 PROBLEM ASSETS

<TABLE>

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(dollars in thousands)	June 30		December 31	
	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Nonaccrual loans	\$ 723	\$ 351	\$ 809	\$ 759
Past-due loans (over 90 days)	-0-	-0-	-0-	-0-
Restructured loans	264	741	2,465	2,148
	-----	-----	-----	-----
Total problem loans	\$ 987	\$1,065	\$3,274	\$2,907
Foreclosed assets				
Real estate	20	48	9	300
In-substance foreclosures	-0-	-0-	-0-	-0-
Other	25	28	5	34
	-----	-----	-----	-----
Total Problem Assets	\$1,032	\$1,141	\$3,288	\$3,241

Total problem loans as a percentage of total loans	1.0%	1.1%	4.1%	4.1%
Total problem assets as a percentage of total loans and foreclosed assets	1.1%	1.2%	4.1%	4.5%

TABLE 2 LOAN CONCENTRATIONS

(dollars in thousands)	June 30	December 31	
	1999	1998	1997
Commercial	\$ 7,145	\$ 7,371	\$ 5,762
Agricultural	4,069	4,156	3,459
Real Estate-Construction	5,412	6,423	1,960
Real Estate-Mortgage	68,757	66,652	59,562
Installment loans to Individuals	10,387	9,967	8,865
Totals	\$95,770	\$94,569	\$79,608

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SOURCES AND USES OF FUNDS

Deposit growth for the first half of 1999 was \$13,595,493 and exceeded that which occurred in the first half of 1998 by \$10,076,011. This growth, a result of higher deposit offering rates, was largely deployed into cash-equivalents, with \$6,000,000 going into Fed Funds Sold and \$5,978,922 going into short term investments during the first half of 1999. Loan growth for the current period was far smaller than the year-ago period, \$1,239,102 vs \$6,831,695, and is a result of lower current loan demand. (Please see Statement of Cash Flows, P-3 and Balance Sheet, P-1)

LIQUIDITY

Liquidity increased significantly over the first half of 1999, with period-end holdings of cash and due from banks, short term securities and Fed Funds Sold representing 35% of period-end liabilities, compared with 28% at year-end, 1998 (Please see Balance Sheet, P-1)

INTEREST RATE SENSITIVITY MANAGEMENT

The recent increase in the percentage of earning assets held in the form of short term securities or as Fed Funds Sold increases the bank's ability to reprice to higher interest rates, especially in comparison with higher leveraged loan accounts which can arguably only tolerate a slight increase in interest rates, if any. The overall picture, however, is still one in which bank earnings decline if rates increase significantly and rise if they do the inverse. (Please see Table 3, P-7)

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INTEREST RATE SENSITIVITY MANAGEMENT

Table 3 - REPRICING SCHEDULE
6-30-99

(dollars in thousands)	3 MO OR LESS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
RATE SENSITIVE ASSETS (Assets that can be repriced within X days)				
Loans *	14,584	50,019	30,118	304

Federal Funds Sold	11,650	-0-	-0-	-0-
Taxable Securities **	30,000	-0-	-0-	-0-
Municipal Bonds	-0-	-0-	-0-	-0-
TOTAL	56,234	50,019	30,118	304

RATE SENSITIVE LIABILITIES
(Liabilities that can be repriced within X days)

Time Certificates of Deposit	27,129	30,521	4,229	-0-
NOW Accounts	2,337	-0-	-0-	-0-
Super NOW Accounts	25,120	-0-	-0-	-0-
Savings Accounts	9,447	-0-	-0-	-0-
MMDA Accounts	13,982	-0-	-0-	-0-
TOTAL	78,015	30,521	4,229	-0-
Interest Rate Sensitivity Gap	(21,781)	19,498	25,889	304
Cumulative Interest Rate Sensitivity Gap	(21,781)	(2,283)	23,606	23,910

</TABLE>

* Does not include \$723,000 in nonaccruing loans or overdrawn demand deposits of \$22,000

** Does not include \$24,000 in Federal Reserve Bank stock

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INVESTMENT SECURITIES

TABLE 4

(dollars in thousands)		CARRYING VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
<S>		<C>	<C>	<C>	<C>
JUNE 30, 1999					
(1)	Held-to-Maturity:				
	U.S. Treasury Securities	--	--	--	--
	Other	29,843,479	--	--	29,843,479
(2)	Available-for-Sale Securities				
	Carried at Fair Value:				
	U.S. Treasury Securities	--	--	--	--
	Other	24,000	--	--	24,000
		-----	-----	-----	-----
		29,867,479	--	--	29,867,479
		-----	-----	-----	-----
DECEMBER 31, 1998					
(1)	Held-to-Maturity:				
	U.S. Treasury Securities	--	--	--	--
	Other	23,864,557	4,493	--	23,869,050
(2)	Available-for-Sale Securities				
	Carried at Fair Value:				
	U.S. Treasury Securities	--	--	--	--
	Other	24,000	--	--	24,000
		-----	-----	-----	-----
		23,888,557	4,493	--	23,893,050
		-----	-----	-----	-----
DECEMBER 31, 1997					
(1)	Held-to-Maturity:				
	U.S. Treasury Securities	12,036,450	--	2,700	12,033,750
	Other	15,951,840	--	284	15,951,556

(2) Available-for-Sale Securities				
Carried at Fair Value:				
U.S. Treasury Securities	--	--	--	--
Other	24,000	--	--	24,000
	-----	-----	-----	-----
	28,012,290	--	2,984	28,009,306
	-----	-----	-----	-----

</TABLE>

(1) Securities which the Bank has the ability and intent to hold to maturity. These securities are stated at cost, adjusted for amortization of premiums and accretion of discounts, computed by the interest method. Because securities are purchased for investment purposes and quoted market values fluctuate during the investment period, gains and losses are recognized upon disposition or at such time as management determines that a permanent impairment of value has occurred. Cost of securities sold is determined on the specific identification method.

(2) Securities that the bank may sell in response to changes in market conditions or in the balance sheet objectives of the bank. Securities in this category will be reported at fair market value. Unrealized gains or losses (net of tax) will be reported as a separate item in the shareholder's equity section of the balance sheet. Adjustments will be recorded at least quarterly.

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CAPITALIZATION:

Since the predominant first half asset growth consisted of low risk, cash equivalents, both risk-based capital ratios increased. The Tier 1 leverage ratio declined, however, due to a robust asset growth rate which outstripped retained earnings growth. (Please see Table 5, P-9)

Table 5 - CAPITAL

<TABLE>		
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	* JUNE 30	DECEMBER
	1999	1998
<S>	<C>	<C>
Tier 1 risk-based capital (minimum is 4%)	14.49%	14.16%
Tier 1 + Tier 2 risk based capital (minimum is 8%)	15.75%	15.41%
Tier 1 leverage (minimum is 3%) *ESTIMATE	8.42%	8.80%
</TABLE>		

RESULTS OF OPERATIONS

NET INTEREST INCOME

While total interest income ran consistently above the year-ago figures throughout the first half, total interest expense diverged and grew at an increasing rate as the period progressed. This was due to the market rate increases which occurred during the second quarter and the disproportionately greater impact of same on the bank's liability sources. (Please see Statement of Income, P-2)

OTHER INCOME AND EXPENSE

Loan loss provisions continue at a high level, primarily as a result of charge-off activity and not, as in prior periods, as a result of loan growth.

Non interest income was comparable to prior periods and reflected deposit growth through higher service charge income.

Increases in wages and employee benefits represented approximately two thirds of the total increase in first half, non-interest expense. The increase was significant and was reflective of increased staffing of new facilities and pay hikes which have yet to be offset by revenue growth. (Please see Statement of Income, P-2)

YEAR 2000 READINESS

The Bank has made substantial progress in implementing its Y2K preparedness plan. The plan consists of the following five phases:

AWARENESS PHASE - The creation of a basic strategy for project management.

ASSESSMENT PHASE - The identification of mission critical systems and equipment as well as customer and provider relationships that may be vulnerable to the year 2000 problem.

RENOVATION PHASE - The upgrading or replacement of systems and equipment known to be deficient.

VALIDATION PHASE - The comprehensive testing of all systems and equipment to ensure that they survive each of as many as 13 suspect dates.

IMPLEMENTATION PHASE - The correction of any deficiencies uncovered in the validation phase along with the continued assessment and testing of systems and equipment.

The awareness and assessment phases were completed during the first quarter of 1998. The renovation phase was substantially completed by the end of 1998 with the exception of credit reporting software at the bank's main facility. Compliant credit reporting software was installed during the second quarter of 1999. The validation phase is ongoing and on schedule and substantially all testing has now been performed at least once. Of primary importance during this phase is the proxy testing of all applications currently provided by the bank's third party provider of computing services. These services are highly critical to bank operations and any significant interruptions in them could materially impact the bank's results. Finally, the implementation phase is ongoing and will continue beyond the end of the millennium.

Management is of the opinion that its readiness plan is more than adequate to address the year 2000 threat and that all systems and hardware will function as intended when the time comes, without any material adverse effect on the company's business. Due to the uniqueness of the year 2000 issue and the direct impact it can have on bank operations, however, it is not possible to escape risk and uncertainty, particularly that which is tied to third party service providers. The bank has, as mentioned, an ongoing process to monitor these critical third parties and has developed business resumption and contingency plans that address failures from these sources. Management is not aware of any material expenditures that could be necessary in order to complete its year 2000 readiness plan or contingency plans.

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PART II

OTHER INFORMATION

- Item 1. LEGAL PROCEEDINGS
not applicable
- Item 2. CHANGES IN SECURITIES
not applicable
- Item 3. DEFAULTS UPON SENIOR SECURITIES
not applicable
- Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
not applicable
- Item 5. OTHER INFORMATION

not applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- a). Exhibits
none
- b). No reports on Form 8-K have been filed during the quarter for which this report was filed.

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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.

THE REPUBLIC CORPORATION

Date: July 15, 1999

/S/ J. Ed Eisemann, IV

Chairman of the Board

Date: July 15, 1999

/S/ Catherine G. Eisemann

Director

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<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM REGISTRANT'S FORM 10-Q, DATED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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