FIRST CHARTER CORP /NC/
Form 10-Q
August 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

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 Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
10200 David Taylor Drive, Charlotte, NC	**28262-2373**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(704) 688-4300**

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 þ No o

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filero

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No þ

As of August 1, 2007, the Registrant had outstanding 34,686,023 shares of Common Stock, no par value.

First Charter Corporation
FORM 10-Q
QUARTER ENDED JUNE 30, 2007

All reports filed electronically by First Charter Corporation with the United States Securities and Exchange Commission (the SEC), including its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to those reports, are accessible at no cost on the Corporations Web site at www.firstcharter.com. These filings are also accessible on the SEC s Web site at www.sec.gov.

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PART 1. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

First Charter Corporation
Consolidated Balance Sheets
(Unaudited)

(Dollars in thousands, except share data)	**June 30 2007**	December 31 2006
Assets		
Cash and due from banks	**$ 91,446**	$ 87,771
Federal funds sold	**22,495**	10,515
Interest-bearing bank deposits	**5,145**	4,541
Cash and cash equivalents	**119,086**	102,827
Securities available for sale (cost of $912,883 and $916,189 at June 30, 2007 and December 31, 2006, respectively)	**898,528**	906,415
Loans held for sale	**11,471**	12,292
Portfolio loans:		
Commercial and construction	**2,272,151**	2,129,569
Mortgage	**589,976**	618,142
Consumer	**691,710**	737,342
Total portfolio loans	**3,553,837**	3,485,053
Allowance for loan losses	**(44,790)**	(34,966)
Portfolio loans, net	**3,509,047**	3,450,087
Premises and equipment, net	**112,874**	111,588
Goodwill and other intangible assets	**84,107**	85,068
Other assets	**181,608**	188,440
Total Assets	**$ 4,916,721**	$ 4,856,717
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 480,078**	$ 454,975
Demand	**427,899**	420,774
Money market	**587,691**	620,699
Savings	**114,245**	111,047
Certificates of deposit	**1,620,433**	1,640,633
Total deposits	**3,230,346**	3,248,128
Federal funds purchased and securities sold under agreements to repurchase	**216,152**	201,713
Commercial paper and other short-term borrowings	**342,844**	409,191
Long-term debt	**617,762**	487,794
Accrued expenses and other liabilities	**63,789**	62,529
Total Liabilities	**4,470,893**	4,409,355

Shareholders Equity		
Preferred stock no par value; authorized 2,000,000 shares; no shares issued and outstanding		
Common stock no par value; authorized 100,000,000 shares; issued and outstanding 34,689,641 and 34,922,222 shares at June 30, 2007 and December 31, 2006, respectively	**225,139**	231,602
Common stock held in Rabbi Trust for deferred compensation	**(1,408)**	(1,226)
Deferred compensation payable in common stock	**1,408**	1,226
Retained earnings	**229,379**	221,678
Accumulated other comprehensive loss	**(8,690)**	(5,918)
Total Shareholders Equity	**445,828**	447,362
Total Liabilities and Shareholders Equity	**$ 4,916,721**	$ 4,856,717

See notes to consolidated financial statements.

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First Charter Corporation
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share amounts	Three Months Ended June 30 **2007**	2006	Six Months Ended June 30 **2007**	2006
Interest income				
Loans	**$ 67,124**	$ 54,123	**$ 133,242**	$ 104,383
Securities	**11,058**	9,522	**21,976**	18,833
Federal funds sold	**48**	37	**176**	73
Interest-bearing bank deposits	**61**	60	**111**	99
Total interest income	**78,291**	63,742	**155,505**	123,388
Interest expense				
Deposits	**26,364**	18,343	**52,904**	34,904
Borrowings	**14,383**	12,752	**28,322**	23,747
Total interest expense	**40,747**	31,095	**81,226**	58,651
Net interest income	**37,544**	32,647	**74,279**	64,737
Provision for loan losses	**9,124**	880	**10,490**	2,399
Net interest income after provision for loan losses	**28,420**	31,767	**63,789**	62,338
Noninterest income				
Service charges on deposits	**7,942**	7,469	**15,332**	14,167
ATM, debit, and merchant fees	**2,636**	2,117	**5,080**	4,015
Wealth management	**944**	693	**1,660**	1,393
Equity method investments gains, net	**678**	11	**1,805**	556
Mortgage services	**1,056**	812	**1,957**	1,335
Gain on sale of Small Business Administration loans	**132**		**509**	
Brokerage services	**1,007**	692	**2,088**	1,403
Insurance services	**3,422**	2,898	**7,056**	7,232
Bank owned life insurance	**1,162**	850	**2,301**	1,677
Property sale gains, net	**152**	107	**215**	188
Securities gains (losses), net		32	**(11)**	32
Other	**1,010**	611	**1,715**	1,285
Total noninterest income	**20,141**	16,292	**39,707**	33,283
Noninterest expense				
Salaries and employee benefits	**19,576**	16,343	**39,163**	33,543
Occupancy and equipment	**4,759**	4,826	**9,371**	9,531
Data processing	**1,492**	1,448	**3,282**	2,858
Marketing	**1,055**	1,196	**2,406**	2,484
Postage and supplies	**1,164**	1,282	**2,336**	2,464
Professional services	**3,181**	2,258	**6,767**	4,161
Telecommunications	**519**	513	**1,190**	1,076

Amortization of intangibles	**314**	107	**537**	209
Foreclosed properties	**226**	418	**379**	472
Other	**2,921**	2,297	**5,696**	4,631
Total noninterest expense	**35,207**	30,688	**71,127**	61,429
Income from continuing operations before income tax expense	**13,354**	17,371	**32,369**	34,192
Income tax expense	**4,404**	5,946	**11,063**	11,614
Income from continuing operations, net of tax	**8,950**	11,425	**21,306**	22,578
Discontinued operations				
Income from discontinued operations before gain on sale and income tax expense		50		198
Income tax expense		20		78
Income from discontinued operations, net of tax		30		120
Net income	**$ 8,950**	$ 11,455	**$ 21,306**	$ 22,698
Net income per common share				
Basic				
Income from continuing operations, net of tax	**$ 0.26**	$ 0.37	**$ 0.61**	$ 0.73
Income from discontinued operations, net of tax				
Net income	**0.26**	0.37	**0.61**	0.73
Diluted				
Income from continuing operations, net of tax	**$ 0.26**	$ 0.37	**$ 0.61**	$ 0.72
Income from discontinued operations, net of tax				
Net income	**0.26**	0.37	**0.61**	0.73
Average common shares outstanding				
Basic	**34,698**	31,059	**34,734**	30,960
Diluted	**34,987**	31,339	**35,036**	31,249
Dividends declared per common share	**$ 0.195**	$ 0.195	**$ 0.390**	$ 0.385

See notes to consolidated financial statements.

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First Charter Corporation
Consolidated Statements of Shareholders Equity
(Unaudited)

(Dollars in thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Common Stock in Rabbi Trust for Deferred Compensation	Deferred Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2006	**34,922,222**	**$ 231,602**	**$ (1,226)**	**$ 1,226**	**$ 221,678**	**$ (5,918)**	**$ 447,362**
Comprehensive income:							
Net income					**21,306**		**21,306**
Change in unrealized gains and losses on securities, net of reclassificiation adjustment for net losses included in net income						**(2,772)**	**(2,772)**
Total comprehensive income							**18,534**
Cummulative transaction adjustment for FIN 48					**29**		**29**
Common stock purchased by Rabbi Trust for deferred compensation			**(182)**				**(182)**
Deferred compensation payable in common stock				**182**			**182**
Cash dividends declared, $0.39 per share					**(13,634)**		**(13,634)**
Issuance of shares under stock-based compensation plans, including related tax effects	**256,787**	**4,889**					**4,889**
Repurchase of common stock	**(500,000)**	**(10,626)**					**(10,626)**
Issuance of shares pursuant to acquisition	**10,632**	**(726)**					**(726)**
Balance, June 30, 2007	**34,689,641**	**$ 225,139**	**$ (1,408)**	**$ 1,408**	**$ 229,379**	**$ (8,690)**	**$ 445,828**

See notes to consolidated financial statements.

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First Charter Corporation
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30	
(In thousands)	**2007**	2006
Operating activities		
Net income	**$ 21,306**	$ 22,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**10,490**	2,399
Depreciation	**3,845**	4,761
Amortization of intangibles	**537**	304
Amortization of servicing rights	**173**	201
Stock-based compensation expense	**1,787**	1,068
Tax benefits from stock-based compensation plans	**(137)**	(328)
Premium amortization and discount accretion, net	**199**	579
Securities (gains) losses, net	**11**	(32)
Net gains on sales of other real estate owned	**(101)**	(89)
Write-downs on other real estate owned	**278**	355
Equity method investment gains, net	**(1,805)**	(556)
Gains on sales of loans held for sale	**(1,459)**	(776)
Gains on sale of Small Business Administration loans	**(509)**	
Property sale gains, net	**(215)**	(188)
Origination of loans held for sale	**(140,022)**	(93,448)
Proceeds from sale of loans held for sale	**142,302**	92,290
Change in cash surrender value of life insurance	**(398)**	1,677
Change in other assets	**5,545**	(5,062)
Change in other liabilities	**1,449**	308
Net cash provided by operating activities	**43,276**	**26,161**
Investing activities		
Proceeds from sales of securities available for sale	**25,180**	24,603
Proceeds from maturities, calls and paydowns of securities available for sale	**126,006**	48,719
Purchases of securities available for sale	**(148,079)**	(69,174)
Net change in loans	**(70,119)**	(130,822)
Proceeds from sales of other real estate owned	**4,242**	1,170
Net purchases of premises and equipment	**(5,131)**	(5,232)
Net cash used in investing activities	**(67,901)**	(130,736)
Financing activities		
Net change in deposits	**(17,782)**	189,323
Net change in federal funds purchased and securities sold under repurchase agreements	**14,439**	(92,460)
Net change in commercial paper and other short-term borrowings	**(66,347)**	(65,374)
Proceeds from issuance of long-term debt and trust preferred securities	**240,000**	220,000
Retirement of long-term debt	**(110,032)**	(135,032)

Proceeds from issuance of common stock	**4,752**	3,721
Purchases of common stock	**(10,626)**	
Tax benefits from stock-based compensation plans	**137**	328
Cash dividends paid	**(13,657)**	(10,147)
Net cash provided by financing activities	**40,884**	110,359
Net increase in cash and cash equivalents	**16,259**	5,784
Cash and cash equivalents at beginning of period	**102,827**	125,552
Cash and cash equivalents at end of period	**$ 119,086**	$ 131,336
Supplemental information		
Cash paid for:		
Interest	**$ 79,570**	$ 55,949
Income taxes	**10,215**	11,875
Non-cash items:		
Transfer of loans to other real estate owned	**669**	2,674
Unrealized losses on securities available for sale (net of tax benefit of $1,810, and $3,968, respectively)	**(2,772)**	(6,079)
Issuance of common stock for business acquisition	**(726)**	362

See notes to consolidated financial statements.

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First Charter Corporation
Notes to Consolidated Financial Statements
(Unaudited)

First Charter Corporation (First Charter or the Corporation), headquartered in Charlotte, North Carolina, is a regional financial services company with assets of $4.9 billion and is the holding company for First Charter Bank (the Bank). As of June 30, 2007, First Charter operated 58 financial centers, four insurance offices, and 138 ATMs throughout North Carolina and Georgia. First Charter also operates loan origination offices in Asheville, North Carolina and Reston, Virginia. First Charter provides businesses and individuals with a broad range of financial services, including banking, financial planning, wealth management, investments, insurance, and mortgages. The results of operations of the Bank constitute the substantial majority of the consolidated net income, revenue, and assets of the Corporation.

1. Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, the Bank, and variable interest entities where the Corporation is the primary beneficiary. All significant intercompany transactions and balances have been eliminated.

The information contained in these interim consolidated financial statements, excluding the consolidated balance sheet as of December 31, 2006, is unaudited. The information furnished has been prepared pursuant to United States Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X and does not include all the information and note disclosures required to be included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America.

The accompanying unaudited consolidated financial statements should be read in conjunction with the Corporation s audited financial statements and accompanying notes in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on April 5, 2007.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. 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 interim periods. All such adjustments are of a normal and recurring nature. Certain amounts reported in prior periods have been reclassified to conform to the current-period presentation. Such reclassifications have no effect on net income or shareholders equity as previously reported.

The significant accounting policies followed by the Corporation are presented on pages 69 to 76 of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006. With the exception of the Corporation s adoption of certain of the accounting pronouncements discussed in **Note 2**, these policies have not materially changed from the disclosure in that report.

2. Recent Accounting Pronouncements

Fair Value Option for Financial Assets and Financial Liabilities: In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* applies to all entities with available-for-sale and trading securities. The FASB s stated objective in issuing this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments.

SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Corporation is currently evaluating the impact, if any, SFAS 159 will have on the Corporation s consolidated financial statements.

Fair Value Measurements: In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which replaces the different definitions of fair value in existing accounting literature with a single definition, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The Corporation will adopt the guidance of SFAS 157 beginning January 1, 2008, and does not expect it to have a material impact on the Corporation s consolidated financial statements.

Accounting for Servicing of Financial Assets: In March 2006, the FASB issued SFAS 156, *Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140*. SFAS 156 requires entities to separately recognize a servicing asset or liability whenever it undertakes an obligation to service financial assets and also requires all separately recognized servicing assets or liabilities to be initially measured at fair value. Additionally, this standard permits entities to choose among two alternatives, the amortization method or fair value measurement method, for the subsequent measurement of each class of separately recognized servicing assets and liabilities. Under the amortization method, an entity amortizes the value of servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assesses servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date. Under the fair value measurement method, an entity measures servicing assets or liabilities at fair value at each reporting date and reports changes in fair value in earnings in the period in which the changes occur. The Corporation adopted SFAS 156 as of January 1, 2007, and elected the amortization method. The initial adoption of SFAS 156 did not have an impact on the Corporation s consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments: In February 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140.* SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain an embedded derivative requiring bifurcation, or hybrid financial instruments that contain embedded derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 was adopted by the Corporation as of January 1, 2007 and the statement is effective for all financial instruments acquired or issued by the Corporation on or after the date of adoption. The adoption of SFAS 155 did not have an impact on the Corporation s consolidated financial statements.

In June 2006, the FASB issued Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Pursuant to FIN 48, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. FIN 48 requires the tax benefits recognized in the financial statements to be measured based on the largest benefit that has a greater than fifty percent likelihood to be realized upon ultimate settlement. FIN 48 also provides guidance regarding derecognition of tax benefits, interest and penalties related to tax deficiencies, and requires additional income tax disclosures. The Corporation adopted the provisions of FIN 48 as of January 1, 2007 and the adoption did not have a material impact on the Corporation s consolidated financial statements.

As a result of various tax strategies of the Corporation, the amount of unrecognized tax benefits as of January 1, 2007 was $11.2 million, of which $10.3 million would impact the Corporation s effective tax rate, if recognized. While it is possible that the unrecognized tax benefit could change significantly during the next year, it is reasonably possible that the Company will recognize approximately $0.4 million of unrecognized tax benefits as a result of the expiration of the relevant statute of limitations.

Consistent with prior reporting periods, the Corporation recognizes interest accrued in connection with unrecognized tax benefits, net of related tax benefits, and penalties in income tax expense in the consolidated statements of income. As of January 1, 2007, the date the Corporation adopted FIN 48, the Corporation had accrued approximately $0.8 million for the payment of interest and penalties. As of June 30, 2007, the Corporation had accrued approximately $0.8 million for the payment of interest and penalties.

The Corporation is under examination by the North Carolina Department of Revenue (the DOR) for tax years 1999 through 2004 and is subject to examination for subsequent tax years. As a result of the examination, the DOR issued a proposed tax assessment, including an estimate for accrued interest, of $3.7 million for tax years 1999 and 2000. The Corporation is currently appealing the proposed assessment. The Corporation estimates that the maximum tax liability that may be asserted by the DOR for tax years 1999 through the current tax year is approximately $15.1 million in excess of amounts reserved, net of federal tax benefit. The Corporation would disagree with such potential liability, if assessed, and would intend to continue to defend its position. The Corporation believes its current tax reserves are adequate.

There can be no assurance regarding the ultimate outcome of this matter, the timing of its resolution or the eventual loss or penalties that may result from it, which may be more or less than the amounts reserved by the Corporation.

The Corporation is also under examination by the Internal Revenue Service for the 2004 tax year. The examination is of a routine nature and is not the result of any prior tax position taken by the Corporation. The Corporation s tax years prior to 2003 are no longer subject to examination by the Internal Revenue Service.

Accounting for Purchases of Life Insurance: In September 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4.* The EITF reached a consensus that a policyholder should consider any additional amounts included in the contractual terms of the policy when determining the amount that could be realized under the insurance contract. The Task Force also reached a consensus that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). Furthermore, the Task Force reached a consensus that the cash surrender value should not be discounted when contractual limitations on the ability to surrender a policy exist if the policy continues to operate under its normal terms (continues to earn interest) during the restriction period. The Corporation adopted EITF No. 06-5 as of January 1, 2007, and the adoption did not have a material impact on the Corporation s consolidated financial statements.

Effects of Prior-Year Misstatements: In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 provides guidance on the consideration of the effects of prior-year misstatements in quantifying current-year misstatements for the purpose of a materiality assessment. In December 2006, the Corporation adopted the provisions of SAB 108. The Corporation s

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Annual Report on Form 10-K contains further disclosure related to the adoption of SAB 108 in **Note 3** to the consolidated financial statements. The impact of the Corporation s SAB 108 adjustments as of and for the three months and six months ended and June 30, 2006, is summarized below:

	As of and for the Three Months Ended June 30, 2006		
(in thousands, except per share data)	Before Adjustment	Adjustment	As Adjusted
Other assets	$ 167,149	$ (2,043)	$ 165,106
Other liabilities	41,830	994	42,824
Shareholders equity	336,935	(3,037)	333,898
Mortgage services revenue	916	(104)	812
Total noninterest income	16,396	(104)	16,292
Salaries and employee benefits expense	16,297	46	16,343
Total noninterest expense	30,642	46	30,688
Total income tax expense	6,025	(59)	5,966
Net income	11,546	(91)	11,455
Diluted earnings per share	0.37		0.37

	As of and for the Six Months Ended June 30, 2006		
(in thousands, except per share data)	Before Adjustment	Adjustment	As Adjusted
Other assets	$ 167,149	$ (2,043)	$ 165,106
Other liabilities	41,830	994	42,824
Shareholders equity	336,935	(3,037)	333,898
Mortgage services revenue	1,724	(389)	1,335
Total noninterest income	33,672	(389)	33,283
Salaries and employee benefits expense	33,451	92	33,543
Total noninterest expense	61,337	92	61,429
Total income tax expense	11,881	(189)	11,692
Net income	22,990	(292)	22,698
Diluted earnings per share	0.74	(0.01)	0.73

3. Acquisitions and Divestitures

Acquisition of GBC Bancorp, Inc. On November 1, 2006, the Corporation completed its acquisition of GBC Bancorp, Inc. (GBC), parent of Gwinnett Banking Company (Gwinnett Bank), headquartered in Lawrenceville, Georgia. The assets and liabilities of GBC were recorded on the Corporation s balance sheet at their estimated fair values as of the acquisition date, and their results of operations were included in the consolidated statements of income from that date forward.

The Corporation continues to finalize the valuations of certain assets and liabilities, including intangible assets. During the six months ended June 30, 2007, the Corporation made certain refinements to its initial allocation of the GBC purchase price, including a $1.0 million adjustment to the purchase price as the stock price paid upon acquisition was adjusted for EITF 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities*

Issued in a Purchase Business Combination. The following table shows the excess of the purchase price over capitalized merger costs and carrying value of net assets acquired, the initial purchase price allocation and the resulting goodwill as of the date of the acquisition, subsequent purchase price refinements, and the adjusted purchase price allocation at June 30, 2007.

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(In thousands)	Initial Purchase Price Allocation	Purchase Price Refinements	Adjusted Purchase Price Allocation
Purchase price	$ 103,221	$ (982)	$ 102,239
Capitalized merger costs	1,211	88	1,299
Carrying value of net assets acquired	39,869		39,869
Excess of the purchase price over capitalized merger costs and carrying value of net assets acquired	64,563	(894)	63,669
Purchase accounting adjustments:			
Securities	241		241
Loans	643	(108)	535
Deferred taxes	794		794
Certificates of deposit		33	33
Subtotal	1,678	(75)	1,603
Core deposit intangibles	(3,091)	(469)	(3,560)
Other identifiable intangible assets	(1,186)	238	(948)
Goodwill	$ 61,964	$ (1,200)	$ 60,764

Sale of Southeastern Employee Benefits Services. On December 1, 2006, the Corporation completed the sale of Southeastern Employee Benefits Services (SEBS), the sole component of its former employee benefits administration business, to an independent third-party administrator for $3.1 million in cash. The results of SEBS are presented as *Discontinued Operations* for all periods presented. Condensed financial statements for discontinued operations are presented below.

(In thousands)	**Six Months Ended June 30** **2007**	2006
Noninterest income	**$**	$ 1,809
Noninterest expense		1,611
Income from discontinued operations before tax		198
Gain on sale		
Income tax expense		78
Income from discontinued operations, after tax	**$**	$ 120

On December 1, 2004, the Corporation acquired substantially all of the assets of Smith & Associates Insurance Services Inc., a property and casualty insurance agency (the Agency). In connection with this transaction, the Corporation has previously issued to the Agency an aggregate of 42,198 shares of common were valued at

$1.1 million. On May 1, 2007, pursuant to the purchase agreement and based upon the performance of the business for the period of December 1, 2005 through November 30, 2006, the Corporation issued 10,632 additional shares of Common Stock valued at $0.3 million to the Agency. One additional issuance, based upon the future performance of the acquired business, is expected to total approximately $0.2 million, if earned.

4. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares of the Corporation s common stock outstanding for the three and six months ended June 30, 2007 and 2006, respectively. Diluted net income per share reflects the potential dilution that could occur if the Corporation s potential common stock equivalents and contingently issuable shares, which consist of dilutive stock options, restricted stock, and performance shares, were issued.

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A reconciliation of the basic average common shares outstanding to the diluted average common shares outstanding follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Basic weighted-average number of common shares outstanding	**34,697,944**	31,058,858	**34,733,825**	30,959,711
Dilutive effect arising from potential common stock issuances	**288,718**	280,467	**302,190**	289,338
Diluted weighted-average number of common shares outstanding	**34,986,662**	31,339,325	**35,036,015**	31,249,049

The effects of outstanding anti-dilutive stock options are excluded from the computation of diluted net income per share. These amounts were 454,329 and 436,568 shares for the three and six months ended June 30, 2007, respectively. The amounts were 257,667 and 259,185 shares for the three and six months ended June 30, 2006, respectively.

Dividends declared by the Corporation were $0.195 per share for the three months ended June 30, 2007 and 2006. For the six months ended June 30, 2007 and 2006 dividends declared by the Corporation were $0.39 per share and $0.385 per share, respectively.

5. Goodwill and Other Intangible Assets

A summary of the gross carrying amount and accumulated amortization of amortized intangible assets and the net carrying amount of unamortized intangible assets follows:

	June 30, 2007			December 31, 2006		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets from continuing operations:						
Core deposits	**$ 3,560**	**$ 475**	**$ 3,085**	$ 3,091	$ 200	$ 2,891
Noncompete agreements	**90**	**78**	**12**	90	63	27
Customer lists	**2,487**	**1,424**	**1,063**	2,359	1,177	1,182
Total Amortized Intangible Assets	**6,137**	**1,977**	**4,160**	5,540	1,440	4,100
Goodwill	**79,947**	**N/A**	**79,947**	80,968	N/A	80,968
Total goodwill and amortized intangible	**$ 86,084**	**$ 1,977**	**$ 84,107**	**$ 86,508**	**$ 1,440**	**$ 85,068**

assets

The gross carrying amount of core deposit intangibles increased to $3.6 million at June 30, 2007, from $3.1 million at December 31, 2006, and goodwill decreased to $79.9 million at June 30, 2007 from $81.0 million at December 31, 2006. These changes are primarily due to refinements made in the purchase accounting for the GBC acquisition. Refer to **Note 3** for further discussion of the GBC purchase accounting adjustments.

The gross carrying amount of customer lists increased to $2.5 million at June 30, 2007 from $2.4 million at December 31, 2006 due to a contractual payment made in connection with the acquisition of Smith & Associates Insurance Services, Inc.

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Amortization expense from continuing and discontinued operations follows:

(In thousands)	Six Months Ended June 30 2007	2006
Continuing operations	**$ 537**	$ 209
Discontinued operations		95
Total intangibles amortization expense	**$ 537**	$ 304

Expected future amortization expense on finite-lived intangible assets follows:

(In thousands)	Core Deposits	Noncompete Agreements	Customer Lists	Total
July 1 - December 31 ,2007	$ 333	$ 12	$ 215	$ 560
2008	608		344	952
2009	531		229	760
2010	453		117	570
2011	375		68	443
2012 and after	785		90	875
Total intangibles amortization	$ 3,085	$ 12	$ 1,063	$ 4,160

6. Comprehensive Income

Comprehensive income is defined as the change in shareholders equity from all transactions other than those with shareholders, and it includes net income and other comprehensive income.

The components of comprehensive income follow:

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Comprehensive income				
Net Income	**$ 8,950**	$ 11,455	**$ 21,306**	$ 22,698
Other comprehensive loss				
Unrealized losses on available-for-sale securities, net	**(5,538)**	(8,542)	**(4,593)**	(10,015)
Reclassification adjustment for gain/(losses) included in net income		32	**(11)**	32
Income tax effect, net	**(2,188)**	(3,385)	**(1,810)**	(3,968)
Other comprehensive loss	**(3,350)**	(5,189)	**(2,772)**	(6,079)
Total comprehensive income	**$ 5,600**	$ 6,266	**$ 18,534**	$ 16,619

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7. Securities Available for Sale

Securities available for sale are summarized as follows:

	June 30, 2007			
(In thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agency obligations	**$ 238,155**	**$ 41**	**$ 1,494**	**$ 236,702**
Mortgage-backed securities	**469,821**	**149**	**11,466**	**458,504**
State, county, and municipal obligations	**92,474**	**386**	**671**	**92,189**
Asset-backed securities	**57,767**	**155**	**1,865**	**56,057**
Equity securities	**54,666**	**438**	**28**	**55,076**
Total securities	**$ 912,883**	**$ 1,169**	**$ 15,524**	**$ 898,528**

	December 31, 2006			
(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency obligations	$ 278,106	$ 358	$ 3,070	$ 275,394
Mortgage-backed securities	419,824	768	8,572	412,020
State, county, and municipal obligations	102,221	745	364	102,602
Asset-backed securities	65,141	11	37	65,115
Equity securities	50,897	387		51,284
Total securities	$ 916,189	$ 2,269	$ 12,043	$ 906,415

The contractual maturity distribution and yields (computed on a taxable-equivalent basis) of the Corporation s securities portfolio at June 30, 2007, are summarized below. Actual maturities may differ from contractual maturities shown below, as borrowers may have the right to pre-pay these obligations without pre-payment penalties.

	Due in 1 year or less		**Due after 1 through 5 years**		**Due after 5 through 10 years**		**Due after 10 years**		**Total**	
(Dollars in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Fair value of securities available for sale										
U.S. government agency obligations	$ 130,804	3.76%	$ 98,245	4.72%	$ 7,653	5.56%	$	%	$ 236,702	4.22%
Mortgage-backed securities [1]	4,351	4.77	354,130	5.00	89,942	4.96	10,081	5.76	458,504	5.01
State and municipal obligations [2]	10,797	7.11	31,044	5.69	13,284	6.14	37,064	5.76	92,189	5.95

Asset-backed securities			24,503	7.53	9,900	6.70	21,654	7.41	56,057	7.34
Equity securities [3]							55,076	5.77	55,076	5.77
Total	$ 145,952	4.04%	$ 507,922	5.11%	$ 120,779	5.27%	$ 123,875	6.05%	$ 898,528	5.09%
Amortized cost of securities available for sale	$ 146,489		$ 518,030		$ 123,405		$ 124,959		$ 912,883	

(1) *Maturities estimated based on average life of security.*

(2) *Yields on tax-exempt securities are calculated on a tax-equivalent basis using the marginal Federal income tax rate of 35 percent.*

(3) *Although equity securities have no stated maturity, they are presented for illustrative purposes only. The 5.77% yield represents the expected dividend yield to be earned on equity securities, principally investments in Federal Home Loan Bank of Atlanta and Federal Reserve Bank Stock.*

Securities with an aggregate carrying value of $704.6 million and $632.9 million at June 30, 2007 and December 31, 2006, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase, and Federal Home Loan Bank (FHLB) borrowings.

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Gross gains and losses recognized on the sale of securities are summarized as follows:

(In thousands)	Three Months Ended June 30 2007	2006	Six Months Ended June 30 2007	2006
Gross gains	**$**	$ 32	**$ 94**	$ 32
Gross losses			**(105)**	
Securities gains (losses), net	**$**	$ 32	**$ (11)**	$ 32

At June 30, 2007 and December 31, 2006, the Bank owned stock in the Federal Home Loan Bank of Atlanta with a cost basis (par value) of $44.9 million and $44.3 million, respectively, which is included in equity securities. While these securities have no quoted fair value, they are redeemable at par value from the FHLB. In addition, the Bank owned Federal Reserve Bank stock with a cost basis (par value) of $8.3 million and $5.6 million at June 30, 2007 and December 31, 2006, respectively, which is also included in equity securities.

There were no write-downs for other-than-temporary declines in the fair value of debt and equity securities for the three and six months ended June 30, 2007 or 2006.

As of June 30, 2007, there were no issues of securities available for sale (excluding U.S. government agency obligations), which had carrying values that exceeded 10 percent of shareholders equity of the Corporation.

U.S. government agency obligations of $206.2 million were considered temporarily impaired at June 30, 2007. U.S. government agency obligations are interest-bearing debt securities of U.S. government agencies (i.e., FNMA and FHLMC). At June 30, 2007, mortgage-backed securities of $418.1 million were considered temporarily impaired. The Corporation s mortgage-backed securities are investment grade securities backed by a pool of mortgages. Principal and interest payments on the underlying mortgages are used to pay monthly interest and principal on the securities. State, county, and municipal obligations of $27.5 million were considered temporarily impaired at June 30, 2007. Asset-backed securities of $42.9 million were considered temporarily impaired at June 30, 2007. These obligations are collateralized debt obligations, representing securitizations of financial company capital securities. Equity securities of $0.5 million were considered temporarily impaired at June 30, 2007.

The unrealized losses at June 30, 2007, shown in the following table resulted primarily from an increase in rates across the yield curve.

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AAA/AA-RATED SECURITIES						
U.S. government agency obligations	$ 47,600	$ 101	$ 158,574	$ 1,393	$ 206,174	$ 1,494
Mortgage-backed securities	187,677	1,689	230,436	9,777	418,113	11,466
State, county, and muncipal obligations	9,595	136	17,911	535	27,506	671
Total AAA/AA-rated securities	244,872	1,926	406,921	11,705	651,793	13,631

A/BBB-RATED SECURITIES						
Asset-backed securities	42,903	1,865			42,903	1,865
Total A/BBB-rated securities	42,903	1,865			42,903	1,865
UNRATED SECURITIES						
Equity securities	472	28			472	28
Total unrated securities	472	28			472	28
Total temporarily impaired securities	$ 288,247	$ 3,819	$ 406,921	$ 11,705	$ 695,168	$ 15,524

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At June 30, 2007, investments in a gross unrealized loss position included 26 U.S. agency securities, 68 mortgage-backed securities, 34 municipal obligations, and six asset-backed securities. The unrealized losses associated with these securities were not considered to be other-than-temporary, because they were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or the issuer. At June 30, 2007, the Corporation had the ability and the intent to hold these investments to recovery of fair market value. The Corporation s available-for-sale securities portfolio also contains one equity security in an unrealized loss position. This equity security began trading publicly in the first quarter of 2007 and the stock price has decreased, resulting in an unrealized loss.

8. Loans and Allowance for Loan Losses

The Bank primarily makes commercial and installment loans to customers throughout its primary market area, which includes the states of North Carolina, South Carolina, and Georgia, and predominately centers on the metro regions of Charlotte and Raleigh, North Carolina, and Atlanta, Georgia. The real estate loan portfolio can be affected by the condition of the local real estate markets. At June 30, 2007, the majority of the total loan portfolio was to borrowers within this market area. The diversity of this market area s economic base provides a stable lending environment. Portfolio loans are categorized as follows:

	June 30, 2007		December 31, 2006	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Commercial real estate	**$1,094,866**	**30.8%**	$1,034,317	29.7%
Commercial non real estate	**317,984**	**8.9**	301,958	8.7
Construction	**859,301**	**24.2**	793,294	22.8
Mortgage	**589,976**	**16.6**	618,142	17.7
Home equity	**415,705**	**11.7**	447,849	12.8
Consumer	**276,005**	**7.8**	289,493	8.3
Total portfolio loans	**$3,553,837**	**100.0%**	$3,485,053	100.0%

A summary of changes in the allowance for loan losses follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
(In thousands)	**2007**	2006	**2007**	2006
Balance, beginning of period	**$35,854**	$29,505	**$34,966**	$28,725
Provision for loan losses	**9,124**	880	**10,490**	2,399
Charge-offs	**(547)**	(1,135)	**(1,333)**	(2,364)
Recoveries	**359**	270	**667**	760
Net charge-offs	**(188)**	(865)	**(666)**	(1,604)
Balance, June 30	**$44,790**	$29,520	**$44,790**	$29,520

The table below summarizes the Corporation s nonperforming assets.

	June 30	December 31

(In thousands)	**2007**	2006
Nonaccrual loans	**$17,387**	$ 8,200
Loans 90 days or more past due and accruing interest		
Total nonperforming loans	**17,387**	8,200
Other real estate	**2,726**	6,477
Total nonperforming assets	**$20,113**	$14,677

At June 30, 2007 and December 31, 2006, impaired loans amounted to $8.8 million and $1.0 million, respectively. Included in the allowance for loan losses was $1.2 million and $0.3 million related to the impaired loans at June 30, 2007 and December 31, 2006, respectively. Beginning January 1, 2007, the Corporation began including consumer and residential mortgage loans with outstanding principal balances of $150,000 or greater in its computation of impaired loans calculated under SFAS 114, *Accounting by Creditors for Impairment of a Loan an Amendment to FASB Statements No. 5 and No. 15*. The application of this methodology conforms the consumer and residential mortgage loan analysis to the Corporation s SFAS 114 analysis for commercial loans. Included in the $8.8 million of total impaired loans at June 30, 2007 were $3.4 million of consumer and residential mortgage loans. Had this methodology been applied at December 31, 2006, the impaired loan balance would have been $4.0 million.

During the second quarter of 2007, the North Carolina Attorney General obtained a court order to appoint a receiver to take control of a real estate venture in Western North Carolina. The Attorney General s complaint alleges that various defendants, including real estate development companies, individuals, and an appraiser engaged in deceptive practices to induce consumers to obtain loans to purchase lots in The Village of Penland and related development projects (Penland) in the Spruce Pine, North Carolina area. These lots were allegedly priced based upon inflated appraisals. Several financial institutions, including First Charter, made loans in connection with these residential developments.

As of June 30, 2007, the Corporation had 70 loans with an aggregate outstanding balance of $14.1 million to individual lot purchasers related to Penland. As previously disclosed, based on management s assessment of probable incurred losses associated with the Penland loan portfolio, the Corporation recorded an additional $7.8 million provision for loan losses during the second quarter of 2007. As of June 30, 2007, no loans in the Penland loan portfolio had reached a 90-day past-due status. However, based on management s assessment of the individual borrowers, $5.4 million of these loans were placed on nonaccrual status as of June 30, 2007.

The average recorded investment in individually impaired loans for the three and six months ended June 30, 2007 were $8.2 million and $6.7 million, respectively. Individually impaired loans were $1.3 million and $1.8 million for the three and six months ended June 30, 2006. Included in the $8.2 million and $6.7 million of average impaired loans for the three and six months ended June 30, 2007 were $2.8 million and $2.7 million of consumer and residential mortgage loans, respectively.

9. Servicing Rights

As of June 30, 2007, the Corporation serviced $197.2 million of mortgage loans for other parties. The carrying value and aggregate estimated fair value of mortgage servicing rights (MSR) at June 30, 2007 was $0.7 million and $2.0 million, respectively, compared to a carrying value and estimated fair value of $0.8 million and $2.1 million, respectively, at December 31, 2006.

In conjunction with the Corporation s acquisition of GBC and its primary banking subsidiary, Gwinnett Bank, on November 1, 2006, the Corporation capitalized $1.2 million in servicing rights on *Small Business Administration* (SBA) loans originated, sold, and serviced by Gwinnett Bank. Effective March 1, 2007, Gwinnett Bank was merged with and into the Bank. The Corporation continues to finalize the valuations of certain assets, including the SBA loan servicing rights. During the three months ended March 31, 2007, the servicing rights valuation was refined, resulting in a downward adjustment of $0.2 million. Amortization expense included for the six months ended June 30, 2007, was $0.1 million. As of June 30, 2007, the Corporation serviced $38.3 million of SBA loans for other parties, and the carrying value and estimated fair value of the SBA loan servicing rights (SSR) was $0.8 million and $1.0 million, respectively.

Servicing rights are periodically evaluated for impairment based on their fair value. Impairment is recognized as a reduction to the carrying value of the asset. Fair value is estimated based on market prices for similar assets and on the discounted estimated present value of future net cash flows based on market consensus loan prepayment estimates, historical prepayment rates, interest rates, and other economic factors. For purposes of impairment evaluation, the servicing assets are stratified based on predominant risk characteristics of the underlying loans, including loan type (conventional or government) and note rate.

The following is an analysis of capitalized servicing rights included in other assets in the consolidated balance sheets:

	2007		2006	
(In thousands)	**MSR**	**SSR**	MSR	SSR
Beginning Balance	**$756**	**$1,137**	$1,133	$
Servicing rights capitalized		**13**		
Purchase accounting adjustment		**(238)**		
Amortization expense	**(41)**	**(40)**	(101)	
Balance, March 31	**$715**	**$ 872**	$1,032	$
Servicing rights capitalized		**8**		
Amortization expense	**(41)**	**(51)**	(100)	
Balance, June 30	**$674**	**$ 829**	$ 932	$

Assumptions used to value the MSR included an average conditional prepayment rate (CPR) of 15.2 percent, an average discount rate of 12.2 percent, and a weighted-average life of 3.6 years. An increase in the prepayment rates of 10 percent and 20 percent may result in a decline in fair value of $79,000 and $153,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $53,000 and $103,000, respectively. Changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the mortgage servicing rights is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the discount rates), which may magnify or counteract the sensitivities.

Assumptions used to value the SSR included a CPR of 12.0 percent, a discount rate of 11.0 percent, and a weighted-average life of 4.7 years. An increase in the prepayment rates of 10 percent and 20 percent may result in a decline in fair value of $44,000 and $85,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $28,000 and $54,000, respectively.

The MSR and SSR are expected to be amortized against other noninterest income over a weighted-average period of 3.1 years and 3.0 years, respectively. Expected future amortization expense for these capitalized servicing rights follows:

(In thousands)	MSR	SSR	Total
July 1 - December 31, 2007	$ 83	$ 97	$ 180
2008	135	170	305
2009	111	141	252
2010	92	116	208
2011	74	95	169
2012 and after	179	210	389

Total amortization	$674	$829	$1,503

For the three and six months ended June 30, 2007, contractual servicing fee revenue was $0.3 million and $0.7 million, respectively, and was included in the mortgage services line item of other noninterest income. Contractual servicing fee revenue recognized for the three and six months ended June 30, 2006 was $0.3 million and $0.5 million, respectively, and was included in other noninterest income.

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10. Stock-Based Compensation

First Charter Comprehensive Stock Option Plan. In April 1992, the Corporation s shareholders approved the First Charter Corporation Comprehensive Stock Option Plan (Comprehensive Stock Option Plan). Under the terms of the Comprehensive Stock Option Plan, stock options (which can be incentive stock options or non-qualified stock options) may be periodically granted to key employees of the Corporation or its subsidiaries. The terms and vesting schedules of options granted under the Comprehensive Stock Option Plan generally are determined by the Compensation Committee of the Corporation s Board of Directors (Compensation Committee). However, no options may be exercisable prior to six months following the grant date, and certain additional restrictions, including the term and exercise price, apply with respect to any incentive stock options. Under the Comprehensive Stock Option Plan, 480,000 shares of common stock are reserved for issuance. During the three and six months ended June 30, 2007, no shares were issued under this plan.

First Charter Corporation Stock Option Plan for Non-Employee Directors. In April 1997, the Corporation s shareholders approved the First Charter Corporation Stock Option Plan for Non-Employee Directors (Director Plan). Under the Director Plan, non-statutory stock options may be granted to non-employee Directors of the Corporation and its subsidiaries. The terms and vesting schedules of any options granted under the Director Plan generally are determined by the Compensation Committee. The exercise price for each option granted, however, is the fair value of the common stock as of the date of grant. A maximum of 180,000 shares are reserved for issuance under the Director Plan. During the three and six months ended June 30, 2007, no shares were issued under this plan.

2000 Omnibus Stock Option and Award Plan. In June 2000, the Corporation s shareholders approved the First Charter Corporation 2000 Omnibus Stock Option and Award Plan (the 2000 Omnibus Plan). Under the 2000 Omnibus Plan, 2.0 million shares of common stock were originally reserved for issuance. In April of 2005, the shareholders approved an amendment to the 2000 Omnibus Plan, authorizing an additional 1.5 million shares for issuance, for a total of 3.5 million shares. The 2000 Omnibus Plan permits the granting of stock options and nonvested shares to Directors and key employees. Stock options are granted with an exercise price equal to the market price of the Corporation s common stock at the date of grant; those stock option awards generally vest ratably over five years and have a 10-year contractual term. Nonvested shares are generally granted at a value equal to the market price of the Corporation s common stock at the date of grant and vesting is based on either service or performance conditions. Service-based nonvested shares generally vest over three years. Performance-based nonvested shares are earned over three years upon meeting various performance goals as approved by the Compensation Committee, including cash return on equity, targeted charge-off levels, and earnings per share growth as measured against a group of selected peer companies. During the three months ended June 30, 2007, no shares were issued under this plan. During the six months ended June 30, 2007, 71,500 stock options, 21,000 service-based nonvested shares, and 54,600 performance-based nonvested shares were issued under this plan.

Restricted Stock Award Program. In April 1995, the Corporation s shareholders approved the First Charter Corporation Restricted Stock Award Program (the Restricted Stock Plan). Awards of restricted stock (nonvested shares) may be made under the Restricted Stock Plan at the discretion of the Compensation Committee to key employees. Nonvested shares are granted at a value equal to the market price of the Corporation s common stock at the date of grant and generally vest based on either three or five years of service. Under the Restricted Stock Plan, a maximum of 360,000 shares of common stock are reserved for issuance. During the three and six months ended June 30, 2007, there were 18,732 and 89,935 service-based nonvested shares issued under this plan, respectively.

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Stock-based compensation costs totaled $1.0 million for the three months ended June 30, 2007, which consisted of $32,000 related to stock options, $736,000 related to service-based nonvested shares, and $232,000 related to performance-based nonvested shares. For the six months ended June 30, 2007, stock-based compensation costs totaled $1.8 million, which consisted of $82,000 related to stock options, $1.3 million related to service-based nonvested shares, and $446,000 related to performance-based nonvested shares.

Stock-based compensation costs totaled $555,000 for the three months ended June 30, 2006, which consisted of $202,000 related to stock options, $246,000 related to service-based nonvested shares, and $107,000 related to performance-based nonvested shares. For the six months ended June 30, 2006, stock-based compensation costs totaled $1.1 million, which consisted of $481,000 related to stock options, $373,000 related to service-based nonvested shares, and $214,000 related to performance-based nonvested shares.

The fair value of each stock option award is estimated at the date of grant using a Black-Scholes option-pricing model based on the following weighted-average assumptions:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2007	2006	**2007**	2006
Expected volatility	**N/A**	N/A	**22.4%**	25.0%
Expected dividend yield	**N/A**	N/A	**3.2**	3.2
Risk-free interest rate	**N/A**	N/A	**4.8**	3.9
Expected term (in years)	**N/A**	N/A	**8.0**	7.0

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the contractual life of the option is based on a U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on historical volatility of the Corporation s stock.

Stock option activity under the Comprehensive Stock Option Plan, the Director Plan, and the 2000 Omnibus Plan at and for the six months ended June 30, 2007, follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	1,497,619	$20.57		
Granted	71,500	24.46		
Exercised	(56,960)	18.98		$ 297,893
Forfeited or expired	(204,906)	25.79		
Outstanding at March 31, 2007	**1,307,253**	**$20.03**	**5.5**	**$3,093,754**
Exercisable at March 31, 2007	**1,187,673**	**$19.62**	**5.1**	**$3,093,754**
Weighted-average Black-Scholes fair value of options granted during the period		**$ 5.63**		

Outstanding at March 31, 2007	1,307,253	$20.03		
Granted				
Exercised	(60,338)	17.75		$ 239,159
Forfeited or expired	(22,878)	22.76		
Outstanding at June 30, 2007	**1,224,037**	**$20.09**	**5.3**	**$1,501,676**
Exercisable at June 30, 2007	**1,104,457**	**$19.65**	**5.1**	**$1,501,676**
Weighted-average Black-Scholes fair value of options granted during the period		**$**		

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No options were granted during the three months ended June 30, 2006. The weighted-average Black-Scholes fair value of options granted during the six months ended June 30, 2006, was $5.85, and the aggregate intrinsic value of options exercised was $604,000 and $1.5 million, respectively.

Nonvested share activity under the Omnibus Plan and the Restricted Stock Plan at and for the six months ended June 30, 2007 follows:

	Service-Based		Performance-Based	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2007	215,663	$24.00	52,100	$21.91
Granted	92,203	24.34	54,600	22.70
Vested	(5,342)	23.66		
Forfeited or expired	(13,262)	23.81		
Outstanding at March 31, 2007	289,262	$24.14	106,700	$22.31
Granted	18,732	20.64		
Vested			(5,967)	22.13
Forfeited or expired	(4,666)	23.88	(9,333)	22.41
Outstanding at June 30, 2007	**303,328**	**$23.92**	**91,400**	**$22.32**

As of June 30, 2007, there was approximately $5.6 million of total unrecognized compensation cost related to service-based nonvested share-based compensation arrangements granted under the Omnibus Plan and the Restricted Stock Plan. This cost is expected to be recognized over a remaining weighted-average period of 2.3 years. No share-based awards vested during the three months ended June 30, 2007. The total fair value of share-based awards that vested during the six months ended June 30, 2007, was $126,000.

As of June 30, 2007, there was $1.3 million of total unrecognized compensation cost related to performance-based nonvested share-based compensation arrangements granted under the Omnibus Plan. This cost is expected to be recognized over a remaining weighted-average period of 1.9 years.

The following table provides certain information about stock options outstanding at June 30, 2007:

	Outstanding Options			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$5.01-10.00	3,400	2.2	$ 9.04	3,400	$ 9.04
10.01 - 12.50	18,702	1.5	11.63	18,702	11.63
12.51 - 15.00	63,160	2.5	14.43	63,160	14.43
15.01 - 17.50	256,537	4.0	16.62	256,537	16.62
17.51 - 20.00	262,845	4.4	18.44	262,845	18.44
20.01 - 22.50	167,814	6.4	20.78	167,814	20.78

22.51 - 25.00	422,514	7.1	23.83	302,934	23.71
25.01 - 27.50	29,065	2.7	26.35	29,065	26.35
Total	1,224,037	5.3	$20.09	1,104,457	$19.65

11. Other Borrowings

A summary of other borrowings follows:

	June 30, 2007		December 31, 2006	
(In thousands)	**Balance**	**Weighted-Average Contractual Rate**	Balance	Weighted-Average Contractual Rate
Federal funds purchased and securities sold under agreements to repurchase	**$ 216,152**	**4.71%**	$ 201,713	4.60%
Commercial paper	**77,844**	**2.71**	38,191	2.72
Other short-term borrowings	**265,000**	**5.30**	371,000	5.35
Long-term debt	**617,762**	**5.13**	487,794	4.79
Total other borrowings	**$1,176,758**	**4.93%**	$1,098,698	**4.87%**

Securities sold under agreements to repurchase represent short-term borrowings by the banking subsidiaries with maturities less than one year collateralized by a portion of the Corporation s securities of the United States government or its agencies, which have been delivered to a third-party custodian for safekeeping. Securities with an aggregate carrying value of $194.2 million and $214.9 million at June 30, 2007 and December 31, 2006, respectively, were pledged to secure securities sold under agreements to repurchase.

Federal funds purchased represent unsecured overnight borrowings from other financial institutions by the banking subsidiaries. At June 30, 2007, the Bank had federal funds back-up lines of credit totaling $363.0 million with $88.0 million outstanding. At December 31, 2006, the Bank had federal funds backup lines of credit totaling $188.2 million with $41.5 million outstanding.

The Corporation issues commercial paper as another source of short-term funding. It is purchased primarily by the Bank s commercial clients. Commercial paper outstanding at June 30, 2007 was $77.8 million, compared to $38.2 million at December 31, 2006.

Other short-term borrowings consist of the FHLB borrowings with an original maturity of one year or less. FHLB borrowings are collateralized by securities from the Corporation s investment portfolio, and a blanket lien on certain qualifying commercial and single-family loans held in the Corporation s loan portfolio. At June 30, 2007, the Bank had $265.0 million of short-term FHLB borrowings, compared to $371.0 million at December 31, 2006.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities. At June 30, 2007, the Bank had $555.9 million of long-term FHLB borrowings, compared to $425.9 million at December 31, 2006. In addition, the Corporation had $61.9 million of outstanding subordinated debentures at June 30, 2007 and December 31, 2006.

The Corporation formed First Charter Capital Trust I and First Charter Capital Trust II, in June 2005 and September 2005, respectively; both are wholly-owned business trusts. First Charter Capital Trust I and First Charter Capital Trust II issued $35.0 million and $25.0 million, respectively, of trust preferred securities that were sold to third parties. The proceeds of the sale of the trust preferred securities were used to purchase the subordinated debentures (the Notes) discussed above from the Corporation, which are presented as long-term borrowings in the consolidated balance sheet and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

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The following table is a summary of the Corporation s outstanding trust preferred securities and Notes as of June 30, 2007.

(Dollars in thousands)

Issuer	Issuance Date	Aggregate Principal Amount of Trust Preferred Securities	Aggregate Principal Amount of the Notes	Stated Maturity of the Notes	Per Annum Interest Rate of the Notes	Interest Payment Dates	Redemption Period
Capital Trust I	June 2005	$35,000	$36,083	September 2035	3 mo. LIBOR + 169 bps	3/15, 6/15, 9/15, 12/15	On or after 9/15/2010
Capital Trust II	September 2005	25,000	25,774	December 2035	3 mo. LIBOR + 142 bps	3/15, 6/15, 9/15, 12/15	On or after 12/15/2010
Total		**$60,000**	$61,857				

12. Commitments, Contingencies, and Off-Balance-Sheet Risk

Commitments and Off-Balance-Sheet Risk. The Corporation is party to various financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the Corporation. Included in loan commitments are commitments to cover customer deposit account overdrafts should they occur. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Standby letters of credit are recorded as a liability by the Corporation at the fair value of the obligation undertaken in issuing the guarantee. The fair value and carrying value at June 30, 2007, of standby letters of credit issued or modified during the three and six months ended June 30, 2007 was immaterial. Commitments to extend credit are not recorded as an asset or liability by the Corporation until the instrument is exercised. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for instruments reflected in the consolidated financial statements. The creditworthiness of each customer is evaluated on a case-by-case basis.

The Corporation s maximum exposure is as follows:

(In thousands)	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**Over 5 Years**	**Timing not determinable**	**Total**
Loan commitments	$703,813	$118,172	$42,662	$ 59,637	$	$ 924,284
Lines of credit	31,390	1,639	2,921	455,613		491,563
Standby letters of credit	22,920	3,548				26,468

Anticipated tax settlements	584				10,551	11,135
Total commitments	$758,707	$123,359	$45,583	$515,250	$10,551	$1,453,450

Contingencies. The Corporation is under examination by the North Carolina Department of Revenue for tax years 1999 through 2004 and is subject to examination for subsequent tax years. Additional information regarding the examination is included in **Note 2**.

The Corporation and the Bank are defendants in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated operations, liquidity, or financial position of the Corporation or the Bank.

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13. Regulatory Restrictions and Capital Ratios

The Corporation and the Bank are subject to various regulatory capital requirements administered by bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s financial position and operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to adjusted average assets (as defined). Management believes, as of June 30, 2007, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

The Corporation s and the Bank s various regulators have issued regulatory capital requirements for U.S. banking organizations. Failure to meet the capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a material effect on the Corporation s financial statements. At June 30, 2007, the Corporation and the Bank were classified as well capitalized under these regulatory frameworks. In the judgment of management, there have been no events or conditions since June 30, 2007, which would change the well capitalized status of the Corporation or the Bank.

The Corporation s and the Bank s actual capital amounts and ratios follow:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
At June 30, 2007:						
Leverage						
First Charter Corporation	**$430,373**	**8.97%**	**$192,023**	**4.00%**	**None**	**None**
First Charter Bank	**411,177**	**8.57**	**191,914**	**4.00**	**$239,893**	**5.00%**
Tier I Capital						
First Charter Corporation	**$430,373**	**10.57%**	**$162,932**	**4.00%**	**None**	**None**
First Charter Bank	**411,177**	**10.10**	**162,782**	**4.00**	**$244,174**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$475,358**	**11.67%**	**$325,863**	**8.00%**	**None**	**None**
First Charter Bank	**455,967**	**11.20**	**325,565**	**8.00**	**$406,956**	**10.00%**
At December 31, 2006:						
Leverage						
First Charter Corporation	$428,135	9.32%	$183,678	4.00%	None	None
First Charter Bank	362,970	8.36	173,591	4.00	$216,988	5.00%

Tier I Capital						
First Charter Corporation	$428,135	10.53%	$162,614	4.00%	None	None
First Charter Bank	362,970	9.99	145,275	4.00	$217,913	6.00%
Total Risk-Based Capital						
First Charter Corporation	$463,273	11.40%	$325,228	8.00%	None	None
First Charter Bank	393,664	10.84	290,550	8.00	$363,188	10.00%

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Tier 1 capital consists of total equity plus qualifying capital securities and minority interests, less unrealized gains and losses accumulated in other comprehensive income, certain intangible assets, and adjustments related to the valuation of servicing assets and certain equity investments in nonfinancial companies (equity method investments).

The leverage ratio reflects Tier 1 capital divided by average total assets for the period. Average assets used in the calculation exclude certain intangible and servicing assets.

Total risk-based capital is comprised of Tier 1 capital plus qualifying subordinated debt and allowance for loan losses and a portion of unrealized gains on certain equity securities.

Both the Tier 1 and the total risk-based capital ratios are computed by dividing the respective capital amounts by risk-weighted assets, as defined.

The Corporation from time to time is required to maintain noninterest bearing reserve balances with the Federal Reserve Bank. The required reserve was $1.0 million at June 30, 2007.

Under current Federal Reserve regulations, a bank subsidiary is limited in the amount it may loan to its parent company and nonbank subsidiaries. Loans to a single affiliate may not exceed 10 percent and loans to all affiliates may not exceed 20 percent of the Bank s capital stock, surplus, and undivided profits, plus the allowance for loan losses. Loans from the Bank to nonbank affiliates, including the parent company, are also required to be collateralized.

The primary source of funds available to the Corporation is the payment of dividends from the Bank. Dividends paid by a subsidiary bank to its parent company are also subject to certain legal and regulatory limitations.

14. Subsequent Event

On July 31, 2007, the General Assembly of North Carolina passed House Bill 1473 which includes a provision that disallows the deduction of dividends paid by captive real estate investment trusts (REITs) for the purposes of determining North Carolina taxable income. The Corporation, through its subsidiaries, participates in two entities classified as captive REITs from which the Corporation has historically received dividends which resulted in certain tax benefits taken within the Corporation s tax returns and consolidated financial statements. This legislation is effective for taxable years beginning on or after January 1, 2007.

The Corporation is currently evaluating the impact that this legislation will have on the Corporation s current and prior tax filings, as well as the related financial statement impact to the Corporation s effective tax rate and uncertain tax positions. Assuming the legislation eliminates the deductibility of the REIT dividends for North Carolina state income tax purposes, the Corporation expects an increase in its effective tax rate for 2007 and subsequent fiscal years.

15. Business Segment Information

The Corporation operates one reportable segment, the Bank, the Corporation s primary banking subsidiary. The Bank provides businesses and individuals with commercial, consumer and mortgage loans, deposit banking services, brokerage services, insurance products, and comprehensive financial planning solutions. The results of the Bank s operations constitute a substantial majority of the consolidated net income, revenue and assets of the Corporation. Intercompany transactions and the Corporation s revenue, expenses, assets (including cash, investment securities, and investments in venture capital limited partnerships) and liabilities (including commercial paper and subordinated debentures) are included in the Other category.

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Information regarding the separate results of operations and assets for the Bank and Other for the three months ended June 30, 2007 and 2006 follows:

		Three Months Ended June 30, 2007		
(In thousands)	The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 78,280	$ 11	$	$ 78,291
Interest expense	39,520	1,227		40,747
Net interest income (expense)	38,760	(1,216)		37,544
Provision for loan losses	9,124			9,124
Noninterest income	20,109	32		20,141
Noninterest expense	34,951	256		35,207
Income (loss) from continuing operations before income tax expense	14,794	(1,440)		13,354
Income tax expense (benefit)	4,886	(482)		4,404
Net income (loss)	$ 9,908	$ (958)	$	$ 8,950
Average loans	$3,543,840	$	$	$3,543,840
Average assets	4,861,455	537,631	(524,344)	4,874,742
Total assets	4,898,290	589,514	(571,083)	4,916,721

		Three Months Ended June 30, 2006		
(In thousands)	The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 63,653	$ 89	$	$ 63,742
Interest expense	29,935	1,160		31,095
Net interest income (expense)	33,718	(1,071)		32,647
Provision for loan losses	880			880
Noninterest income (loss)	16,301	(9)		16,292
Noninterest expense	30,649	39		30,688
Income (loss) from continuing operations before income tax expense	18,490	(1,119)		17,371
Income tax expense (benefit)	6,329	(383)		5,946
	12,161	(736)		11,425

Income (loss) from continuing operations, net of tax				
Discontinued operations:				
Income from discontinued operations	50			50
Income tax expense	20			20
Income from discontinued operations, net of tax	30			30
Net income (loss)	$ 12,191	$ (736)	$	$ 11,455
Average loans	$3,030,815	$	$	$3,030,815
Average assets of continuing operations	4,251,761	417,805	(397,703)	4,271,863
Average assets of discontinued operations	2,482			2,482
Total assets of continuing operations	4,332,140	443,647	(417,139)	4,358,648
Total assets of discontinued operations	2,583			2,583

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Information regarding the separate results of operations and assets for the Bank and Other for the six months ended June 30, 2007 and 2006 follows:

	Six Months Ended June 30, 2007			
(In thousands)	**The Bank**	**Other**	**Eliminations**	**Consolidated Total**
Interest income	**$ 155,412**	**$ 93**	**$**	**$ 155,505**
Interest expense	**78,742**	**2,484**		**81,226**
Net interest income (expense)	**76,670**	**(2,391)**		**74,279**
Provision for loan losses	**10,490**			**10,490**
Noninterest income	**39,567**	**140**		**39,707**
Noninterest expense	**70,661**	**466**		**71,127**
Income (loss) from continuing operations before income tax expense	**35,086**	**(2,717)**		**32,369**
Income tax expense (benefit)	**11,992**	**(929)**		**11,063**
Net income (loss)	**$ 23,094**	**$ (1,788)**	**$**	**$ 21,306**
Average loans	**$3,532,915**	**$**	**$**	**$3,532,915**
Average assets	**4,858,766**	**539,157**	**(525,001)**	**4,872,922**
Total assets	**4,898,290**	**589,514**	**(571,083)**	**4,916,721**

	Six Months Ended June 30, 2006			
(In thousands)	The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 123,281	$ 107	$	$ 123,388
Interest expense	56,411	2,240		58,651
Net interest income (expense)	66,870	(2,133)		64,737
Provision for loan losses	2,399			2,399
Noninterest income	33,204	79		33,283
Noninterest expense	61,327	102		61,429
Income (loss) from continuing operations before income tax expense	36,348	(2,156)		34,192
Income tax expense (benefit)	12,348	(734)		11,614
Income (loss) from continuing operations, net of tax	24,000	(1,422)		22,578
Discontinued operations:				

Income from discontinued operations	198			198
Income tax expense	78			78
Income from discontinued operations, net of tax	120			120
Net income (loss)	$ 24,120	$ (1,422)	$	$ 22,698
Average loans	$2,988,596	$	$	$2,988,596
Average assets of continuing operations	4,217,951	417,950	(400,284)	4,235,617
Average assets of discontinued operations	2,511			2,511
Total assets of continuing operations	4,332,140	443,647	(417,139)	4,358,648
Total assets of discontinued operations	2,583			2,583

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

Factors that May Affect Future Results

The following discussion contains certain forward-looking statements about the Corporation s financial condition and results of operations, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s judgment only as of the date hereof. The Corporation undertakes no obligation to publicly revise these forward-looking statements to reflect events and circumstances that arise after the date hereof.

Factors that may cause actual results to differ materially from those contemplated by such forward- looking statements, and which may be beyond the Corporation s control, include, among others, the following possibilities: (i) projected results in connection with management s implementation of, or changes in, the Corporation s business plan and strategic initiatives, including the Corporation s various balance sheet initiatives; (ii) competitive pressure among financial services companies increases significantly; (iii) costs or difficulties related to the integration of acquisitions, including deposit attrition, customer retention and revenue loss, or expenses in general are greater than expected; (iv) general economic conditions, in the markets in which the Corporation does business, are less favorable than expected; (v) risks inherent in making loans, including repayment risks and risks associated with collateral values, are greater than expected, including the Penland loans described herein; (vi) changes in the interest rate environment, or interest rate policies of the Board of Governors of the Federal Reserve System, may reduce interest margins and affect funding sources; (vii) changes in market rates and prices may adversely affect the value of financial products; (viii) legislation or regulatory requirements or changes thereto, including changes in accounting standards, may adversely affect the businesses in which the Corporation is engaged; (ix) regulatory compliance cost increases are greater than expected; (x) the passage of future tax legislation, or any negative regulatory, administrative or judicial position, may adversely impact the Corporation; (xi) the Corporation s competitors may have greater financial resources and may develop products that enable them to compete more successfully in the markets in which the Corporation operates; (xii) changes in the securities markets, including changes in interest rates, may adversely affect the Corporation s ability to raise capital from time to time; (xiii) the material weaknesses in the Corporation s internal control over financial reporting result in subsequent adjustments to management s projected results; and (xiv) implementation of management s plans to remediate the material weaknesses takes longer than expected and causes the Corporation to incur costs that are greater than expected.

Overview

First Charter Corporation (NASDAQ: FCTR) (hereinafter referred to as First Charter, the Corporation, or the Registrant), headquartered in Charlotte, North Carolina, is a regional financial services company with assets of $4.9 billion and is the holding company for First Charter Bank (the Bank). As of June 30, 2007, First Charter operated 58 financial centers, four insurance offices, and 138 ATMs throughout North Carolina and Georgia, and also operates loan origination offices in Asheville, North Carolina and Reston, Virginia. First Charter provides businesses and individuals with a broad range of financial services, including banking, financial planning, wealth management, investments, insurance, and mortgages. The results of operations of the Bank constitute the substantial majority of the consolidated net income, revenue, and assets of the Corporation.

The Corporation s principal source of earnings is derived from net interest income. Net interest income is the interest earned on securities, loans, and other interest-earning assets less the interest paid for deposits and short- and long-term debt.

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Another source of earnings for the Corporation is noninterest income. Noninterest income is derived largely from service charges on deposit accounts and other fee or commission-based services and products, including mortgage, wealth management, brokerage, and insurance. Other sources of noninterest income include securities gains or losses, gains from Small Business Administration loan sales, transactions involving bank-owned property, and income from Bank Owned Life Insurance (BOLI) policies.

Noninterest expense is the primary component of expense for the Corporation. Noninterest expense is primarily composed of corporate operating expenses, including salaries and benefits, occupancy and equipment, professional fees, and other operating expense. The provision for loan losses and income taxes are also considered material expenses.

The Community-Banking Model

The Bank follows a community-banking model. The community-banking model is focused on delivering a broad array of financial products and solutions to our clients with exceptional service and convenience at a fair price. It emphasizes local market decision-making and management whenever possible. Management believes this model works well against larger competitors that may have less flexibility, as well as local competition that may not have the array of products and services that the Bank offers. The Bank competes against four of the largest banks in the country, as well as other local banks, savings and loan associations, credit unions, and finance companies. Management believes that by focusing on core values, striving to exceed our clients expectations, being an employer of choice and providing exceptional value to shareholders, the Corporation can achieve the profitability and growth goals it has set for itself.

Market Expansion

First Charter expanded into the Raleigh, North Carolina market with the opening of a *de novo* financial center in October 2005 and three additional *de novo* financial centers in mid-February, 2006. A fifth *de novo* financial center opened in Raleigh in late-January 2007.

On November 1, 2006, the Corporation entered the greater Atlanta, Georgia metropolitan market with the acquisition of GBC Bancorp, Inc. (GBC) and its banking subsidiary, Gwinnett Banking Company (Gwinnett Bank), with financial centers located in Lawrenceville and Alpharetta, Georgia. By expanding into the greater Atlanta metropolitan market through this acquisition, the Corporation has been able to spread its credit risk over multiple market areas and states, as well as gain access to another large market area as a source of core deposits. Effective March 1, 2007, Gwinnett Bank was merged with and into the Bank.

Recent Challenges

During the fourth quarter of 2006, the Corporation closed two significant transactions, the acquisition of GBC and the sale of Southeastern Employee Benefits Services (SEBS), its employee benefits administration business. In addition, the Corporation was faced with several new accounting standards. The numerous challenges that these events posed for the Corporation were compounded by a key vacancy in the leadership of its accounting area and turnover within other key finance positions, and exposed certain material weaknesses in the Corporation s internal control over financial reporting. Management has begun to implement its remediation plan to address these material weaknesses (the Remediation Plan). See **Item 4. Controls and Procedures.**

For additional information with respect to the material weaknesses in the Corporation s internal controls, and the Remediation Plan, refer to First Charter s Annual Report on Form 10-K for the year ended December 31, 2006.

During the second quarter of 2007, the North Carolina Attorney General obtained a court order to appoint a receiver to take control of a real estate venture in Western North Carolina. The Attorney General s complaint alleges that various defendants, including real estate development companies, individuals, and an appraiser engaged in deceptive practices to induce consumers to obtain loans to purchase lots in The Village of Penland and related development projects (Penland) in the Spruce Pine, North Carolina area. These lots were allegedly priced based upon inflated appraisals. Several financial institutions, including First Charter, made loans in connection with these residential developments.

As of June 30, 2007, the Corporation had 70 loans with an aggregate outstanding balance of $14.1 million to individual lot purchasers related to Penland. As previously disclosed, based on management s assessment of probable incurred losses associated with the Penland loan portfolio, the Corporation recorded an additional $7.8 million provision for loan losses during the second quarter of 2007. As of June 30, 2007, no loans in the Penland loan portfolio had reached a 90-day past-due status. However, based on management s assessment of the individual borrowers, $5.4 million of these loans were placed on nonaccrual status as of June 30, 2007 and all of the previously recognized interest income related to these nonaccrual loans was reversed.

Financial Summary

The Corporation s second quarter 2007 net income was $9.0 million, a 21.9 percent decrease, compared to $11.5 million for the second quarter of 2006. On a per share basis, net income was $0.26 per diluted share, compared to $0.37 per diluted share for the second quarter of 2006.

Total revenue on a tax-equivalent basis increased 17.8 percent to $58.3 million, compared to $49.5 million in the second quarter of 2006. Return on average tangible equity was 9.97 percent and return on average assets was 0.74 percent, compared to 14.97 percent and 1.07 percent, respectively, a year ago.

The financial results for 2007 include the financial performance and the effect of additional outstanding shares from the recent acquisition of GBC Bancorp, Inc., compared with two months of results in the 2006 fourth quarter and no impact for the six months ended June 30, 2006.

For the six months ended June 30, 2007 net income was $21.3 million, a 6.1 percent decrease, compared to $22.7 million from the same period a year ago. On a per share basis, net income was $0.61 per diluted share for the six months ended June 30, 2007, compared to $0.73 per diluted share for the six months ended June 30, 2006.

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Table One
Selected Financial Data by Quarter

	Three Months Ended				
ollars in thousands, except share and per share amounts)	**June 30 2007**	March 31 2007	December 31 2006	September 30 2006	June 30 2006
come statement					
erest income	**$ 78,291**	$ 77,214	$ 74,456	$ 67,085	$ 63,7
erest expense	**40,747**	40,479	38,441	34,127	31,0
t interest income	**37,544**	36,735	36,015	32,958	32,6
ovision for loan losses	**9,124**	1,366	1,486	1,405	8
oninterest income	**20,141**	19,566	17,388	17,007	16,2
oninterest expense	**35,207**	35,920	33,853	29,655	30,6
come from continuing operations before income tax pense	**13,354**	19,015	18,064	18,905	17,3
come tax expense	**4,404**	6,659	5,962	6,223	5,9
come from continuing operations, net of tax	**8,950**	12,356	12,102	12,682	11,4
scontinued operations:					
come (loss) from discontinued operations			(162)		
in on sale			962		
come tax expense			887		
come (loss) from discontinued operations, net of tax			(87)		
t income	**$ 8,950**	$ 12,356	$ 12,015	$ 12,682	$ 11,4
r common share					
sic earnings per share					
come from continuing operations, net of tax	**$ 0.26**	$ 0.36	$ 0.36	$ 0.41	$ 0.
t income	**0.26**	0.36	0.36	0.41	0.
luted earnings per share					
come from continuing operations, net of tax	**0.26**	0.35	0.36	0.40	0.
t income	**0.26**	0.35	0.36	0.40	0.
erage shares					
sic	**34,697,944**	34,770,106	33,268,542	31,056,059	31,058,8
luted	**34,986,662**	35,084,640	33,583,617	31,426,563	31,339,3
vidends declared	**0.195**	0.195	0.195	0.195	0.1
riod-end book value	**12.85**	12.97	12.81	11.20	10.
rformance ratios					
turn on average equity (1)	**7.86%**	11.09%	11.69%	14.76%	13.
turn on average assets (1)	**0.74**	1.03	1.02	1.16	1.
t yield on earning assets (1)	**3.42**	3.38	3.40	3.33	3.

erage portfolio loans to average deposits	**109.50**	107.98	105.88	103.37	108.2
erage equity to average assets	**9.37**	9.28	8.75	7.86	7.7
ficiency ratio (2)	**60.4**	63.1	62.6	52.6	62
lected period-end balances					
rtfolio loans, net	**$ 3,509,047**	$ 3,494,015	$ 3,450,087	$ 3,061,864	$ 3,042,76
ans held for sale	**11,471**	13,691	12,292	10,923	8,38
lowance for loan losses	**44,790**	35,854	34,966	29,919	29,52
curities available for sale	**898,528**	897,762	906,415	899,120	884,37
sets	**4,916,721**	4,884,495	4,856,717	4,382,507	4,361,23
posits	**3,230,346**	3,321,366	3,248,128	2,954,854	2,988,80
her borrowings	**1,176,758**	1,044,229	1,098,698	1,031,798	995,70
tal liabilities	**4,470,893**	4,429,123	4,409,355	4,033,069	4,027,33
areholders equity	**445,828**	455,372	447,362	349,438	333,89
lected average balances					
rtfolio loans	**3,532,713**	3,510,437	3,336,563	3,070,286	3,021,00
ans held for sale	**11,127**	11,431	10,757	8,792	9,81
curities available for sale, at cost	**914,606**	926,970	924,773	923,293	921,02
rning assets	**4,467,031**	4,463,161	4,284,735	4,013,745	3,960,83
sets	**4,874,742**	4,871,083	4,664,431	4,336,270	4,274,34
posits	**3,226,308**	3,251,137	3,151,120	2,970,047	2,790,19
her borrowings	**1,131,599**	1,113,191	1,054,550	984,504	1,108,73
areholders equity	**456,634**	451,835	407,929	340,986	332,98

(1) *Annualized.*

(2) *Noninterest expense divided by the sum of taxable-equivalent net interest income plus noninterest income less gain (loss) on sale of securities, net. Excludes the results of discontinued operations.*

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Critical Accounting Estimates and Policies

The Corporation s significant accounting policies are described in **Note 1** of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006, on pages 69 to 76. These policies are essential in understanding management s discussion and analysis of financial condition and results of operations. Some of the Corporation s accounting policies require significant judgment to estimate values of either assets or liabilities. In addition, certain accounting principles require significant judgment with respect to their application to complicated transactions to determine the most appropriate treatment.

The Corporation has identified three accounting policies as being critical in terms of judgments and the extent to which estimates are used: allowance for loan losses, income taxes, and identified intangible assets and goodwill. In many cases, there are numerous alternative judgments that could be used in the process of estimating values of assets or liabilities. Where alternatives exist, the Corporation has used the factors it believes represent the most reasonable value in developing the inputs for the valuation. Actual performance that differs from the Corporation s estimates of the key variables could affect net income.

As previously discussed, the Corporation recorded an additional provision for loan losses related to the Penland in the second quarter 2007. The Corporation began evaluating its exposure to Penland in early June 2007 after the North Carolina Attorney General announced that he had obtained a court order to appoint a receiver to take control of the development. The Corporation continues to evaluate the Penland lot loan portfolio. Subsequent developments related to the Penland lot loans may have a significant impact on the provision for loan losses.

As described in **Note 14** to the consolidated financial statements, on July 31, 2007 the General Assembly of North Carolina passed legislation which includes a provision that disallows the deduction of dividends paid by captive real estate investment trusts (REITs) for the purposes of determining North Carolina taxable income. The Corporation, through its subsidiaries, participates in two entities classified as captive REITs from which the Corporation has historically received dividends which resulted in certain tax benefits taken within the Corporation s tax returns and consolidated financial statements. The Corporation is currently evaluating the impact that this legislation will have on the Corporation s current and prior tax filings, as well as the related financial statement impact to the Corporation s effective tax rate and uncertain tax positions.

For more information on the Corporation s critical accounting policies, refer to pages 29 to 31 of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

Earnings Performance

Net Interest Income and Margin

Net interest income, the difference between total interest income and total interest expense, is the Corporation s principal source of earnings. An analysis of the Corporation s net interest income on a taxable-equivalent basis and average balance sheets for the three and six months ended June 30, 2007 and 2006 is presented in **Table Two** and **Table Three**. Net interest income on a taxable-equivalent basis is a non-GAAP (Generally Accepted Accounting Principles) performance measure used by management in operating the business, which management believes provides investors with a more accurate picture of the interest margin for comparative purposes. The changes in net interest income (on a taxable-equivalent basis) for the six months ended June 30, 2007 and 2006 are analyzed in **Table Four and Table Five**. Except as noted, the discussion below is based on net interest income computed under accounting principles generally accepted in the United States of America.

Net interest income increased to $37.5 million, representing a $4.9 million, or 15.0 percent, increase over the second quarter of 2006. The net interest margin (taxable-equivalent net interest income divided by average earning assets) increased six basis points to 3.42 percent in the second quarter of 2007 from 3.36 percent in the second quarter of 2006. The margin benefited from continued disciplined pricing of loans and deposits and a greater concentration of higher-yielding commercial loans relative to total

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assets. Placing $5.4 million of the Penland lot loans on nonaccrual status in the second quarter of 2007 partially offset the increase in net interest income and reduced the margin by one basis point.

Compared to the second quarter of 2006, earning-asset yields increased 57 basis points to 7.08 percent. This increase was driven by several factors. First, loan yields increased 44 basis points to 7.61 percent. Second, securities yields increased 69 basis points to 5.06 percent. Third, the mix of higher-yielding (loan) assets improved as a result of the GBC acquisition and a smaller percentage of lower-yielding mortgage and consumer loans. Lastly, the percentage of investment securities average balances (which, typically, have lower yields than loans) to total earning-asset average balances, was reduced from 23.3 percent to 20.5 percent over the past year.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 60 basis points to 4.19 percent, compared to the second quarter of 2006. This increase was comprised of a 71 basis point increase in interest-bearing deposit costs to 3.82 percent, while other borrowing costs increased 49 basis points to 5.10 percent. During 2006, the Federal Reserve raised the rate that banks lend funds to each other (the Fed Funds rate) by 100 basis points. Also, as a result of deposit growth, the percentage of higher-cost, other borrowings average balances was reduced from 31.9 percent to 29.0 percent of total interest-bearing liabilities average balances over the past year.

For the six months ended June 30, 2007, net interest income increased to $74.3 million, representing a $9.5 million, or 14.7 percent, increase from the same period in 2006. The net interest margin increased two basis points to 3.40 percent for the six months ended June 30, 2007, compared to 3.38 percent in the same 2006 period. As discussed previously, the improvements in the margin stemmed from continued disciplined pricing of loans and deposits and a greater concentration of higher-yielding commercial loans relative to total assets.

Compared to the six months ended June 30, 2006, earning-asset yields increased 67 basis points to 7.07 percent. This increase was driven by two factors. First, loan yields increased 57 basis points to 7.61 percent and securities yields increased 66 basis points to 5.00 percent. Second, as discussed above, the mix of higher-yielding (loan) assets improved as a result of the GBC acquisition and a smaller percentage of lower-yielding mortgage and consumer loans. The percentage of investment securities average balances (which, typically, have lower yields than loans) to total earning-asset average balances, was reduced from 23.4 percent to 20.6 percent over the past year.

The cost of interest-bearing liabilities increased 76 basis points, compared to the six months ended June 30, 2006. This was comprised of an 86 basis point increase in interest-bearing deposit costs to 3.83 percent, while other borrowing costs increased 65 basis points to 5.09 percent. During 2006, the Federal Reserve raised the Fed Funds rate by 100 basis points. Also, as a result of deposit growth, the percentage of higher-cost, other borrowings average balances was reduced from 31.3 percent to 28.7 percent of total interest-bearing liabilities average balances over the past year.

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Interest income and yields for earning-asset average balances, interest expense and rates paid on interest-bearing liability average balances, and the net interest margin for the three months ended June 30, 2007 and 2006 follow:

Table Two

Average Balances and Net Interest Income Analysis

	Three Months Ended June 30					
	2007			2006		
(Dollars in thousands)	**Daily Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid[5]**	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid [5]
Assets						
Earning assets						
Loans and loans held for sale [1] [2] [3] [4]	**$3,543,825**	**$67,243**	**7.61%**	$3,030,815	$54,167	7.17%
Securities taxable[4]	**819,097**	**10,130**	**4.96**	819,886	8,534	4.16
Securities tax-exempt	**95,509**	**1,428**	**6.00**	101,140	1,520	6.01
Federal funds sold	**3,777**	**48**	**5.31**	3,011	37	4.93
Interest-bearing bank deposits	**4,808**	**61**	**5.01**	5,983	60	4.02
Total earning assets	**4,467,016**	**$78,910**	**7.08%**	$3,960,835	$64,318	6.51%
Cash and due from banks	**80,864**			77,115		
Other assets	**326,862**			236,395		
Total assets	**$4,874,742**			$4,274,345		
Liabilities and shareholders equity						
Interest-bearing liabilities						
Demand deposits	**$ 413,534**	**$ 1,167**	**1.13%**	$ 367,146	$ 647	0.71%
Money market accounts	**608,489**	**5,287**	**3.48**	561,005	4,454	3.18
Savings deposits	**114,656**	**62**	**0.22**	121,130	65	0.22
Certificates of deposit	**1,631,616**	**19,848**	**4.88**	1,312,993	13,175	4.02
Retail other borrowings	**94,784**	**774**	**3.58**	142,645	999	2.81
Wholesale other borrowings	**1,036,815**	**13,609**	**5.26**	966,089	11,755	4.88
Total interest-bearing liabilities	**3,899,894**	**40,747**	**4.19%**	3,471,008	31,095	3.59%
Noninterest-bearing deposits	**458,013**			427,923		
Other liabilities	**60,201**			42,427		
Shareholders equity	**456,634**			332,987		
Total liabilities and shareholders equity	**$4,874,742**			$4,274,345		

Net interest spread		**2.89%**		2.92%
Contribution of noninterest bearing sources		**0.53**		0.44
Net interest income/ yield on earning assets	**$38,163**	**3.42%**	$33,223	3.36%

(1) *The preceding analysis takes into consideration the principal amount of nonaccruing loans and only income actually collected and recognized on such loans.*

(2) *Average loan balances are shown net of unearned income.*

(3) *Includes amortization of deferred loan fees of $1,031 and $701 for the three months ended June 30, 2007 and 2006, respectively.*

(4) *Yields on tax-exempt securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent and applicable state taxes for 2007 and 2006. The adjustments made to convert to a taxable-equivalent basis were $619 and $576 for the three months ended June 30,*

2007 and 2006, respectively.

(5) *Annualized.*

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Interest income and yields for earning-asset average balances, interest expense and rates paid on interest-bearing liability average balances, and the net interest margin for the six months ended June 30, 2007 and 2006 follow:

Table Three

Average Balances and Net Interest Income Analysis

	Six Months Ended June 30					
	2007			2006		
(Dollars in thousands)	**Daily Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid [5]**	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid [5]
Assets						
Earning assets						
Loans and loans held for sale [1] [2] [3] [4]	**$3,532,900**	**$133,482**	**7.61%**	$2,988,596	$104,473	7.04%
Securities taxable[4]	**822,696**	**20,079**	**4.89**	814,175	16,842	4.14
Securities tax-exempt	**98,057**	**2,919**	**5.95**	103,735	3,063	5.91
Federal funds sold	**6,410**	**176**	**5.59**	3,115	73	4.70
Interest-bearing bank deposits	**5,028**	**111**	**4.44**	5,348	99	3.75
Total earning assets	**4,465,091**	**$156,767**	**7.07%**	$3,914,969	$124,550	6.40%
Cash and due from banks	**80,116**			87,409		
Other assets	**327,715**			237,628		
Total assets	**$4,872,922**			$4,240,006		
Liabilities and shareholders equity						
Interest-bearing liabilities						
Demand deposits	**$ 406,584**	**$ 2,225**	**1.10%**	$ 361,693	$ 1,093	0.61%
Money market accounts	**625,342**	**10,838**	**3.49**	568,263	8,306	2.95
Savings deposits	**113,826**	**129**	**0.23**	120,616	130	0.22
Certificates of deposit	**1,640,463**	**39,712**	**4.88**	1,316,992	25,376	3.89
Retail other borrowings	**93,445**	**1,437**	**3.10**	135,903	1,777	2.64
Wholesale other borrowings	**1,029,001**	**26,885**	**5.27**	943,392	21,969	4.70
Total interest-bearing liabilities	**3,908,661**	**81,226**	**4.19%**	3,446,859	58,651	3.43%
Noninterest-bearing deposits	**452,438**			420,364		
Other liabilities	**57,576**			40,392		
Shareholders equity	**454,247**			332,391		
Total liabilities and shareholders equity	**$4,872,922**			$4,240,006		

Net interest spread		**2.88%**		2.97%
Contribution of noninterest bearing sources		**0.52**		0.41
Net interest income/ yield on earning assets	**$ 75,541**	**3.40%**	$ 65,899	3.38%

(1) *The preceding analysis takes into consideration the principal amount of nonaccruing loans and only income actually collected and recognized on such loans.*

(2) *Average loan balances are shown net of unearned income.*

(3) *Includes amortization of deferred loan fees of $1,859 and $1,446 for the three months ended June 30, 2007 and 2006, respectively.*

(4) *Yields on tax-exempt securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent and applicable state taxes for 2007 and 2006. The adjustments made to convert to a taxable-equivalent basis were $1,262 and $1,162 for the six months ended*

June 30, 2007 and 2006, respectively.

(5) *Annualized.*

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The following tables show changes in tax-equivalent interest income, interest expense, and tax-equivalent net interest income arising from rate and volume changes for major categories of earning assets and interest-bearing liabilities. The change in interest not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Table Four

Volume and Rate Variance Analysis

	Three Months Ended June 30 2007 vs 2006		
	Due to Change in		Net
(In thousands)	Volume	Rate	Change
Increase (decrease) in tax-equivalent interest income			
Loans and loans held for sale [1]	**$9,583**	**$3,493**	**$13,076**
Securities taxable[1]	**(8)**	**1,604**	**1,596**
Securities tax-exempt	**(84)**	**(8)**	**(92)**
Federal funds sold	**10**	**3**	**13**
Interest-bearing bank deposits	**(13)**	**13**	
Total	**$9,488**	**$5,105**	**$14,593**
Increase (decrease) in interest expense			
Deposits:			
Demand	**$ 90**	**$ 430**	**$ 520**
Money market	**394**	**439**	**833**
Savings	**(3)**		**(3)**
Certificates of deposit	**3,559**	**3,114**	**6,673**
Retail other borrowings	**(373)**	**149**	**(224)**
Wholesale other borrowings	**893**	**961**	**1,854**
Total	**$4,560**	**$5,093**	**$ 9,653**
Increase in tax-equivalent net interest income			**$ 4,940**

(1) *Income on tax-exempt securities and loans are stated on a taxable-equivalent basis. Refer to **Table Two** for further details.*

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Changes in net interest income for the six months ended June 30, 2007 and 2006 are as follows:

Table Five

Volume and Rate Variance Analysis

	Six Months Ended June 30 2007 vs 2006		
	Due to Change in		Net
(In thousands)	Volume	Rate	Change
Increase (decrease) in tax-equivalent interest income			
Loans and loans held for sale [(1)]	**$20,093**	**$ 8,916**	**$29,009**
Securities taxable [(1)]	**178**	**3,059**	**3,237**
Securities tax-exempt	**(169)**	**25**	**(144)**
Federal funds sold	**89**	**16**	**105**
Interest-bearing bank deposits	**(6)**	**18**	**12**
Total	**$20,185**	**$12,034**	**$32,219**
Increase (decrease) in interest expense			
Deposits:			
Demand	**$ 150**	**$ 982**	**$ 1,132**
Money market	**889**	**1,643**	**2,532**
Savings	**(8)**	**7**	**(1)**
Certificates of deposit	**7,015**	**7,322**	**14,337**
Retail other borrowings	**(618)**	**278**	**(340)**
Wholesale other borrowings	**2,097**	**2,819**	**4,916**
Total	**$ 9,525**	**$13,051**	**$22,576**
Increase in tax-equivalent net interest income			**$ 9,643**

[(1)] *Income on tax-exempt securities and loans are stated on a taxable-equivalent basis. Refer to* ***Table Three*** *for further details.*

Noninterest Income

The major components of noninterest income are derived from service charges on deposit accounts, ATM, debit, and merchant fees, and mortgage, brokerage, insurance, and wealth management revenue. In addition, the Corporation realizes gains (and losses) on securities, equity investments, Small Business Administration loan sales, bank-owned property sales, and income from its BOLI policies.

Historical noninterest income and expense amounts have been restated to reflect the effect of reporting the previously announced sale of Southeastern Employee Benefits Services (SEBS) in the fourth quarter of 2006 as discontinued operations and to reflect the implementation of SAB 108 at year-end 2006.

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Details of noninterest income follow for the three months ended June 30, 2007 and 2006:

Table Six

Noninterest Income

	Three Months Ended June 30		Increase / (Decrease)	
(In thousands)	**2007**	2006	Amount	Percent
Service charges on deposits	**$ 7,942**	$ 7,469	$ 473	6.3%
ATM, debit, and merchant fees	**2,636**	2,117	519	24.5
Wealth management	**944**	693	251	36.2
Equity method investment gains, net	**678**	11	667	6,063.6
Mortgage services	**1,056**	812	244	30.0
Gain on sale of Small Business Administration loans	**132**		132	
Brokerage services	**1,007**	692	315	45.5
Insurance services	**3,422**	2,898	524	18.1
Bank owned life insurance	**1,162**	850	312	36.7
Property sale gains, net	**152**	107	45	42.1
Securities gains, net		32	(32)	(100.0)
Other	**1,010**	611	399	65.3
Noninterest income from continuing operations	**20,141**	16,292	3,849	23.6
Noninterest income from discontinued operations		844	(844)	(100.0)
Total noninterest income	**$20,141**	$17,136	$3,005	**17.5%**

Selected items included in noninterest income for the three months ended June 30, 2007 and 2006 follow. These items are considered non-core to the Corporation s operations.

Table Seven

Selected Items Included in Noninterest Income

	Three Months Ended June 30	
(In thousands)	**2007**	2006
Securities gains, net	**$**	$ 32
Equity method investment gains , net	**678**	11
Property sale gains, net	**152**	107
Gains related to reinsurance arrangement	**288**	

Noninterest income from continuing operations for the second quarter of 2007 was $20.1 million, an increase of $3.8 million, or 23.6 percent, from $16.3 million in the second quarter of 2006. The primary factors for this increase include the following:

- Revenue from deposit service charges was $0.5 million higher, principally reflecting a larger number of checking accounts.

ATM, debit, and merchant card revenue was $0.5 million higher, reflecting both a larger number of accounts and transactions.

Of the total $0.3 million increase in wealth management income, $0.2 million was related to transaction fees for a single estate.

Equity method investment gains were $0.7 million higher in the 2007 second quarter. The returns on the equity method investments vary from period to period and income is recorded when earned.

Mortgage services revenue increased $0.2 million, due to a rise in originations and sales.

Although the Corporation originated SBA loans prior to the GBC acquisition, the Corporation retained these loans. Therefore, gains on SBA loan sales were $0.1 million in the 2007 second quarter, compared to no sales in the same 2006 period.

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Brokerage services revenue was $0.3 million higher in 2007 due to increased production from the addition of several financial consultants in the latter half of 2006.

Insurance revenues increased $0.5 million in the second quarter of 2007, compared to the second quarter of 2006 as a result of the majority of contingency income being received in the first quarter of 2006, versus a more even distribution between the first and second quarters of 2007.

The restructuring of $21.5 million of Bank Owned Life Insurance (BOLI) in mid-2006, the purchase of $10.0 million in new coverage, and the addition of $5.9 million of BOLI from GBC led to the $0.3 million increase in revenue between periods.

Details of noninterest income follow for the six months ended June 30, 2007 and 2006:

Table Eight

Noninterest Income

	Six Months Ended June 30		Increase / (Decrease)	
(In thousands)	**2007**	2006	Amount	Percent
Service charges on deposits	**$15,332**	$14,167	$ 1,165	8.2%
ATM, debit, and merchant fees	**5,080**	4,015	1,065	26.5
Wealth management	**1,660**	1,393	267	19.2
Equity method investment gains, net	**1,805**	556	1,249	224.6
Mortgage services	**1,957**	1,335	622	46.6
Gain on sale of Small Business Administration loans	**509**		509	
Brokerage services	**2,088**	1,403	685	48.8
Insurance services	**7,056**	7,232	(176)	(2.4)
Bank owned life insurance	**2,301**	1,677	624	37.2
Property sale gains, net	**215**	188	27	14.4
Securities gains/(losses), net	**(11)**	32	(43)	(134.4)
Other	**1,715**	1,285	430	33.5
Noninterest income from continuing operations	**39,707**	**33,283**	6,424	19.3
Noninterest income from discontinued operations		1,809	(1,809)	(100.0)
Total noninterest income	**$39,707**	**$35,092**	**$ 4,615**	**13.2%**

Selected items included in noninterest income for the six months ended June 30, 2007 and 2006 follow. These items are considered non-core to the Corporation s operations.

Table Nine

Selected Items Included in Noninterest Income

	Six Months Ended June 30	
(In thousands)	**2007**	2006

Securities gains (losses), net	**$ (11)**	$ 32
Equity method investment gains, net	**1,805**	556
Property sale gains, net	**215**	188
Gains related to reinsurance arrangement	**288**	99

Noninterest income from continuing operations increased $6.4 million, or 19.3 percent, to $39.7 million for the six months ended June 30, 2007 compared to the same period in 2006. The primary factors for this increase include the following:

Revenue from deposit service charges increased $1.2 million, principally reflecting a larger number of checking accounts.

ATM, debit and merchant card services revenue was $1.1 million higher due to both a larger number of accounts and transactions.

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Equity method investment gains were $1.2 million higher in the six months ended June 30, 2007, versus the same period of 2006. The returns on the equity method investments vary from period to period and income is recorded when earned.

Mortgage services revenue increased $0.6 million due to increased originations and sales.

Although the Corporation originated SBA loans prior to the GBC acquisition, the Corporation retained these loans. Therefore, gains on SBA loan sales were $0.5 million in the first half of 2007, compared to no sales in the same 2006 period.

Brokerage service revenue increased $0.7 million due to increased production from the addition of several financial consultants in the latter half of 2006.

The previously mentioned restructuring of bank owned life insurance led to an increase of $0.6 million in revenue between the periods.

These revenue increases and gains were partially offset by $0.2 million lower insurance services revenue, primarily due to less contingency income recognized in the first six months of 2007, compared with the first six months of 2006.

Noninterest Expense

Details of noninterest expense for the three months ended June 30, 2007 and 2006 follow:

Table Ten

Noninterest Expense

	Three Months Ended June 30		Increase / (Decrease)	
(In thousands)	**2007**	2006	Amount	Percent
Salaries and employee benefits	**$19,576**	$16,343	$3,233	19.8%
Occupancy and equipment	**4,759**	4,826	(67)	(1.4)
Data processing	**1,492**	1,448	44	3.0
Marketing	**1,055**	1,196	(141)	(11.8)
Postage and supplies	**1,164**	1,282	(118)	(9.2)
Professional services	**3,181**	2,258	923	40.9
Telecommunications	**519**	513	6	1.2
Amortization of intangibles	**314**	107	207	193.5
Foreclosed properties	**226**	418	(192)	(45.9)
Other	**2,921**	2,297	624	27.2
Noninterest expense from continuing operations	**35,207**	30,688	4,519	14.7
Noninterest expense from discontinued operations		794	(794)	(100.0)
Total noninterest expense	**$35,207**	$31,482	$3,725	11.8%
Full-time equivalent employees at June 30	**1,109**	1,098	11	1.0%
Efficiency ratio (1)	**60.4%**	62.0%	-1.6%	(2.6)%

(1) *Noninterest expense divided by the sum of taxable-equivalent net interest income plus noninterest income less securities gains (losses), net. Excludes the results of discontinued operations.*

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Selected items included in noninterest expense for the three months ended June 30, 2007 and 2006 follow:

Table Eleven

Selected Items Included in Noninterest Expense

	Three Months Ended June 30	
(In thousands)	**2007**	2006
Separation agreements	**$ 183**	$
GBC related executive retirement expense	**245**	
Reduction of incentive compensation	**(518)**	
Merger-related costs		

Noninterest expense from continuing operations for the 2007 second quarter was $35.2 million, a $4.5 million increase, compared to the second quarter of 2006. Of this increase, $3.2 million was attributable to salaries and employee benefits expense. Salaries and benefits expense increased in 2007 compared to 2006 primarily due to higher salaries and wages which were driven by an increased number of full-time equivalent employees as a result of the GBC acquisition, increased equity-based compensation, and offset partially by lower incentive compensation due to a reduction in earnings. Additionally, salaries and employee benefits expense included merger-related costs of $0.2 million, representing severance and other compensation-related bonuses for certain employees to remain with Gwinnett Bank for a period of transition following the acquisition. Professional fees increased $0.9 million primarily related to remediation efforts in connection with the Corporation s internal control weaknesses, additional costs related to the Corporation s delayed filing of Form 10-K for the year-ended December 31, 2006, and costs associated with the previously disclosed first quarter 2007 audit committee inquiry. The Corporation expects that professional fees will decline over time to more historically normalized levels. Other noninterest expense increased $0.6 million between comparable quarters, principally consisting of increases in insurance, franchise tax, travel, and other miscellaneous operational expense.

Details of noninterest expense for the six months ended June 30, 2007 and 2006 follow:

Table Twelve

Noninterest Expense

	Six Months Ended June 30		Increase / (Decrease)	
(In thousands)	**2007**	2006	Amount	Percent
Salaries and employee benefits	**$39,163**	$33,543	$ 5,620	16.8%
Occupancy and equipment	**9,371**	9,531	(160)	(1.7)
Data processing	**3,282**	2,858	424	14.8
Marketing	**2,406**	2,484	(78)	(3.1)
Postage and supplies	**2,336**	2,464	(128)	(5.2)
Professional services	**6,767**	4,161	2,606	62.6
Telecommunications	**1,190**	1,076	114	10.6
Amortization of intangibles	**537**	209	328	156.9
Foreclosed properties	**379**	472	(93)	(19.7)
Other	**5,696**	4,631	1,065	23.0
Noninterest expense from continuing operations	**71,127**	61,429	9,698	15.8

Noninterest expense from discontinued operations		1,611	(1,611)	(100.0)
Total noninterest expense	**$71,127**	$63,040	$ 8,087	12.8%
Full-time equivalent employees at June 30	**1,109**	1,098	11	1.0%
Efficiency ratio [(1)]	**61.7%**	62.0%	-0.3%	(0.5)%

(1) *Noninterest expense divided by the sum of taxable-equivalent net interest income plus noninterest income less securities gains (losses), net. Excludes the results of discontinued operations.*

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Selected items included in noninterest expense for the six months ended June 30, 2007 and 2006 follow:

Table Thirteen

Selected Items Included in Noninterest Expense

	Six Months Ended June 30	
(In thousands)	**2007**	2006
Separation agreements	**$ 241**	$105
GBC related executive retirement expense	**245**	
Reduction of incentive compensation	**(518)**	
Merger-related costs	**237**	

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Noninterest expense from continuing operations for the first six months of 2007 was $71.1 million, a $9.7 million increase over the same period of 2006. Of this increase, $5.6 million was attributable to salaries and employee benefits expense. Salaries and benefits expense increased in 2007 compared to 2006 primarily due to higher salaries and wages which were driven by an increased number of full-time equivalent employees as a result of the GBC acquisition, as well as normal salary increases, and offset partially by lower incentive compensation due to a reduction in earnings. Additionally, salaries and employee benefits expense included merger-related costs of $0.5 million, representing severance and other compensation-related bonuses for certain employees to remain with Gwinnett Bank for a period of transition following the acquisition as well as executive retirement expenses related to Gwinnett Bank. Professional Fees increased $2.6 million primarily related to remediation efforts in connection with the Corporation s internal control weaknesses, additional costs related to the Corporation s delayed filing of Form 10-K for the year-ended December 31, 2006, and costs associated with the previously disclosed first quarter 2007 audit committee inquiry. The Corporation expects that professional fees will decline over time to more historically normalized levels. Data processing expense increased $0.4 million on a year-over-year basis for the second half of 2007 due to increased transaction volume. Other noninterest expense increased $1.1 million between compared periods, principally consisting of increases in insurance, franchise tax, travel and other miscellaneous operational expense.

Income Tax

Income tax expense for the three months ended June 30, 2007, was $4.4 million, for an effective tax rate of 33.0 percent, compared with $5.9 million, for an effective tax rate of 34.3 percent in the second quarter of 2006. For the six months ended June 30, 2007, income tax expense was $11.1 million, for an effective tax rate of 34.2 percent, compared with $11.6 million, for an effective tax rate of 34.0 percent in the six months ended June 30, 2006. The effective tax rate decreased for the three and six months ended June 30, 2007 as a result of a higher proportion of tax-exempt income to total income.

The Corporation is under examination by the North Carolina Department of Revenue for tax years 1999 through 2004 and is subject to examination for subsequent tax years. The Corporation is also under routine examination by the Internal Revenue Service for the 2004 tax year. For additional information regarding these examinations refer to **Note 2** of the consolidated financial statements.

As described in **Note 14** of the consolidated financial statements, on July 31, 2007, the General Assembly of North Carolina passed House Bill 1473 which includes a provision that disallows the deduction of dividends paid by captive real estate investment trusts (REITs) for the purposes of determining North Carolina taxable income. The Corporation, through its subsidiaries, participates in two entities classified as captive REITs from which the Corporation has historically received dividends which resulted in certain tax benefits taken within the Corporation s tax returns and consolidated financial statements. This legislation is effective for taxable years beginning on or after January 1, 2007. The Corporation is currently evaluating the impact that this legislation will have on the Corporation s current and prior tax filings, as well as the related financial statement impact to the Corporation s effective tax rate and uncertain tax positions. Assuming the legislation eliminates the deductibility of the REIT dividends for North Carolina state income tax purposes, the Corporation expects an increase in its effective tax rate for 2007 and subsequent fiscal years.

Balance Sheet Analysis

Securities Available for Sale

The securities portfolio, all of which is classified as available-for-sale, is a component of the Corporation s Asset Liability Management (ALM) strategy. The decision to purchase or sell securities is based upon liquidity needs, changes in interest rates, changes in the Bank s risk tolerance, the composition of the rest of the balance sheet, and other factors. Securities available-for-sale are accounted for at fair value, with unrealized gains and losses recorded net of tax as a component of other comprehensive income in shareholders equity unless the unrealized losses are considered other-than-temporary.

The fair value of the securities portfolio is determined by various third party sources. The valuation is determined as of the end of the reporting period based on available quoted market prices or quoted market prices for similar securities if a quoted market price is not available.

At June 30, 2007, securities available for sale were $898.5 million, compared to $906.4 million at December 31, 2006. Pretax unrealized net losses on securities available for sale were $14.4 million at June 30, 2007, compared to pretax unrealized net losses of $9.8 million at December 31, 2006. The unrealized losses in the securities portfolio have primarily resulted from the rise in interest rates. These unrealized losses have been partially offset by paydowns and maturities of existing securities, totaling $126.0 million, along with the sale of $25.2 million of securities.

During the first half of 2007, proceeds from the aforementioned maturities, along with the sales, paydowns, and calls were used to purchase $148.1 million of securities, principally mortgage-backed and U.S. government agency securities. The asset-backed securities purchased are collateralized debt obligations, representing securitizations of financial company capital securities and were purchased for portfolio risk diversification and their higher yields.

The following table shows the carrying value of (i) U.S. government agency obligations, (ii) mortgage-backed securities, (iii) state, county, and municipal obligations, (iv) asset-backed securities, and (v) equity securities, which are primarily comprised of Federal Reserve and Federal Home Loan Bank stock.

Table Fourteen

Investment Portfolio

(In thousands)	**June 30 2007**	**December 31 2006**
U.S. government agency obligations	**$236,702**	$275,394
Mortgage-backed securities	**458,504**	412,020
State, county, and municipal obligations	**92,189**	102,602
Asset-backed securities	**56,057**	65,115
Equity securities	**55,076**	51,284
Total securities	**$898,528**	$906,415

Loan Portfolio

The Corporation s loan portfolio at June 30, 2007, consisted of six major categories: Commercial Non Real Estate, Commercial Real Estate, Construction, Mortgage, Home Equity, and Consumer. Pricing is driven by quality, loan size, loan tenor, prepayment risk, the Corporation s relationship with the customer, competition, and other factors. The Corporation is primarily a secured lender in all of these loan categories. The terms of the Corporation s loans are generally five years or less with the exception of home equity lines and residential mortgages, for which the terms can range out to 30 years. In addition, the Corporation has a program in which it buys and sells portions of loans (primarily originated in the Southeastern region of the United States), both participations and syndications, from key strategic partner financial institutions with which the Corporation has established relationships. This strategic partners portfolio includes commercial real estate, commercial non real estate, and construction loans. This program enables the Corporation to diversify both its geographic risk and its total exposure risk. From time to time, the Corporation also sources commercial real estate, commercial non real estate, construction, and consumer loans through correspondent relationships. As of June 30, 2007, the Corporation s total loan portfolio included $336.5 million of loans originated through the strategic partners program and correspondent relationships.

Total portfolio loan average balances for the 2007 second quarter increased $511.7 million, or 16.9 percent, to $3.5 billion, compared to $3.0 billion for the 2006 second quarter. Included in the increase was approximately $337 million of total loans that were added as a result of the GBC acquisition during the fourth quarter of 2007. The increase in average loan balances was offset by $8 million of loan balances that were included in the sale of two financial centers during the third quarter of 2006. Commercial loan growth drove the increase, rising $598 million, or 36.5 percent, of which $322 million were added as a result of the GBC acquisition. The remaining growth of $276 million, or 16.9 percent, was the result of commercial lending growth in the Charlotte and Raleigh markets. Consumer loan average balances decreased $42 million and mortgage loan average balances decreased $45 million compared to the 2006 second quarter. The consumer loan balance decline was driven, in part, by lower consumer borrowing costs of refinancing first mortgages relative to current rates on home equity products. The decline in mortgage loan balances was due to normal loan amortization and First Charter s strategy of selling most of its new mortgage production in the secondary market. GBC had no residential mortgages on its balance sheet at the time of the acquisition.

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At June 30, 2007, Raleigh-related loans totaled $153.0 million, representing a $19.2 million increase from $133.8 million at December 31, 2006.

A summary of the composition of the loan portfolio follows:

Table Fifteen

Loan Portfolio Composition

(In thousands)	**June 30 2007**	**Percent of Total Loans**	December 31 2006	Percent of Total Loans
Commercial real estate	**$1,094,866**	**30.8%**	$1,034,317	29.7%
Commercial non real estate	**317,984**	**8.9**	301,958	8.7
Construction	**859,301**	**24.2**	793,294	22.8
Mortgage	**589,976**	**16.6**	618,142	17.7
Consumer	**276,005**	**7.8**	289,493	8.3
Home equity	**415,705**	**11.7**	447,849	12.8
Total portfolio loans	**3,553,837**	**100.0%**	3,485,053	100.0%
Allowance for loan losses	**(44,790)**		(34,966)	
Portfolio loans, net	**$3,509,047**		$3,450,087	

Deposits

A summary of the composition of deposits follows:

Table Sixteen

Deposits

(In thousands)	**June 30 2007**	December 31 2006
Noninterest bearing demand	**$ 480,078**	$ 454,975
Interest bearing demand	**427,899**	420,774
Money market accounts	**587,691**	620,699
Savings deposits	**114,245**	111,047
Certificates of deposit	**1,620,433**	1,640,633
Total deposits	**$3,230,346**	$3,248,128

Deposits totaled $3.2 billion at June 30, 2007 and December 31, 2006. Compared to June 30, 2006, deposits increased by $241.5 million, as a result of overall growth in interest checking balances, combined with the addition of $357.3 million of deposits acquired in the fourth quarter 2006 acquisition of GBC, offset partially by a relatively large number of CDs that matured during the first half of 2007. These maturities included a number of high-rate public fund CDs which the Corporation chose not to renew. Additionally, money market balances decreased $24.2 million from June 30, 2006 primarily due to interest rates on CDs being more favorable than money market rates.

Deposit balances in Raleigh were $53.8 million at June 30, 2007, an increase of $22.0 million from $31.8 million at December 31, 2006.

Deposit growth, particularly low-cost transaction (or core) deposit growth (money market, demand, and savings accounts), continues to be an area of emphasis for the Corporation. For the second quarter of 2007, core deposit average balances increased $117.5 million, or 8.0 percent, compared to the second quarter of 2006. This includes the benefit of the GBC acquisition which included $106.5 million of core deposits and the impact of First Charter s sale of two financial centers in the third quarter of 2006 which involved the sale of $24 million of core deposits. The total core deposit increase was primarily driven by a $47.5 million, or 8.5 percent, increase in money market average balances, a $39.9 million, or 8.2

percent, increase in interest checking and savings average balances, and a $30.1 million, or 7.0 percent, increase in noninterest-bearing demand deposit average balances.

Certificate of deposit (CD) average balances for the second quarter of 2007 decreased $17.8 million from the fourth quarter of 2006 but grew $318.6 million from the second quarter of 2006. The decrease during the first half of 2007 was primarily due to a relatively large number of CDs that matured. These maturities included a number of high rate public fund CDs which First Charter chose not to renew. The increase in average balances over second quarter 2006 primarily related to the GBC acquisition which added $248.6 million of CD balances. Additionally, CD growth was somewhat offset by the sale of $14 million of CDs in conjunction with the previously mentioned financial center sale that occurred in the third quarter of 2006.

Other Borrowings

Other borrowings consist of federal funds purchased, securities sold under agreement to repurchase, commercial paper and other short- and long-term borrowings. Federal funds purchased represent unsecured overnight borrowings from other financial institutions by the Bank. At June 30, 2007, the Bank had federal funds back-up lines of credit totaling $363.0 million with $88.0 million outstanding, compared to similar lines of credit totaling $188.2 million with $41.5 million outstanding at December 31, 2006. Securities sold under agreements to repurchase represent short-term borrowings by the Bank with maturities less than one year collateralized by a portion of the Corporation s United States government or agency securities. Securities sold under agreements to repurchase totaled $190.0 million at June 30, 2007, compared to $160.2 million at December 31, 2006. These borrowings are an important source of funding to the Corporation. Access to alternate short-term funding sources allows the Corporation to meet funding needs without relying on increasing deposits on a short-term basis.

The Corporation issues commercial paper as another source of short-term funding. It is purchased primarily by the Bank s commercial deposit clients. Commercial paper outstanding at June 30, 2007 was $77.8 million, compared to $38.2 million at December 31, 2006.

Other short-term borrowings consist of the Federal Home Loan Bank (FHLB) borrowings with an original maturity of one year or less. FHLB borrowings are collateralized by securities from the Corporation s investment portfolio, and a blanket lien on certain qualifying commercial and single-family loans held in the Corporation s loan portfolio. At June 30, 2007, the Bank had $265.0 million of short-term FHLB borrowings, compared to the Bank s $371.0 million at December 31, 2006. The Corporation, in its overall management of interest-rate risk, is opportunistic in evaluating alternative funding sources. While balancing the funding needs of the Corporation, management considers the duration of available maturities, the relative attractiveness of funding costs, and the diversification of funding sources, among other factors, in order to maintain flexibility in the nature of deposits and borrowings the Corporation holds at any given time.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities. At June 30, 2007, the Bank had $555.9 million of long-term FHLB borrowings, compared to $425.9 million at December 31, 2006. In addition, the Corporation had $61.9 million of outstanding subordinated debentures at June 30, 2007, and December 31, 2006.

The Corporation formed First Charter Capital Trust I and First Charter Capital Trust II, in June 2005 and September 2005, respectively; both are wholly-owned business trusts. First Charter Capital Trust I and First Charter Capital Trust II issued $35.0 million and $25.0 million, respectively, of trust preferred securities that were sold to third parties. The proceeds of the sale of the trust preferred securities were used to purchase subordinated debentures discussed above from the Corporation, which are presented as long-term borrowings in the consolidated balance sheet and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

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Credit Risk Management

The Corporation s credit risk policy and procedures are centralized for every loan type. In addition, all mortgage, consumer, and home equity loans are centrally decisioned. All loans generally flow through an independent closing unit to ensure proper documentation. Loans originated by the Corporation s Atlanta-based lenders are currently being processed and closed independently from the Corporation s centralized credit structure. Finally, all known collection or problem loans are centrally managed by experienced workout personnel. To monitor the effectiveness of policies and procedures, Management maintains a set of asset quality standards for past due, nonaccrual, and watchlist loans and monitors the trends of these standards over time. These standards are approved by the Board of Directors and reviewed quarterly with the Board of Directors for compliance.

Loan Administration and Underwriting

The Bank s Chief Risk Officer is responsible for the continuous assessment of the Bank s risk profile as well as making any necessary adjustments to policies and procedures. Commercial loan relationships of less than $750,000 may be approved by experienced commercial loan officers, within their loan authority. Commercial and commercial real estate loans are approved by signature authority requiring at least two experienced officers for relationships greater than $750,000. The exceptions to this include City Executives and certain Senior Loan Officers who are authorized to approve relationships up to $1.0 million. An independent Risk Manager is involved in the approval of commercial and commercial real estate relationships that exceed $1.0 million. All relationships greater than $2.0 million receive a comprehensive annual review by either the senior credit analysts or lending officers of the Bank, which is then reviewed by the independent Risk Managers and/or the final approval officer with the appropriate signature authority. Relationships totaling $5.0 million or more are further reviewed by senior lending officers of the Bank, the Chief Risk Officer, and the Credit Risk Management Committee comprised of certain executive and senior management. In addition, relationships totaling $10.0 million or more are reviewed by the Board of Directors Credit and Compliance Committee. These oversight committees provide policy, process, product and specific relationship direction to the lending personnel. As of June 30, 2007, the Corporation had a legal lending limit of $68.4 million and a general target-lending limit of $10.0 million per relationship.

The Corporation s loan portfolio consists of loans made for a variety of commercial and consumer purposes. Because commercial loans are made based to a great extent on the Corporation s assessment of a borrower s income, cash flow, character and ability to repay, such loans are viewed as involving a higher degree of credit risk than is the case with residential mortgage loans or consumer loans. To manage this risk, the Corporation s commercial loan portfolio is managed under a defined process which includes underwriting standards and risk assessment, procedures for loan approvals, loan grading, ongoing identification and management of credit deterioration and portfolio reviews to assess loss exposure and to ascertain compliance with the Corporation s credit policies and procedures.

During 2006, the Corporation implemented a new consumer loan platform to improve servicing for customers by providing loan officers with additional tools and real-time access to credit bureau information at the time of loan application. This platform also delivers increased reporting capabilities and improved credit risk management by having the Corporation s policies embedded into the decision process while also managing approval authority limits for credit exposure and reporting.

In general, consumer loans (including mortgage and home equity) have a lower risk profile than commercial loans. Commercial loans (including commercial real estate, commercial non real estate and construction loans) are generally larger in size and more complex than consumer loans. Commercial real estate loans are deemed less risky than commercial non real estate and construction loans, because the collateral value of real estate generally maintains its value better than non real estate or construction collateral. Consumer loans, which are smaller in size and more geographically diverse across the Corporation s entire primary market area, provide risk diversity across the portfolio. Because mortgage

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loans are secured by first liens on the consumer s residential real estate, they are the Corporation s lowest risk profile loan type. Home equity loans are deemed less risky than unsecured consumer loans, as home equity loans and lines are secured by first or second deeds of trust on the borrower s residential real estate. A centralized decision-making process is in place to control the risk of the consumer, home equity, and mortgage loan portfolio. The consumer real estate appraisal process is also centralized relative to appraisal engagement, appraisal review, and appraiser quality assessment. These processes are detailed in the underwriting guidelines, which cover each retail loan product type from underwriting, servicing, compliance issues and closing procedures.

Periodically, the Corporation finances consumer lot loans in association with developer lot loan programs. As previously disclosed, during the second quarter, the Bank identified a large exposure to undeveloped lots in real estate development projects in Spruce Pine, NC. As a result of this finding, policies and procedures associated with participation in developer lot programs have been enhanced to mitigate potential concentration and construction risk. Enhancements include: 1) commercial underwriting of development projects prior to entering into lot programs to identify potential construction risks, 2) modification of the consumer loan application to include the collection of data for developer, subdivision, and development status of the financed lot in order to provide improved concentration reporting, 3) adjustments in policy to restrict consumer loan origination to borrowers located in the Corporation s primary markets, and 4) strengthened internal controls to enhance the Corporation s ability to identify fraud.

At June 30, 2007, the substantial majority of the total loan portfolio, including the commercial and real estate portfolio, represented loans to borrowers within the Metro regions of Charlotte and Raleigh, North Carolina and Atlanta, Georgia. The diverse economic base of these regions tends to provide a stable lending environment; however, an economic downturn in the Charlotte region, the Corporation s primary market area, could adversely affect its business.

Additionally, the Corporation s loan portfolio consists of certain non-traditional loan products. Some of these products include interest-only loans, loans with initial interest rates that are below the market interest rate for the initial period of the loan-term and may increase when that period ends and loans with a high loan-to-value ratio. Based on the Corporation s assessment, these products do not give rise to a concentration of credit risk.

Derivatives

The Corporation enters into interest rate swap agreements or other derivative transactions as business conditions warrant. As of June 30, 2007, and December 31, 2006, the Corporation had no interest rate swap agreements or other derivative transactions outstanding.

Nonperforming Assets

Nonperforming assets are comprised of nonaccrual loans and other real estate owned (OREO). The nonaccrual status is determined after a loan is 90 days past due or when deemed not collectible in full as to principal or interest, unless in management s opinion collection of both principal and interest is assured by way of collateralization, guarantees, or other security and the loan is in the process of collection. OREO represents real estate acquired through foreclosure or deed in lieu thereof and is generally carried at the lower of cost or fair value, less estimated costs to sell.

Management s policy for any accruing loan greater than 90 days past due is to perform an analysis of the loan, including a consideration of the financial position of the borrower and any guarantor, as well as the value of the collateral, and use this information to make an assessment as to whether collectibility of the principal and interest appears probable. If such collectibility is not probable, the loans are placed on nonaccrual status. Loans are returned to accrual status when management determines, based on an evaluation of the underlying collateral together with the borrower s payment record and financial condition, that the borrower has the ability and intent to meet the contractual obligations of the loan agreement. As of June 30, 2007, no loans were 90 days or more past due and still accruing interest.

A summary of nonperforming assets follow:

Table Seventeen

Nonperforming Assets

(In thousands)	**June 30 2007**	March 31 2007	December 31 2006	September 30 2006	June 30 2006
Nonaccrual loans	**$ 17,387**	$ 10,943	$ 8,200	$ 7,090	$ 7,763
Loans 90 days or more past due accruing interest					
Total nonperforming loans	**17,387**	10,943	8,200	7,090	7,763
Other real estate	**2,726**	6,330	6,477	5,601	5,902
Nonperforming assets	**$ 20,113**	$ 17,273	$ 14,677	$ 12,691	$ 13,665
Nonaccrual loans as a percentage of total portfolio loans	**0.49%**	0.31%	0.24%	0.23%	0.25%
Nonperforming assets as a percentage of:					
Total assets	**0.41**	0.35	0.30	0.29	0.31
Total portfolio loans and other real estate owned	**0.57**	0.49	0.42	0.41	0.44
Net charge-offs to average portfolio loans	**0.02**	0.06	0.08	0.13	0.11
Allowance for loan losses to portfolio loans	**1.26**	1.02	1.00	0.97	0.96
Allowance for loan losses to net charge-offs	**59.40x**	18.50x	13.56x	7.50x	8.51x
Allowance for loan losses to nonperforming loans	**2.58x**	3.28x	4.26x	4.22x	3.80x

Nonaccrual loans totaled $17.4 million, or 0.49 percent of total portfolio loans, at June 30, 2007, representing a $9.2 million increase from $8.2 million, or 0.24 percent of total portfolio loans at December 31, 2006, and a $9.6 million increase from $7.8 million, or 0.25 percent, of total portfolio loans at June 30, 2006. Nonperforming assets as a percentage of total loans and OREO increased to 0.57 percent at June 30, 2007, compared to 0.42 percent at December 31, 2006 and 0.44 percent at June 30, 2006.

During the second quarter of 2007, $5.4 million of Penland lot loans were placed on nonaccrual status. One commercial relationship was the principal contributor to the remaining increase in nonperforming loans between December 31, 2006, and June 30, 2007. As of December 31, 2006, management had identified a $2.8 million commercial acquisition and development loan as a potential problem loan. At that time, management anticipated the borrower would cure the delinquency to keep the loan from reaching 90 days past due. In January 2007, this loan became 90 days past due and was placed on nonaccrual status. During the first six months of 2007, payments of $0.3 million were received, and as of June 30, 2007, the outstanding balance on this loan was $2.5 million.

Nonaccrual loans at June 30, 2007 were concentrated 31 percent in the Penland lot loans and 33 percent in loans originated in the Atlanta market. There were no other significant geographic concentrations. Nonaccrual loans primarily consisted of loans secured by real estate, including single-family residential and development construction loans. Nonaccrual loans as a percentage of loans may increase or decrease as economic conditions change. Management takes current economic conditions into consideration when estimating the allowance for loan losses. See **Allowance for Loan Losses** for a more detailed discussion.

Allowance for Loan Losses

The Corporation s allowance for loan losses consists of three components: (i) valuation allowances computed on impaired loans in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan an Amendment to FASB Statements No. 5 and No. 15*; (ii) valuation allowances determined by applying historical loss rates to those loans not specifically identified as impaired; and (iii) valuation allowances for factors which management believes are not reflected in the historical loss rates or that otherwise need to be considered when estimating the allowance for loan losses. These three components are estimated quarterly and, along with a narrative analysis, comprise the Corporation s allowance for loan losses model. The resulting components are used by management to determine the adequacy of the allowance for loan losses. Beginning January 1, 2007, the Corporation began including consumer and residential mortgage loans with outstanding principal balances of $150,000 or greater in its computation of impaired loans calculated under SFAS 114. The application of this methodology conforms the consumer and residential mortgage loan analysis to the Corporation s SFAS 114 analysis for commercial loans.

All estimates of loan portfolio risk, including the adequacy of the allowance for loan losses, are subject to general and local economic conditions, among other factors, which are unpredictable and beyond the Corporation s control. Because a significant portion of the loan portfolio is comprised of real estate loans and loans to area businesses, the Corporation is subject to risk in the real estate market and changes in the economic conditions in its primary market areas. Changes in these areas can increase or decrease the provision for loan losses.

During the six months ended June 30, 2007, the Corporation made no changes to its estimated loss percentages for economic factors. As a part of its quarterly assessment of the allowance for loan losses, the Corporation reviews key local, regional and national economic information and assesses its impact on the allowance for loan losses. Based on its review for the six months ended June 30, 2007, the Corporation noted that economic conditions are mixed; however, management concluded that the impact on borrowers and local industries in the Corporation s primary market areas did not change significantly during the period. Accordingly, the Corporation did not modify its loss estimate percentage attributable to economic factors in its allowance for loan losses model.

The Corporation continuously reviews its portfolio for any concentrations of loans to any one borrower or industry. To analyze its concentrations, the Corporation prepares various reports showing total risk concentrations to borrowers by industry, as well as reports showing total risk concentrations to one borrower. At the present time, the Corporation does not believe it has concentrations of risk in any one industry or specific borrower and, therefore, has made no allocations of allowances for loan losses for this factor for any of the periods presented.

The Corporation also monitors the amount of operational risk that exists in the portfolio. This would include the front-end underwriting, documentation and closing processes associated with the lending decision. During the quarter ended June 30, 2007, the Corporation increased the additional allocation for operational reserve on its consumer lot loan portfolio. This increase was tied to weaknesses uncovered in identifying and reporting consumer lot loan exposure. As previously discussed, steps have been taken to mitigate the increased risk identified. This was the only change to the additional allocation for operational reserve during the six months ended June 30, 2007.

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Changes in the allowance for loan losses follow:

Table Eighteen

Allowance For Loan Losses

	Three Months Ended June 30		Six Months Ended June 30	
(In thousands)	**2007**	2006	**2007**	2006
Balance at beginning of period	**$ 35,854**	$ 29,505	**$ 34,966**	$ 28,725
Charge-offs				
Commercial non real estate	**113**	108	**359**	359
Commercial real estate	**127**	260	**140**	335
Mortgage	**35**	10	**68**	21
Home equity	**64**	447	**194**	948
Consumer	**208**	310	**572**	701
Total charge-offs	**547**	1,135	**1,333**	2,364
Recoveries				
Commercial non real estate	**229**	111	**317**	439
Mortgage	**27**		**52**	
Consumer	**103**	159	**298**	321
Total recoveries	**359**	270	**667**	760
Net charge-offs	**188**	865	**666**	1,604
Provision for loan losses	**9,124**	880	**10,490**	2,399
Balance at end of period	**$ 44,790**	$ 29,520	**$ 44,790**	$ 29,520
Average portfolio loans	**$3,532,713**	$3,021,004	**$3,521,637**	$2,980,344
Net charge-offs to average portfolio loans (annualized)	**0.02**	0.11%	**0.04**	0.11%
Allowance for loan losses to portfolio loans	**1.26**	0.96	**1.26**	0.96

The allowance for loan losses was $44.8 million, or 1.26 percent of portfolio loans, at June 30, 2007, compared to $29.5 million, or 0.96 percent of portfolio loans, at June 30, 2006. The increase includes the previously discussed $7.8 million provision recorded in connection with the Penland lot loans. Additionally, the Corporation s addition of GBC s largely commercial lot loan portfolio, a smaller concentration of lower risk home equity and mortgage loan balances, and First Charter s credit migration trends led to the higher allowance for loan loss ratio.

Management considers the allowance for loan losses adequate to cover inherent losses in the Corporation s loan portfolio as of the date of the financial statements. Management believes it has established the allowance in consideration of the current and expected future economic environment. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary based on changes in economic and other conditions. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation s allowances for loan losses. Such agencies may require the recognition of adjustments to the allowance based on their judgment of information available to them at the time of their examinations.

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Provision for Loan Losses

The provision for loan losses is the amount charged to earnings, which is necessary to maintain an adequate and appropriate allowance for loan losses. Accordingly, the factors, which influence changes in the allowance for loan losses, have a direct effect on the provision for loan losses. The allowance for loan losses changes from period to period as a result of a number of factors, the most significant of which for the Corporation include the following: (i) changes in the amounts of loans outstanding, which are used to estimate current probable loan losses; (ii) current charge-offs and recoveries of loans; (iii) changes in impaired loan valuation allowances; (iv) changes in credit grades within the portfolio, which arise from a deterioration or an improvement in the performance of the borrower; (v) changes in loss percentages; and (vi) changes in the mix of types of loans. In addition, the Corporation considers other, more subjective factors, which impact the credit quality of the portfolio as a whole and estimates allocations of allowance for loan losses for these factors, as well. These factors include loan concentrations, economic conditions and operational risks. Changes in these components of the allowance can arise from fluctuations in the underlying percentages used as related loss estimates for these factors, as well as variations in the portfolio balances to which they are applied. The net change in all of these components of the allowance for loan losses results in the provision for loan losses. For a more detailed discussion of the Corporation s process for estimating the allowance for loan losses, see **Allowance for Loan Losses.**

The provision for loan losses was $9.1 million for the 2007 second quarter, while net charge-offs were $0.2 million, or 0.02 percent of average portfolio loans. For the same year-ago period, the provision for loan losses was $0.9 million and net charge-offs were $0.9 million, or 0.11 percent of average portfolio loans. For the six months ended June 30, 2007, the provision for loan losses was $10.5 million, while net charge-offs were $0.7 million, or 0.04 percent of average portfolio loans. For the six months ended June 30, 2006, the provision for loan losses was $2.4 million, while net charge-offs were $1.6 million, or 0.11 percent of average portfolio loans.

The provision for loan losses for the three and six months ended June 30, 2007 increased primarily as a result of recording an addition provision of $7.8 million related to the previously discussed Penland lot loans. The remainder of the increase was primarily due to a change in the composition of the loan portfolio as the percentage of commercial loans continues to increase.

Market Risk Management

Asset-Liability Management and Interest Rate Risk

Interest rate risk is the exposure of earnings and capital to changes in interest rates. The objective of Asset-Liability Management (ALM) is to quantify and manage the change in interest rate risk associated with the Corporation s balance sheet. The management of the ALM program includes oversight from the Board of Director s Asset and Liability Committee (Board ALCO) and the Management Asset and Liability Committee (Management ALCO). Two primary metrics used in analyzing interest rate risk are earnings at risk (EAR) and economic value of equity (EVE). The Board of Directors has established limits on the EAR and EVE risk measures. Management ALCO, comprised of select members of executive and senior management, is charged with measuring performance relative to those limits and reporting the Bank s performance to Board ALCO. Interest rate risk is measured and monitored through simulation modeling. The process is validated regularly by an independent third party.

Both the EAR and the EVE risk measures were within policy guidelines as of June 30, 2007, and December 31, 2006. Management considers EAR to be the best measure of short-term interest rate risk. This measure reflects the amount of net interest income that will be impacted by a change in interest rates over a 12- month time frame. A simulation model is used to run immediate and parallel changes in interest rates (rate

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shocks) from a base scenario using implied forward rates. At a minimum, rate shock scenarios are run at plus and minus 100, 200, and 300 basis points. From time to time, additional simulations are run to assess risk from changes in the slope of the yield curve. The simulation model projects the net interest income over the next 12 months for each scenario using consistent balance sheet growth projections and calculates the percentage change from the base scenario. Board ALCO has approved a policy limit for the change in EAR over a 12-month period of minus 10 percent to a plus or minus 200 basis point shock to interest rates. At June 30, 2007, the estimated EAR to a 200 basis point increase in rates was plus 4.4 percent while the estimated EAR to a 200 basis point decrease in rates was minus 7.1 percent. This compares with plus 4.7 percent and minus 5.6 percent, respectively, at December 31, 2006. A change in the earning asset and funding mix contributed to the change in the EAR measures from December 31, 2006.

Management considers EVE to be the best measure of long-term interest rate risk. This measure reflects the amount of net equity that will be impacted by changes in interest rates. Through simulation modeling, the Corporation estimates the economic value of assets and the economic value of liabilities. The difference between these two measures is the EVE. The EVE is calculated for a series of scenarios in which current rates are shocked up and down by 100, 200, and 300 basis points and compared to a base scenario using the current yield curve. Board ALCO has approved a policy limit for the percentage change in EVE of minus 15 percent to a plus or minus 200 basis point shock to interest rates. At June 30, 2007, the estimated EVE to a 200 basis point increase in rates was minus 9.2 percent, while the estimated EVE to a 200 basis point decrease in rates was plus 3.6 percent. At December 31, 2006, EVE risk was minus 7.4 percent and plus 3.1 percent, respectively. Changes in market rates and prepayment expectations accounted for the majority of the change in the EVE measure from December 31, 2006.

The result of any simulation is inherently uncertain and will not precisely estimate the impact of changes in rates on net interest income or the economic value of assets and liabilities. Actual results may differ from simulated results due to, but not limited to, the timing and magnitude of the change in interest rates, changes in management strategies, and changes in market conditions.

Table Nineteen summarizes, as of June 30, 2007, the expected maturities and weighted average effective yields and rates associated with certain of the Corporation s significant non-trading financial instruments. Cash and cash equivalents, federal funds sold, and interest-bearing bank deposits are excluded from **Table Nineteen** as their respective carrying values approximate fair value. These financial instruments generally expose the Corporation to insignificant market risk as they have either no stated maturities or an average maturity of less than 30 days and interest rates that approximate market rates. However, these financial instruments could expose the Corporation to interest rate risk by requiring more or less reliance on alternative funding sources, such as long-term debt. The mortgage-backed securities are shown at their weighted-average expected life, obtained from an independent evaluation of the average remaining life of each security based on expected prepayment speeds of the underlying mortgages at June 30, 2007. These expected maturities, weighted-average effective yields, and fair values would change if interest rates change. Expected maturities for indeterminate demand, money market and savings deposits are estimated based on historical average lives.

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Table Nineteen
Market Risk

(Dollars in thousands)	Total	1 Year	2 Years	Expected Maturity 3 Years	4 Years	5 Years	Thereafter
Assets							
Debt securities							
Fixed rate							
Cost	$ 735,571	$ 342,550	$217,796	$102,183	$ 41,777	$ 8,730	$ 22,535
Weighted-average effective yield	4.81%						
Fair value	$ 725,881						
Variable rate							
Cost	$ 177,313	26,562	26,393	26,586	9,626	5,038	83,108
Weighted-average effective yield	4.39%						
Fair value	$ 172,647						
Loans and loans held for sale							
Fixed rate							
Book value	$ 990,947	232,169	213,689	171,377	120,030	121,088	132,594
Weighted-average effective yield	7.15%						
Fair value	$ 976,903						
Variable rate							
Book value	$2,529,571	1,287,254	333,563	194,519	98,979	72,320	542,936
Weighted-average effective yield	7.83%						
Fair value	$2,527,403						
Liabilities							
Deposits							
Fixed rate							
Book value	$1,620,433	1,443,986	152,169	11,061	6,742	5,353	1,122
Weighted-average effective yield	4.79%						
Fair value	$1,624,318						
Variable rate Book value	$1,129,834	354,624	250,258	249,746	122,553	71,700	80,953
Weighted-average effective yield	2.23%						
Fair value	$1,049,275						
Long-term borrowings							
Fixed rate							
Book value	$ 345,905	200,056	70,058	25,062	50,054	22	653
	4.65%						

Weighted-average effective yield						
Fair value	$ 339,224					
Variable rate						
Book value	$ 271,857	185,000	25,000			61,857
Weighted-average effective yield	5.32%					
Fair value	$ 271,486					

Off-Balance-Sheet Risk

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the Corporation. Included in loan commitments are commitments of $38.6 million to cover customer deposit account overdrafts should they occur. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Standby letters of credit are recorded as a liability by the Corporation at the fair value of the obligation undertaken in issuing the guarantee. Commitments to extend credit are not recorded as an asset or liability by the Corporation until the instrument is exercised. Refer to **Note 12** of the consolidated financial statements for further discussion of these commitments. The Corporation does not have any off-balance sheet financing arrangements, other than the trust preferred securities.

The following table presents, as of June 30, 2007, aggregated information and expected maturities of commitments.
Table Twenty
Commitments

(In thousands)	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years	Timing not determinable	Total
Loan commitments	$703,813	$118,172	$42,662	$ 59,637	$	$ 924,284
Lines of credit	31,390	1,639	2,921	455,613		491,563
Standby letters of credit	22,920	3,548				26,468
Anticipated tax settlements	584				10,551	11,135
Total commitments	$758,707	$123,359	$45,583	$515,250	$ 10,551	$1,453,450

Commitments to extend credit, including loan commitments, standby letters of credit, anticipated tax settlements and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Liquidity Risk

Liquidity is the ability to maintain cash flows adequate to fund operations and meet obligations and other commitments on a timely and cost-effective basis. Liquidity is provided by the ability to attract retail deposits, by current earnings, and by a strong capital base that enables the Corporation to use alternative funding sources that complement normal sources. Management s asset-liability policy includes optimizing net interest income while continuing to provide adequate liquidity to meet continuing loan demand and deposit withdrawal requirements and to service normal operating expenses.

Liquidity is managed at two levels. The first is the liquidity of the Corporation. The second is the liquidity of the Bank. The management of liquidity at both levels is essential, because the Corporation and the Bank have different funding needs and sources, and each are subject to certain regulatory guidelines and requirements.

The primary source of funding for the Corporation includes dividends received from the Bank and proceeds from the issuance of common stock. In addition, the Corporation had commercial paper outstanding of $77.8 million at June 30, 2007. Primary uses of funds for the Corporation include repayment of commercial paper, share repurchases, operating expenses, and dividends paid to shareholders. During 2005, the Corporation issued trust preferred securities through specially formed trusts in an aggregate amount of $60.0 million. The proceeds from the sale of the trust preferred securities were used to purchase $61.9 million of subordinated debentures from the Corporation (the Notes). The Notes are presented as long-term borrowings in the consolidated balance sheet and are includable in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

Primary sources of funding for the Bank include customer deposits, wholesale deposits, other borrowings, loan repayments, and available-for-sale securities. The Bank has access to federal funds lines from various banks and borrowings from the Federal Reserve discount window. In addition to these sources, the Bank is a member of the FHLB, which provides access to FHLB lending sources. At June 30, 2007, the Bank had a maximum line of credit with the FHLB totaling $1.5 billion with $820.9 million outstanding. At June 30, 2007, the Bank also had $363.0 million of federal funds lines with $88.0 million outstanding. Primary uses of funds include repayment of maturing obligations and growing the loan portfolio.

Management believes the Corporation s and the Bank s sources of liquidity are adequate to meet loan demand, operating needs, and deposit withdrawal requirements.

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Capital Management

The Corporation views capital as its most valuable and most expensive funding source. The objective of effective capital management is to generate above-market returns on equity to the Corporation s shareholders while maintaining adequate regulatory capital ratios. Some of the Corporation s primary uses of capital include funding growth, asset acquisition, dividend payments, and common stock repurchases.
Select capital measures follow:

Table Twenty-one
Capital Measures

(Dollars in thousands)	**June 30 2007 Amount**	**Ratio**	December 31 2006 Amount	Ratio
Total equity/total assets				
First Charter Corporation	**$445,828**	**9.07%**	$447,362	9.21%
First Charter Bank	**481,001**	**9.82**	371,459	8.45
Tangible equity/tangible assets (1)				
First Charter Corporation	**$361,721**	**7.48%**	$362,294	7.59%
First Charter Bank	**396,894**	**8.24**	351,246	8.03

(1) *The tangible equity ratio excludes goodwill and other intangible assets from both the numerator and the denominator.*

Shareholders equity at June 30, 2007, decreased to $445.8 million, representing 9.1 percent of period-end total assets, compared to $447.4 million, or 9.2 percent, of period-end total assets at December 31, 2006. This decrease was primarily due to cash dividends of $0.39 per common share, which resulted in cash dividend declarations of $13.6 million for the six months ended June 30, 2007 and the repurchase of 500,000 shares of stock during the second quarter which decreased equity $10.6 million. In addition, accumulated other comprehensive loss (after-tax unrealized losses on available-for-sale securities) increased $2.8 million to $8.7 million at June 30, 2007, compared to $5.9 million at December 31, 2006. The decrease in shareholders equity was partially offset by net income of $21.3 million and $4.9 million of stock issued under stock-based compensation plans and the Corporation s dividend reinvestment plan.

On January 23, 2002, the Corporation s Board of Directors authorized the repurchase of up to 1.5 million shares of the Corporation s common stock. As of June 30, 2007, the Corporation had repurchased all of shares of its common stock under this authorization, including 125,400 shares repurchased during the second quarter of 2007, at an average per-share price of $17.82, which has reduced shareholders equity by $27.1 million.

On October 24, 2003, the Corporation s Board of Directors authorized the repurchase of up to 1.5 million additional shares of the Corporation s common stock. During the quarter ending June 30, 2007, the Corporation repurchased 374,600 shares under this authorization at an average per-share price of $21.19, which has reduced shareholders equity by $8.0 million.

The Corporation has remaining authority to repurchase 1.1 million shares of its common stock.

During 2005, the Corporation issued trust preferred securities through specially formed trusts in an aggregate amount of $60.0 million. The proceeds from the sale of the trust preferred securities were used to purchase $61.9 million of subordinated debentures from the Corporation (the Notes). The Notes are presented as long-term borrowings in the consolidated balance sheet and are includable in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

The Corporation s and the Bank s various regulators have issued regulatory capital guidelines for U.S. banking organizations. Failure to meet the capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a material effect on the Corporation s financial position and results of operations. At June 30, 2007, the Corporation and the Bank were classified as well capitalized under these regulatory frameworks.

The Corporation s and the Bank s actual capital amounts and ratios at June 30, 2007 follow:

Table Twenty-two

Capital Ratios

			For Capital Adequacy Purposes		To Be Well Capitalized	
(Dollars in thousands)	Actual Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
Leverage						
First Charter Corporation	**$430,373**	**8.97%**	**$192,023**	**4.00%**	**None**	**None**
First Charter Bank	**411,177**	**8.57**	**191,914**	**4.00**	**$239,893**	**5.00%**
Tier I Capital						
First Charter Corporation	**$430,373**	**10.57%**	**$162,932**	**4.00%**	**None**	**None**
First Charter Bank	**411,177**	**10.10**	**162,782**	**4.00**	**$244,174**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$475,358**	**11.67%**	**$325,863**	**8.00%**	**None**	**None**
First Charter Bank	**455,967**	**11.20**	**325,565**	**8.00**	**$406,956**	**10.00%**

In the third quarter 2007, the Corporation anticipates opening a new branch in Cabarrus County, North Carolina. The opening of this branch will result in additional depreciation and related expenses. Opening this new branch is part of the Corporation s growth strategy for generating new deposit growth and the related revenues associated with the accounts and other products.

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.

Recent Accounting Pronouncements and Developments

Note 2 to the consolidated financial statements discusses new accounting pronouncements adopted by the Corporation during 2007 and other recently issued pronouncements that have not yet been adopted by the Corporation. To the extent the adoption of new accounting pronouncements materially affects financial condition, results of operations, or liquidity, the effects are discussed in the applicable section of **Management s Discussion and Analysis of Financial Condition and Results of Operations** and **Notes to Consolidated Financial Statements.**

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Corporation and monitors the status of changes to and proposed effective dates of exposure drafts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See **Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk Management Asset-Liability Management and Interest Rate Risk** on pages 52-54 for Quantitative and Qualitative Disclosures about Market Risk.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2007, the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation of the effectiveness of the Registrant s disclosure controls and procedures (as defined in Rule 13(a)-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was performed under the supervision and with the participation of the Registrant s management, including the Chief Executive Officer and Principal Financial Officer. Based on that evaluation and the identification of the material weaknesses in the Registrant s internal control over financial reporting as described in the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006 (the Material Weaknesses), the Registrant s Chief Executive Officer and Principal Financial Officer have concluded that the Registrant s disclosure controls and procedures were not effective to ensure that information required to be disclosed by the Registrant in its reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission s rules and forms, and (ii) accumulated and communicated to the Registrant s management, including the Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As disclosed in **Item 9A. Controls and Procedures** of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006, management has begun to implement a comprehensive plan for remedying the Material Weaknesses (the Remediation Plan). In furtherance of the Remediation Plan, the following changes in the Registrant s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act), have occurred during or following the quarter ended June 30, 2007.

The Registrant has enhanced its internal governance and compliance function. Periodic and regular meetings are being held with the internal governance and compliance functions to discuss and coordinate operational, compliance and financial matters as well as the progress of the Remediation Plan.

The Registrant has reassessed, reviewed, and approved the charters that govern the internal governance and compliance functions which include, but are not limited to, the Disclosure Committee, Compliance Risk Committee, Asset and Liability Committee, Technology Steering Committee, Sarbanes Oxley Review Committee. Where deemed necessary, various amendments to these documents have also been adopted. The Registrant s Management has communicated the charters to the respective internal governance and compliance functions.

These functions also have reassessed their reporting practices and have enhanced their evaluation processes.

Except as discussed above, there have been no changes in the Registrant s internal control over financial reporting that occurred during the quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Registrant s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation and the Bank are defendants in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated results of operations, liquidity, or financial condition of the Corporation or the Bank.

Item 1A. Risk Factors

As previously disclosed, on April 5, 2007, the Corporation filed its Annual Report on Form 10-K for the year ended December 31, 2006. As a result of this filing, on April 9, 2007, NASDAQ notified the Corporation that it had regained compliance with NASDAQ Rule 4310 (c) (14). Consequently, the Corporation s common stock is no longer subject to delisting by NASDAQ.

With the exception of the change noted above, there have been no material changes from those risk factors previously disclosed in **Item 1A Risk Factors** of Part I of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sale of Unregistered Equity Securities

As previously disclosed, on December 1, 2004, the Corporation, through First Charter Bank, its primary banking subsidiary, acquired substantially all of the assets of Smith & Associates Insurance Services Inc., a property and casualty insurance agency (the Agency), pursuant to an Asset Purchase Agreement, dated as of the same date (the Purchase Agreement). No underwriters were used in connection with this transaction. In connection with this transaction, the Corporation has previously issued an aggregate of 42,198 shares of Common Stock valued at $1,112,000 to the Agency. On May 1, 2007, pursuant to the Purchase Agreement and based upon the performance of the business for the period December 1, 2005 through November 30, 2006 the Corporation issued 10,632 additional shares of Common Stock valued at $256,000. The issuance of the shares in connection with this transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, in accordance with Section 4(2) thereof, as a transaction by an issuer not involving a public offering. The Purchase Agreement also contemplates one additional, subsequent issuance of Common Stock based upon the future performance of the acquired business. The Corporation presently expects the value of this future issuance, if earned, to total approximately $200,000.

(c) Issuer Repurchases of Equity Securities

The following table summarizes the Corporation s repurchases of its common stock during the quarter ended June 30, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly-Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased under the Plans or Programs
April 1, 2007 - April 30, 2007				1,625,400
May 1, 2007 - May 31, 2007	243,500	21.07	243,500	1,381,900
June 1, 2007 - June 30, 2007	256,500	21.25	256,500	1,125,400
Total	500,000	21.20	500,000	**1,125,400**

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On January 23, 2002, the Corporation s Board of Directors authorized a stock repurchase plan to acquire up to 1.5 million shares of the Corporation s common stock from time to time. As of June 30, 2007, the Corporation had repurchased all shares under this authorization.

On October 24, 2003, the Corporation s Board of Directors authorized a stock repurchase plan to acquire up to an additional 1.5 million shares of the Corporation s common stock from time to time. As of June 30, 2007, the Corporation had repurchased 374,600 shares under this authorization.

There were 500,000 shares of the Corporation s common stock repurchased during the three months ended June 30, 2007. The maximum number of shares that may yet be repurchased under the plans or programs was 1,125,400 at June 30, 2007. The October 24, 2003 stock repurchase authorization has no set expiration or termination date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

(a) First Charter Corporation s Annual Meeting of Shareholders was held on May 23, 2007.

(c) The following are the voting results on each matter (exclusive of procedural matters) submitted to the shareholders:

1. To elect five directors to the Corporation s Board of Directors with terms expiring in 2010 and one director with a term expiring in 2008.

	For	Withheld
Terms expiring in 2010		
Jewell D. Hoover	26,205,922	912,047
Walter H. Jones, Jr	22,155,428	4,962,541
Samuel C. King, Jr.	25,955,112	1,162,857
Jerry E. McGee	25,988,347	1,129,622
John S. Poelker	26,148,813	969,156
Term expiring in 2008		
Richard F. Combs	26,337,344	780,625

2. To ratify the action of the Corporation s Audit Committee in appointing KPMG LLP, an independent registered public accounting firm, as their auditor for 2007.

For	26,269,777
Against	720,111
Abstain	128,081
Broker Non-Votes	

Item 5. Other Information

Not Applicable.

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Item 6. Exhibits

Exhibit No.	Description of Exhibits
10.1	Transition Agreement, dated May 16, 2007, by and between the Registrant and Charles A. Caswell, incorporated herein by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, dated May 16, 2007
10.2	Description of retention bonus compensation arrangement between the Registrant and Sheila A. Stoke, incorporated herein by reference to the Registrant s Current Report on Form 8-K, dated May 16, 2007
12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

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: August 8, 2007

By: /s/ Sheila A. Stoke
Sheila A. Stoke
Senior Vice President, Corporate Controller (Principal Financial Officer duly authorized to sign on behalf of the Registrant)