FIRST CHARTER CORP /NC/
Form 10-K
February 29, 2008

Table of Contents

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from – – to – –

Commission File Number 0-15829

FIRST CHARTER CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

North Carolina	**56-1355866**
(State or Other Jurisdiction of 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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:
Title of Each Class

Common stock, no par value

Series X Junior Participating Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 30, 2007, determined using a per share closing sale price on that date of $19.47, as quoted on the NASDAQ Global Select Market, was $627,711,000.

As of February 15, 2008, the registrant had outstanding 35,004,515 shares of common stock, no par value.

Documents Incorporated by Reference

PART III: The registrant has incorporated by reference into Part III of this Annual Report on Form 10-K portions of its definitive proxy statement or an amendment on Form 10-K/A to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Annual Report. (With the exception of those portions which are specifically incorporated by reference in this Annual Report on Form 10-K, the Proxy Statement is not deemed to be filed or incorporated by reference as part of this Annual Report.)

First Charter Corporation
FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 2007

All reports filed electronically by First Charter Corporation with the United States Securities and Exchange Commission (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 Corporation s Web site at www.firstcharter.com. These filings are also accessible on the SEC s Web site at www.sec.gov.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	19
Item 3.	Legal Proceedings	19
Item 4.	Submission of Matters to a Vote of Security Holders	19
Item 4A.	Executive Officers of the Registrant	20
	PART II	
Item 5.	Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	23
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	61
Item 8.	Financial Statements and Supplementary Data	62
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	111
Item 9A.	Controls and Procedures	111
Item 9B.	Other Information	113
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	114
Item 11.	Executive Compensation	114
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	114
Item 13.	Certain Relationships and Related Transactions, and Director Independence	114
Item 14.	Principal Accountant Fees and Services	114
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	115

Exhibit 12.1

Exhibit 21.1
Exhibit 23.1
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

Part I

Item 1. *Business*

General

First Charter Corporation (hereinafter referred to as the Registrant, First Charter, or the Corporation) is a bank holding company established as a North Carolina corporation in 1983 and is registered under the Bank Holding Company Act of 1956, as amended (BHCA). Its principal asset is the stock of its banking subsidiary, First Charter Bank (Bank). The principal executive offices of the Corporation and the Bank are located at 10200 David Taylor Drive, Charlotte, North Carolina 28262. The telephone number is (704) 688-4300.

First Charter Bank, a North Carolina state bank, is the successor entity to The Concord National Bank, which was established in 1888. On November 1, 2006, the Corporation completed its acquisition of GBC Bancorp, Inc. (GBC), parent of Gwinnett Banking Company (Gwinnett Bank), its banking subsidiary, headquartered in Lawrenceville, Georgia (GBC Merger). Gwinnett Bank operated two financial centers located in Lawrenceville, Georgia and Alpharetta, Georgia. On March 1, 2007, Gwinnett Bank was merged into the Bank.

On August 15, 2007, First Charter and Fifth Third Bancorp (Fifth Third) entered into an Agreement and Plan of Merger, as amended by the Amended and Restated Agreement and Plan of Merger, dated September 14, 2007, (Merger Agreement) by and among First Charter, Fifth Third, and Fifth Third Financial Corporation (Fifth Third Financial). Under the terms of the Merger Agreement, First Charter will be merged with and into Fifth Third Financial. The Merger Agreement has been approved by the Board of Directors of First Charter, Fifth Third and Fifth Third Financial. On January 18, 2008, First Charter shareholders approved the Merger Agreement. The Merger Agreement is subject to customary closing conditions, including regulatory approval. First Charter is planning for closing in the second quarter of 2008, although no assurance can be given in this regard.

As of December 31, 2007, First Charter operated 60 financial centers, four insurance offices, and 137 automated teller machines (ATMs) throughout North Carolina and Georgia and also operated loan origination offices in Asheville, North Carolina and Reston, Virginia.

The Corporation s primary market area is located within North Carolina and is centered primarily around the Charlotte Metro region, including Mecklenburg County and its surrounding counties. Charlotte is the twentieth largest city in the United States and has a diverse economic base. Primary business sectors in the Charlotte Metro region include banking and finance, insurance, manufacturing, health care, transportation, retail, telecommunications, government services, and education. Beginning in October 2005, the Corporation expanded into the Raleigh, North Carolina market, and currently operates five financial centers. Raleigh has an economic base similar to that found in Charlotte. Since the North Carolina economy has historically relied on the manufacturing and transportation sectors, it has been significantly impacted by global competition and rising energy prices. As a result, the North Carolina economy is transitioning to a more service-oriented economy. Recently, the education, healthcare, financial and business services industries have shown the most growth.

As a result of the GBC Merger, the Corporation entered the Atlanta, Georgia market in the fourth quarter of 2006. The two financial centers in the Atlanta area are located in Gwinnett and Fulton counties. These two counties have a diverse economic base and primary business sectors include education, government, health and social services, retail trade, manufacturing, financial and other professional services.

Through its financial centers, the Bank provides a wide range of banking products, including interest-bearing and noninterest-bearing checking accounts, money market accounts, certificates of deposit, individual retirement accounts, full service and discount brokerage services including annuity sales, overdraft protection, financial planning services, personal and corporate trust services, safe deposit boxes, and online banking. It also provides commercial, consumer, real estate, residential mortgage, and home equity loans.

Table of Contents

In addition, the Bank also operates two subsidiaries: First Charter Insurance Services, Inc. (First Charter Insurance) and First Charter Leasing and Investments, Inc. (First Charter Leasing). First Charter Insurance is a North Carolina corporation formed to meet the insurance needs of businesses and individuals. First Charter Leasing is a North Carolina corporation which manages investment securities and acts as the holding company for First Charter of Virginia Realty Investments, Inc., a Virginia corporation (First Charter Virginia). First Charter Virginia is engaged in the mortgage origination business and also acts as the holding company for First Charter Realty Investments, Inc., a Delaware real estate investment trust (First Charter Realty). First Charter Realty is the holding company for FCB Real Estate, Inc., a North Carolina real estate investment trust, and First Charter Real Estate Holdings, LLC, a North Carolina limited liability company, which owns and maintains the real estate property and assets of the Corporation. FCB Real Estate, Inc. primarily invests in commercial and 1-4 family residential real estate loans. First Charter Bank also has a majority ownership in Lincoln Center at Mallard Creek, LLC (LCMC), a North Carolina limited liability company, which is currently being dissolved. LCMC sold Lincoln Center, a three-story office building, and its principal asset, during 2006. First Charter Insurance and one of the Bank s financial centers continue to lease a portion of Lincoln Center.

At December 31, 2007, the Corporation and its subsidiaries had 1,073 full-time equivalent employees. Substantially all of the Corporation s employees are also employees of the Bank. The Corporation considers its relations with its employees to be satisfactory.

Due to the diverse economic base of the markets in which it operates, the Corporation believes it is not dependent on any one or a few customers or types of commerce whose loss would have a material adverse effect on the Corporation.

The Corporation operates one reportable segment, the Bank. See **Note 25** of the consolidated financial statements.

Competition

The Corporation s primary market area is located within North Carolina and Atlanta, Georgia. Banking activities in these areas are highly competitive, and the Corporation has active competition in all areas in which it presently engages in business. Within these areas are numerous branches of national, regional, and local institutions. In its market area, the Corporation faces competition from other banks, including four of the largest banks in the country, savings and loan associations, savings banks, credit unions, finance companies, brokerage firms, insurance companies and major retail stores that offer competing financial services. Many of these competitors have greater resources, broader geographic coverage and higher lending limits than the Bank. The Bank s primary method of competition is to provide its clients with a broad array of financial products and solutions, delivered with exceptional service and convenience at a fair price.

Government Supervision and Regulation

General. As a registered bank holding company, the Corporation is subject to the supervision of, and regular inspection by, the Board of Governors of the Federal Reserve System (Federal Reserve). The Bank is a North Carolina chartered-banking corporation and a Federal Reserve member bank, with deposits insured by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to extensive regulation and examination by the Federal Reserve, the Office of the Commissioner of Banks of the State of North Carolina (NC Commissioner) under the direction and supervision of the North Carolina Banking Commission (NC Banking Commission) and the FDIC, which insures deposits to the maximum extent permitted by law.

The federal and state laws and regulations applicable to the Bank deal with required reserves against deposits, allowable investments, loans, mergers, consolidations, issuance of securities, payment of dividends, establishment of branches, limitations on credit to subsidiaries and other aspects of the business of such subsidiaries. The federal and

state banking agencies have broad authority and discretion in connection with their supervisory and enforcement activities and examination policies, including policies involving the classification of assets and the establishment of loan loss reserves for regulatory purposes.

Table of Contents

Such actions by the regulators prohibit member banks from engaging in unsafe or unsound banking practices. The Bank is also subject to certain reserve requirements established by the Federal Reserve Board. The Bank is a member of the Federal Home Loan Bank (FHLB) of Atlanta, which is one of the 12 regional banks comprising the FHLB System.

In addition to state and federal banking laws, regulations and regulatory agencies, the Corporation and the Bank are subject to various other laws, regulation, and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the Corporation s operations, management and ability to make distributions. The following discussion summarizes certain aspects of those laws and regulations that affect the Corporation.

Gramm-Leach-Bliley Financial Modernization Act of 1999. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act) eliminated certain legal barriers separating the conduct of various types of financial service businesses, such as commercial banking, investment banking and insurance, in addition to substantially revamping the regulatory scheme within which the Corporation operates. Under the GLB Act, bank holding companies meeting management, capital and Community Reinvestment Act standards, and that have elected to become a financial holding company, may engage in a substantially broader range of traditionally nonbanking activities than was permissible before enactment, including insurance underwriting and making merchant banking investments in commercial and financial companies. The Corporation has not elected to become a financial holding company. The GLB Act also allows insurers and other financial services companies to acquire banks, removes various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies, and establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

Restrictions on Bank Holding Companies. The Federal Reserve is authorized to adopt regulations affecting various aspects of bank holding companies. Under the BHCA, the Corporation s activities and those of companies that it controls or holds more than five percent of the voting stock, are limited to certain activities including banking, managing or controlling banks, furnishing or performing services for subsidiaries, or any other activity which the Federal Reserve determines to be so closely related to banking, managing or controlling banks that it is also considered a covered activity. In making those determinations, the Federal Reserve is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can be expected to reasonably produce benefits to the public such as greater convenience, increased competition or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The BHCA, as amended by the GLB Act, generally limits the activities of a bank holding company (unless the bank holding company has elected to become a financial holding company) to activities that are closely related to banking and a proper incident thereto.

Generally, bank holding companies are required to obtain prior approval of the Federal Reserve to engage in any new activity not previously approved by the Federal Reserve or when acquiring more than five percent of any class of voting stock of any company. The BHCA also requires bank holding companies to obtain the prior approval of the Federal Reserve before acquiring more than five percent of any class of voting stock of any bank which is not already majority-owned by the bank holding company.

The Corporation is also subject to the North Carolina Bank Holding Company Act of 1984. This state legislation requires the Corporation, by virtue of its ownership of the Bank, to register as a bank holding company with the NC Commissioner. In addition, as a result of its acquisition of GBC, the Corporation is required to register as a bank holding company with the Georgia Department of Banking and Finance.

Interstate Banking and Branching Legislation. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Banking and Branching Act), a bank holding company may acquire banks in states

other than its home state, without regard to the permissibility of those acquisitions under state law, but subject to any state requirement where the bank has been organized and operating for a minimum period of time, not to exceed five years, and other conditions, including deposit concentration limits.

Table of Contents

The Interstate Banking and Branching Act also authorized banks to merge across state lines, thereby creating interstate branches. Under this legislation, each state had the opportunity either to opt out of this provision, thereby prohibiting interstate branching in such states, or to opt in. The State of North Carolina elected to opt in to such legislation. Furthermore, pursuant to the Interstate Banking and Branching Act, a bank is now able to open new branches in a state in which it does not already have banking operations, if the laws of such state permit such *de novo* branching.

Consumer Protection. In connection with its lending and leasing activities, the Bank and its subsidiaries are subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, as well as state law counterparts.

Title V of the GLB Act, along with other provisions of federal law, currently contains extensive consumer privacy protection provisions. Under these provisions, a financial institution must provide its customers, at the inception of the customer relationship and annually thereafter, the financial institution s policies and procedures for collecting, disclosing, and protecting nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide nonpublic personal information to nonaffiliated third parties, unless the financial institution discloses to the customer that the information may be provided and the customer is given the opportunity to opt out of that disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

The Community Reinvestment Act of 1977 requires the Bank s primary federal regulatory agency, in this case the Federal Reserve, to assess its ability to meet the credit needs of low- and moderate-income persons. Financial institutions are assigned one of four ratings: Outstanding, Satisfactory, Needs to Improve, or Substantial Noncompliance. As of the Bank s latest examination, it had a Satisfactory rating.

The USA PATRIOT Act. After the September 11, 2001 terrorist attacks in New York and Washington, D.C., the United States government attempted to tighten control on activities perceived to be connected to money laundering and terrorist funding. A series of orders were issued which attempt to identify terrorists and terrorist organizations and require the blocking of property and assets of, as well as prohibiting all transactions or dealings with, such terrorists, terrorist organizations and those that assist or sponsor them. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) substantially broadened existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposed new compliance and due diligence obligations, created new crimes and penalties, compelled the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States, and clarified the safe harbor from civil liability to customers. Originally passed into law in October 2001, the USA PATRIOT Act was renewed in March 2006. In addition, the United States Treasury Department issued regulations in cooperation with the federal banking agencies, the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Department of Justice that require customer identification and verification, expand the money-laundering program requirement to the major financial services sectors including insurance and unregistered investment companies such as hedge funds, and facilitate and permit the sharing of information between law enforcement and financial institutions and among financial institutions. The United States Treasury Department also has created the Treasury USA PATRIOT Act Task Force to work with other financial regulators, the regulated community, law enforcement and consumers to continually improve regulation.

Sarbanes-Oxley Act of 2002. On July 30, 2002, the Sarbanes-Oxley Act was enacted which addressed corporate governance and securities reporting requirements for companies with securities registered under the Securities

Exchange Act of 1934, as amended (Exchange Act). Among its requirements are changes in auditing and accounting and the inclusion of certifications of certain securities filings by principal executive officers and principal financial officers. It also expanded reporting of information in

current reports filed with the Securities and Exchange Commission and requires more detailed reporting information in securities disclosure documents in a more timely manner. The NASDAQ Global Select Market has also modified its corporate governance rules with an intent to allow shareholders to more easily and efficiently monitor the performance and activities of companies and their executive officers and directors.

Capital and Operational Requirements

The Corporation and the Bank must comply with the minimum capital adequacy standards set by the Federal Reserve and the FDIC which are substantially similar. The risk-based guidelines define a three-tier capital framework, under which the Corporation and the Bank are required to maintain a minimum ratio of Tier 1 Capital (as defined) to total risk-weighted assets of 4.00 percent and a minimum ratio of Total Capital (as defined) to risk-weighted assets of 8.00 percent. Tier 1 Capital includes common shareholders equity, qualifying trust preferred securities, qualifying minority interests, and qualifying perpetual preferred stock, less goodwill and other adjustments. Tier 2 Capital includes, among other items, perpetual or long-term preferred stock, certain intermediate-term preferred stock, hybrid capital instruments, perpetual debt and mandatorily convertible debt securities, qualifying subordinated debt, and the allowance for credit losses up to 1.25 percent of risk-weighted assets. Tier 3 Capital includes subordinated debt that is unsecured, fully paid up, has an original maturity of at least two years, is not redeemable before maturity without prior approval of the Federal Reserve and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank s risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 Capital less investments in unconsolidated subsidiaries is equal to qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 Capital and Total Risk-Based Capital by risk-weighted assets. Risk-weighted assets refer to the on- and off-balance sheet exposures of the Corporation and the Bank, as adjusted for one of four categories of applicable risk-weights established in Federal Reserve regulations, based primarily on relative credit risk. At December 31, 2007, the Corporation and the Bank were in compliance with the risk-based capital requirements. The Corporation s Tier 1 Capital and Total Risk-Based Capital Ratios at December 31, 2007, were 11.17 percent and 12.24 percent, respectively. The Corporation did not have any subordinated debt that qualified as Tier 3 Capital at December 31, 2007. The leverage ratio is calculated by dividing Tier 1 Capital by adjusted total assets. The Corporation s leverage ratio at December 31, 2007, was 9.43 percent. The Corporation meets its leverage ratio requirement.

In addition to the above described capital requirements, the federal regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels due to the organization s financial condition or actual or anticipated growth.

Prompt Corrective Action under FDICIA. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. In addition, pursuant to FDICIA, the various regulatory agencies have prescribed certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and such agencies may take action against a financial institution that does not meet the applicable standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the Total Risk-Based Capital, Tier 1 Risk-Based Capital and Leverage Capital Ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an

institution is considered undercapitalized. Under the regulations, a well capitalized institution must have (i) a Tier 1 Capital ratio of at least 6.00 percent, (ii) a Total Capital

ratio of at least 10.00 percent, (iii) a Leverage ratio of at least 5.00 percent and (iv) not be subject to a capital directive order. An adequately capitalized institution must have a Tier 1 Capital ratio of at least 4.00 percent, a Total Capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent, or 3.00 percent in some cases. Under these guidelines, the Bank was considered well capitalized as of December 31, 2007. See **Note 23** of the consolidated financial statements.

Banking agencies have also adopted regulations which mandate that regulators take into consideration (i) concentrations of credit risk, (ii) interest rate risk and (iii) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation is made as a part of the institution s regular safety and soundness examination. In addition, the banking agencies have amended their regulatory capital guidelines to incorporate a measure for market risk. In accordance with amended guidelines, a corporation or bank with significant trading activity (as defined in the amendment) must incorporate a measure for market risk in its regulatory capital calculations. The revised guidelines do not materially impact the Corporation s or the Bank s regulatory capital ratios or the Bank s well-capitalized status.

Distributions. The Corporation is a legal entity separate and distinct from its subsidiaries. The primary source of funds for distributions paid by the Corporation to its shareholders is dividends received from the Bank, and the Bank is subject to laws and regulations that limit the amount of dividends it can pay. The Federal Reserve regulates the amount of dividends the Bank can pay to the Corporation based on net profits for the current year combined with the undivided profits for the last two years, less dividends already paid. See **Note 23** of the consolidated financial statements. North Carolina laws provide that, subject to certain capital requirements, a board of directors of a North Carolina bank may declare a dividend of as much of the bank s undivided profits as it deems expedient.

In addition to the foregoing, the ability of the Corporation and the Bank to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA, as described above. Furthermore, if in the opinion of a federal regulatory agency, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), such agency may require, after notice and hearing, that such bank cease and desist from such practice. The right of the Corporation, its shareholders, and its creditors to participate in any distribution of assets or earnings of the Bank is further subject to the prior claims of creditors against the Bank.

Deposit Insurance. The deposits of the Bank are insured by the Deposit Insurance Fund (DIF) of the FDIC, up to applicable limits. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against banking institutions, after giving the institution s primary regulator an opportunity to take such action.

In addition, the Bank is subject to the deposit premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (Reform Act). Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines the institution s assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. Beginning January 1, 2007, assessments can range from 5 to 43 basis points per $100 of assessable deposits, depending on the insured institution s risk category as described above. This assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly.

The Reform Act also provides for a one-time premium assessment credit for eligible insured depository institutions, including those institutions in existence and paying deposit insurance premiums on

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December 31, 1996, or certain successors to any such institution. The assessment credit is determined based on the eligible institution s deposits at December 31, 1996, and is applied automatically to reduce the institution s quarterly premium assessments to the maximum extent allowed, until the credit is exhausted. In addition, insured deposits have been required to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation (FICO) to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation.

Source of Strength. According to Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to subsidiary banks and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC, either as a result of default of a banking or thrift subsidiary of the Corporation or related to FDIC assistance provided to a subsidiary in danger of default, the other banking subsidiaries of the Corporation may be assessed for the FDIC s loss, subject to certain exceptions.

Future Legislation. Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such proposals or bills being enacted and the impact they might have on the Corporation and the Bank cannot be determined at this time.

Regulatory Recommendations. The Corporation and the Bank are subject to federal and state banking regulatory reviews from time to time. As a result of these reviews, the Corporation and the Bank receive various observations and recommendations from their respective regulators. Observations are matters that are informative, advisory, or that suggest a means of improving the performance or management of the operations of the Corporation. Recommendations are provided to enhance oversight of, or to improve or strengthen, the Corporation s or the Bank s processes. The Corporation does not believe that these observations and recommendations are material to the Corporation. In addition, neither the Corporation nor the Bank is currently subject to any formal or informal corrective action with respect to any of their regulators.

Other Considerations

There are particular risks and uncertainties that are applicable to an investment in the Corporation s common stock. Specifically, there are risks and uncertainties that bear on the Corporation s future financial results that may adversely affect its future earnings and financial condition. Some of these risks and uncertainties relate to economic conditions generally and would affect other financial institutions in similar ways. See **Item 1A. Risk Factors**, and **Factors that May Affect Future Results** in the accompanying **Management s Discussion and Analysis of Financial Condition and Results of Operations** for a discussion of the particular risks and uncertainties that are specific to the Corporation s business.

Available Information

The Corporation s Internet address is www.firstcharter.com. The Corporation makes available, free of charge, on or through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, and beneficial ownership reports on Forms 3, 4 and 5, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. The Corporation s website also includes the charters of its Audit Committee, Compensation Committee, and Governance and Nominating Committee, its Code of Business Conduct and Ethics applicable to its directors and employees (including its Chief Executive Officer and principal financial officer) and those of its subsidiaries, and its Corporate Governance Guidelines.

Item 1A. ***Risk Factors***

An investment in the Corporation s common stock is subject to risks inherent in the Corporation s business. The material risks and uncertainties that management believes affect the Corporation are described

below. Before making an investment decision, you should carefully consider these risks and uncertainties, together with all of the other information included or incorporated by reference in this report. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation s business operations. This report is qualified in its entirety by these risk factors.

The Corporation entered into the Merger Agreement with Fifth Third and Fifth Third Financial pursuant to which the Corporation would be merged with and into Fifth Third Financial. The Merger Agreement is subject to customary closing conditions, including regulatory approval. Failure to satisfy such conditions could adversely affect the Corporation.

If any of the following risks actually occur, the Corporation s financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Corporation s common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to the Merger Agreement

The Merger Agreement with Fifth Third Limits the Corporation s Ability to Pursue Alternatives.

The Merger Agreement with Fifth Third contains terms and conditions that make it more difficult for the Corporation to be sold to a party other than Fifth Third. These provisions impose restrictions that prevent the Corporation from seeking another acquisition proposal and that, subject to certain exceptions, limit the Corporation s ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of the Corporation.

Fifth Third required the Corporation to agree to these provisions as a condition to Fifth Third s willingness to enter into the Merger Agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of the Corporation from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than the current proposed merger consideration, and the termination fee provided in the Merger Agreement might result in a potential competing acquirer proposing to pay a lower per share price to acquire First Charter than it might otherwise have proposed to pay.

The Corporation s Business and Common Stock Price May be Adversely Affected if the Proposed Merger with Fifth Third is not Completed.

The Corporation s business and common stock price could be adversely affected if the proposed merger with Fifth Third is not completed as a result of several factors, including, but not limited to, the following:

- the Corporation s common stock price could decline if the proposed merger with Fifth Third is abandoned to the extent that the current common stock price includes a premium based on the assumption that the proposed merger will be completed;

- the Corporation s customers, prospective customers, and investors in general may view a failure to complete the proposed merger as a poor reflection on the Corporation s business or its prospects;

- certain of the Corporation s suppliers and business partners may have sought to change or terminate their relationships with the Corporation as a result of the proposed merger.

- key employees may have sought other employment opportunities;

activities and uncertainties relating to the proposed merger may have caused a loss of income and market share that the Corporation may not be able to regain if the proposed merger does not occur;

the Corporation could be required to pay Fifth Third a $32.5 million termination fee in specified circumstances, as disclosed in the Merger Agreement; and

the Corporation would have incurred legal, accounting, and other merger related fees with no associated merger-related benefit.

Table of Contents

Risks Related to the Corporation s Internal Controls and the Failure to Timely File its 2006 Form 10-K with the SEC

The Corporation May be Subjected to Negative Publicity That May Adversely Affect its Business.

As a result of the delay in filing its 2006 Annual Report on Form 10-K with the SEC and the existence of material weaknesses identified in 2006 in the Corporation s internal controls over financial reporting, the Corporation has been subject to negative publicity. Although the Corporation is now current with its SEC filings and the material weaknesses have been remediated, the Corporation may continue to be subject to negative publicity. This negative publicity could have a material impact on the Corporation s ability to attract new clients or the terms under which some clients are willing to continue to do business with the Corporation.

The Corporation Could Face Additional Adverse Consequences as a Result of its Late SEC Filing.

While the Corporation is now current with its SEC filings, the Corporation was late filing its 2006 Annual Report on Form 10-K and, as a result, First Charter will not be eligible to use a short form registration statement on Form S-3 and the Corporation may not be eligible to use a short form registration statement in the future if it fails to satisfy the conditions required to use short form registration. The Corporation s inability to use a short form registration statement may impair its ability or increase the costs and complexity of efforts to raise funds in the public markets or use its stock as consideration in acquisitions should the Corporation desire to do so during this one year period. The Merger Agreement referred to above would also limit the Corporation s ability to engage in such activity.

Risks Related to the Corporation s Business

The Corporation is Subject to Interest Rate Risk.

The Corporation s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation s ability to originate loans and obtain deposits, (ii) the fair value of the Corporation s financial assets and liabilities, and (iii) the average duration of certain of the Corporation s interest-rate sensitive assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset-liability management strategies, including the potential use of derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on the Corporation s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Corporation s financial condition and results of operations. See **Market Risk Management Asset-Liability Management and Interest Rate Risk** in the accompanying **Management s Discussion and Analysis of Financial Condition and Results of Operations** located elsewhere in this report for further discussion related to the Corporation s management of interest rate risk.

The Corporation is Subject to Lending Risk.

There are inherent risks associated with the Corporation s lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions of the markets where the Corporation operates as well as those across the States of North Carolina, Georgia, and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil money penalties.

As of December 31, 2007, approximately 64 percent of the Corporation s loan portfolio consisted of commercial non-real estate, construction, and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. They are also typically larger than residential real estate loans and consumer loans. Because the Corporation s loan portfolio contains a significant number of commercial non-real estate, construction, and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation s financial condition and results of operations. See **Balance Sheet Analysis - Loan Portfolio** in the accompanying **Management s Discussion and Analysis of Financial Condition and Results of Operations** located elsewhere in this report for further discussion related to the Corporation s loan portfolio.

The Corporation s Allowance for Loan Losses May be Insufficient.

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense that represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation s control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation s allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation s financial condition and results of operations. See **Credit Risk Management Allowance for Loan Losses** in the accompanying **Management s Discussion and Analysis of Financial Condition and Results of Operations** located elsewhere in this report for further discussion related to the Corporation s process for determining the appropriate level of the allowance for possible loan losses.

The Corporation is Subject to Environmental Liability Risk Associated with Lending Activities.

A significant portion of the Corporation s loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a

risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as

Table of Contents

for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property s value or limit the Corporation s ability to use or sell the affected property. In addition, future laws or more stringent interpretations of enforcement policies with respect to existing laws may increase the Corporation s exposure to environmental liability. Although the Corporation has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation s Profitability Depends Significantly on Economic Conditions in its Markets of Operation.

The Corporation s success depends primarily on the general economic conditions of the Carolinas, Georgia and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in the metropolitan areas of Charlotte-Gastonia-Concord, Lincolnton, Statesville-Mooresville, Shelby, Forest City, Salisbury, Asheville, Brevard and Raleigh-Cary, all in the State of North Carolina. In 2006, the Corporation commenced banking operations in the Atlanta, Georgia metropolitan area. The local economic conditions in these areas have a significant impact on the demand for the Corporation s products and services as well as the ability of the Corporation s customers to repay loans, the value of the collateral securing loans, and the stability of the Corporation s deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, or unemployment in the Corporation s primary markets, or changes in securities markets or other factors, could impact these local economic conditions and, in turn, have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation Operates in a Highly Competitive Industry and Market Areas.

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources than the Corporation. Such competitors primarily include national, regional and local financial institutions within the various markets the Corporation operates. Additionally, various out-of-state banks have begun to enter or have announced plans to enter the market areas in which the Corporation currently operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, savings and loan associations, savings banks, credit unions, finance companies, brokerage firms, insurance companies, and major retail stores that offer competing financial services. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of these competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation s ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;

- the ability to expand the Corporation s market position;

the scope, relevance and pricing of products and services offered to meet customer needs and demands;

the rate at which the Corporation introduces new products and services relative to its competitors; and

customer satisfaction with the Corporation s level of service.

Failure to perform in any of these areas could significantly weaken the Corporation s competitive position, which could adversely affect the Corporation s growth and profitability, which, in turn, could have a material adverse effect on the Corporation s financial condition and results of operation.

The Corporation Is Subject to Extensive Government Regulation and Supervision.

The Corporation, primarily through its banking and certain non-banking subsidiaries, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with these laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on the Corporation s business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See **Government Supervision and Regulation** in the accompanying **Business** section and **Note 23** of the consolidated financial statements.

New Lines of Business or New Products and Services May Subject the Corporation to Additional Risks.

From time to time, the Corporation may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services the Corporation may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Corporation s system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Corporation s business, results of operations and financial condition.

The Corporation Relies on Dividends from the Bank for Most of its Revenue.

First Charter Corporation is a separate and distinct legal entity from the Bank. It receives substantially all of its revenue from dividends received from the Bank. These dividends are the principal source of funds to pay dividends on the Corporation s common stock and interest and principal on its outstanding debt securities. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Corporation. In the event the

Bank is unable to pay dividends to the Corporation, the Corporation may not be able to service debt, pay obligations, or pay dividends on the Corporation s

common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Corporation s business, financial condition, and results of operations. See **Government Supervision and Regulation** in the accompanying **Business** section and **Note 23** of the consolidated financial statements.

Potential Acquisitions May Disrupt the Corporation s Business and Dilute Shareholder Value.

From time to time the Corporation may seek merger or acquisition partners that are culturally similar, have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or financial centers involves risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to the Corporation s business;
- potential diversion of the time and attention of the Corporation s management;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

The Merger Agreement limits the Corporation s ability to pursue merger and acquisition activity. The Corporation historically evaluated merger and acquisition opportunities and conducted due diligence activities related to possible transactions with other financial institutions and financial services companies.

As a result, merger or acquisition discussions and, in some cases, negotiations could take place and future mergers or acquisitions involving cash, debt or equity securities could occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Corporation s tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation May Not Be Able to Attract and Retain Skilled Personnel.

The Corporation s success depends, in large part, on its ability to attract and retain key personnel. Competition for these individuals in most businesses engaged in by the Corporation can be intense and the Corporation may not be able to hire or retain them. The pending merger with Fifth Third could result in the departure of employees who do not expect to be retained by Fifth Third or employees who do not wish to be employed by Fifth Third. The unexpected loss of services of one or more of the Corporation s key personnel could have a material adverse impact on the Corporation s business because of their skills, institutional knowledge of the Corporation s business and market, years of financial services experience, and the difficulty of promptly finding qualified replacement personnel. The Corporation has employment agreements or non-competition agreements with several of its senior and executive

officers in an attempt to partially mitigate this risk.

The Corporation s Information Systems May Experience a Failure, Interruption, or Breach in Security.

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation s customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of its information systems, there can be no assurance that any such failures,

interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation s information systems could damage the Corporation s reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation Continually Encounters Technological Advancements.

The financial services industry is continually undergoing rapid technological advancements with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation s future success depends, in large part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation s operations. Many of the Corporation s competitors have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological advancements affecting the financial services industry could have a material adverse impact on the Corporation s business and, in turn, the Corporation s financial condition and results of operations.

The Corporation is Subject to Claims and Litigation Pertaining to Fiduciary Responsibility.

From time to time, customers make claims and take legal action pertaining to the Corporation s performance of its fiduciary responsibilities. Whether or not customer claims and legal action related to the Corporation s performance of its fiduciary responsibilities are founded, if such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services, as well as impact customer demand for those products and services. Any financial liability or reputational damage could have a material adverse effect on the Corporation s business, which, in turn, could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation May Need Additional Capital Resources in the Future Which May Not Be Available When Needed or At All.

The Corporation may need to obtain additional debt or equity financing in the future for growth, investment or strategic acquisitions. There can be no assurance that such financing will be available to the Corporation on acceptable terms or at all. If the Corporation is unable to obtain such additional financing, the Corporation may not be able to grow or make strategic acquisitions or investments when desired, which could have a material adverse impact on the Corporation s business and, in turn, the Corporation s financial condition and results of operations.

Severe Weather, Natural Disasters and Other Adverse External Events Could Significantly Impact the Corporation s Business.

Severe weather, natural disasters, and other adverse external events could have a significant impact on the Corporation s ability to conduct business. Such events could affect the stability of the Corporation s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. The Southeast region of the United States is periodically impacted by hurricanes. For example, during 1989, Hurricane Hugo made landfall along the South Carolina coast and subsequently caused extensive flooding and destruction in the metropolitan area of Charlotte, North Carolina and other communities where the Corporation conducts business. While the impact of hurricanes may not significantly affect the Corporation, other severe weather or natural disasters,

acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse

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effect on the Corporation s business, which, in turn, could have a material adverse effect on the Corporation s financial condition and results of operations.

Risks Associated With The Corporation s Common Stock

The Corporation s Common Stock Price Can Be Volatile.

Stock price volatility may make it more difficult for a shareholder to resell the Corporation s common stock when desired and at favorable prices. The Corporation s common stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other financial institutions that investors deem comparable to the Corporation;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Corporation and/or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions, business combinations or capital commitments by or involving the Corporation or its competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations;
- geopolitical conditions such as acts or threats of terrorism or military conflicts; and
- speculation regarding the status of the pending merger with Fifth Third.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Corporation s stock price to decrease regardless of operating results.

The Trading Volume in the Corporation s Common Stock is Less Than That of Other Larger Financial Services Companies.

Although the Corporation s common stock is listed for trading on the NASDAQ Global Select Market, the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the lower trading volume of the Corporation s common stock, significant sales of the Corporation s common stock, or the expectation of these sales, could cause the Corporation s stock price to fall.

An Investment in the Corporation s Common Stock is Not an Insured Deposit.

The Corporation s common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in the Corporation s common stock is inherently risky for the reasons described in this **Risk Factors** section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire the Corporation s common stock, you may lose some or all of your investment.

Table of Contents

The Corporation s Articles of Incorporation, Bylaws and Stockholder Protection Rights Agreement, as well as Certain Banking Laws, May Have an Anti-Takeover Effect.

Provisions of the Corporation s articles of incorporation and bylaws, federal banking laws, including regulatory approval requirements, and the Corporation s Stockholder Protection Rights Agreement could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation s shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Corporation s common stock. The Corporation satisfied the various requirements in the articles of incorporation and bylaws in connection with the Merger Agreement. There can be no assurance that such requirements would be satisfied in connection with any other transaction. The merger with Fifth Third has not yet received all required regulatory approvals.

Risks Associated With The Corporation s Industry

The Earnings of Financial Services Companies Are Significantly Affected by General Business and Economic Conditions.

The Corporation s operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Corporation operates, all of which are beyond the Corporation s control. A deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Corporation s products and services, among other things, any of which could have a material adverse impact on the Corporation s financial condition and results of operations.

Financial Services Companies Depend on the Accuracy and Completeness of Information About Customers and Counterparties.

In deciding whether to extend credit or enter into other transactions, the Corporation may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Corporation may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Corporation s business and, in turn, the Corporation s financial condition and results of operations.

Consumers May Decide Not to Use Banks to Complete Their Financial Transactions.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Corporation s financial condition and results of operations.

Item 1B. *Unresolved Staff Comments*

None.

Table of Contents

Item 2. ***Properties***

The principal offices of the Corporation are contained within the First Charter Center, located at 10200 David Taylor Drive in Charlotte, North Carolina, which is owned by the Bank through its subsidiaries. The First Charter Center contains the corporate offices of the Corporation, as well as the operations, mortgage loan, and data processing departments of the Bank.

At December 31, 2007, the Bank operated 60 financial centers, four insurance offices, and 137 ATMs located in North Carolina and Georgia. As of that time, the Corporation and its subsidiaries owned 35 financial center locations and leased 25 financial center locations and its four insurance offices. The Corporation also leased facilities in Reston, Virginia and Asheville, North Carolina for loan origination.

Item 3. ***Legal Proceedings***

The Corporation and its subsidiaries 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 its subsidiaries.

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

There were no matters submitted to a vote of shareholders during the quarter ended December 31, 2007.

Table of Contents

Item 4A. ***Executive Officers of the Registrant***

The following table sets forth certain information about each of the current executive officers of the Registrant, including his or her name, age, positions and offices held with the Registrant and the Bank, the period served in such positions or offices and, if such person has served in such position and office for less than five years, the prior employment of such person. No executive officer has a family relationship as close as first cousin with any other executive officer or director.

Name	Age	Office and Position	Year Position Held
Robert E. James, Jr.	57	President and Chief Executive Officer of the Registrant	2005 - Present
		President and Chief Executive Officer of the Bank	2004 - Present
		Executive Vice President of the Registrant	1999 - 2005
		Executive Vice President of the Bank	1999 - 2004
Stephen M. Rownd	48	Executive Vice President and Chief Banking Officer of the Registrant and the Bank	2006 - Present
		Executive Vice President and Chief Risk Officer of the Registrant and the Bank	2004 - 2006
		Executive Vice President and Chief Credit Officer of the Registrant and the Bank	2000 - 2004
Cecil O. Smith, Jr.	60	Executive Vice President and Chief Information Officer of the Registrant and the Bank	2005 - Present
		Vice President, Duke Energy Business Solutions	2004 - 2005
		Senior Vice President and Chief Information Officer, Duke Energy Corporation	1995 - 2004
J. Scott Ensor	44	Executive Vice President and Chief Risk Officer of the Registrant and the Bank	2006 - Present
		Senior Vice President and Director of Commercial Risk Management of the Bank	2004 - 2006
		Senior Vice President and Area Risk Manager of the Bank	2002 - 2004
		Senior Vice President and Credit Officer of Allfirst Bank	2000 - 2002
Stephen J. Antal	52	Executive Vice President, General Counsel and Corporate Secretary of the Registrant and the Bank	2006 - Present
		Senior Vice President, General Counsel and Corporate Secretary of the Registrant and the Bank	2005 - 2006
		Member, Womble, Carlyle, Sandridge and Rice, PLLC	2002 - 2005
		Senior Vice President and Assistant General Counsel, Wachovia Corporation (formerly First Union Corporation)	1996 - 2002
Sheila A. Stoke	58	Senior Vice President and Controller of the Registrant	2007 - Present
		Senior Vice President and Controller of the Bank	2006 - Present
		Senior Vice President - Finance, Stock Yards Bank and Trust Company	2005 - 2006

		Senior Vice President and Controller, Integra Bank NA	2003 - 2005
		Vice President and Controller, Republic Bank and Trust Co.	2002 - 2003
		Senior Vice President and Controller, Bank of Louisville and Trust Company	1985 - 2002
Josephine P. Sawyer	58	Senior Vice President (Registrant), Executive Vice President (Bank) and Director of Human Resources of the Registrant and the Bank	2005 - Present
		Principal/Search Consultant, JPS Consulting	1995 - 2005

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information, Holders, and Dividends

The principal market on which the Corporation s common stock (common stock) is traded is the NASDAQ Global Select Market under the ticker symbol FCTR . The following table sets forth the high and low sales prices of the common stock for the periods indicated, as reported on the NASDAQ Global Select Market:

	Quarter	High	Low
2007	**First**	**$ 24.97**	**$ 21.29**
	Second	**22.83**	**19.09**
	Third	**30.58**	**17.78**
	Fourth	**30.93**	**27.75**
2006	First	25.13	23.11
	Second	25.50	23.02
	Third	24.82	22.93
	Fourth	25.15	23.05

As of February 15, 2008, there were 6,839 record holders of the common stock.

During 2007 and 2006, the Corporation paid dividends on the common stock on a quarterly basis. The following table sets forth dividends declared per share of common stock for the periods indicated:

	Quarter	Dividend
2007	**First**	**$ 0.195**
	Second	**0.195**
	Third	**0.195**
	Fourth	**0.195**
2006	First	0.190
	Second	0.195

Third	0.195
Fourth	0.195

For additional information regarding the Corporation s ability to pay dividends, see **Management s Discussion and Analysis of Financial Condition and Results of Operations - Capital Management** and **Note 23** of the consolidated financial statements.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007, regarding the number of shares of the common stock that may be issued under the Corporation s equity compensation plans:

	Shares to Be Issued Upon Exercise[1]	Weighted-Average Option Exercise Price		Shares Available for Future Grants
Plans approved by shareholders	1,099,948	$	20.37	1,489,285
Plans not approved by shareholders				
Total	1,099,948	$	20.37	1,489,285

[1] *Does not include outstanding options to purchase 24,584 shares of common stock assumed through various acquisitions. As of December 31, 2007, these assumed options had a weighted-average exercise price of $16.25 per share and are all exercisable.*

Table of Contents

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table summarizes the Corporation s repurchases of common stock during the quarter ended December 31, 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
October 1, 2007 - October 31, 2007				1,125,400
November 1, 2007 - November 30, 2007				1,125,400
December 1, 2007 - December 31, 2007				1,125,400
Total				**1,125,400**

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 December 31, 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 December 31, 2007, the Corporation had repurchased 374,600 shares under this authorization.

There were no repurchases of the Corporation s common stock during the three months ended December 31, 2007. There were 500,000 shares repurchased of the Corporation s common stock during the twelve months ended December 31, 2007. The maximum number of shares that may yet be purchased under the October 24, 2003 plan was 1,125,400 at December 31, 2007 and this stock repurchase authorization has no set expiration or termination date.

The Corporation does not anticipate repurchasing any additional shares due to the proposed merger with Fifth Third. For additional information on the proposed merger with Fifth Third, see **Item 1 Business - General** of this Form 10-K.

Table of Contents

Five-Year Total Return Performance Graph

The following graph compares the Corporation s five-year cumulative total shareholder return with the cumulative total return of the NASDAQ Composite Index and the SNL Southeast Bank Index. The cumulative total shareholder return for each of these groups assumes the reinvestment of dividends and is expressed in dollars based on an assumed initial investment of $100.

Total Return Performance

			Period Ending			
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
First Charter Corporation	100.00	112.78	156.02	145.68	155.17	194.87
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Southeast Bank Index	100.00	125.58	148.92	152.44	178.75	134.65

Source: SNL Financial LC

Item 6. ***Selected Financial Data***

See **Table One** in **Item 7** for Selected Financial Data.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Corporation and the notes thereto.

Table of Contents

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 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; and (xiii) costs and difficulties related to the consummation of the proposed merger with Fifth Third may be greater than expected and the consummation remains subject to the satisfaction of various required conditions that may be delayed or may not be satisfied at all.

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 (Bank). As of December 31, 2007, First Charter operated 60 financial centers, four insurance offices, and 137 ATMs throughout North Carolina and Georgia, and also operated 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.

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.

Table of Contents

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 provisions for loan losses and income taxes are also considered material expenses.

Proposed Merger with Fifth Third

On August 15, 2007, First Charter and Fifth Third Bancorp entered into an Agreement and Plan of Merger, as amended by the Amended and Restated Plan of Merger, dated September 14, 2007 by and among First Charter, Fifth Third, and Fifth Third Financial. Under the terms of the Merger Agreement, First Charter will be merged with and into Fifth Third Financial. The Merger Agreement has been approved by the Board of Directors of First Charter, Fifth Third and Fifth Third Financial. On January 18, 2008, First Charter shareholders approved the Merger Agreement. The Merger Agreement is subject to customary closing conditions, including regulatory approval. First Charter is planning for a closing in the second quarter of 2008, although no assurance can be given in this regard.

Pursuant to the Merger Agreement, at the effective time of the merger, each common share of First Charter issued and outstanding immediately prior to the effective time (other than common shares held directly or indirectly by First Charter or Fifth Third) will be converted, at the election of the owner of the common share, into either $31.00 cash or shares of Fifth Third common stock with a value of $31.00 per share, or both. Under the terms of the Merger Agreement, approximately 30 percent of First Charter shares will be converted to cash and approximately 70 percent will be converted to Fifth Third common stock.

The Merger Agreement contains customary representations and warranties between First Charter and Fifth Third. The Merger Agreement also contains customary covenants and agreements, including (a) covenants related to the conduct of First Charter s business between the date of the signing of the Merger Agreement and the closing of the merger, (b) covenants prohibiting solicitation of competing merger proposals, and (c) agreements regarding efforts of the parties to cause the Merger Agreement to be completed.

The Merger Agreement contains certain termination rights and provides that, upon or following the termination of the Merger Agreement, under specified circumstances involving a competing merger transaction, First Charter may be required to pay Fifth Third a termination fee of $32.5 million.

In connection with the proposed merger with Fifth Third, the Corporation has incurred expenses of approximately $1.3 million of merger-related costs for 2007.

As previously disclosed, First Charter has been informed by Fifth Third that in February 2008 a shareholder of Fifth Third filed a derivative suit in the Court of Common Pleas for Hamilton County, Ohio, against the members of Fifth Third s board of directors and, nominally, Fifth Third, alleging breach of fiduciary duty and waste of corporate assets, among other charges, in relation to the approval of Fifth Third s acquisition of First Charter. The suit seeks, with respect to the completion of the acquisition, an injunction to stop the acquisition of First Charter and an independent valuation of First Charter as to its worth. The suit also seeks unspecified compensatory damages to be paid to Fifth Third by its directors as well as costs and attorneys fees to the plaintiff. The suit is in its earliest stage and Fifth Third has stated that the impact of the final disposition cannot be assessed at this time. First Charter and its legal counsel are reviewing the complaint carefully and intend to take such action as is appropriate and necessary to protect First Charter s interests in the Merger Agreement with Fifth Third.

The Community-Banking Model

The Bank operates 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 nor the number of convenient locations

that the Bank offers and are challenged to provide exceptional customer service. 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.

Existing Markets and Expansion

During 2005, First Charter implemented a growth strategy intended to both expand the First Charter footprint into high growth markets and to optimize existing locations through attracting new customers and retaining existing customers. As part of the strategic growth strategy, First Charter expanded operations into the Raleigh, North Carolina, metro area. The Raleigh metro area is expected to have at or above average household income and growth rates relative to the North Carolina and national averages. First Charter operates five financial centers and 26 ATMs in the Raleigh market.

In November 2006, the Corporation entered the greater Atlanta, Georgia metropolitan market with the acquisition of GBC and its banking subsidiary, Gwinnett Bank, with financial centers located in Lawrenceville and Alpharetta, Georgia. By expanding into the Atlanta metropolitan market, 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 for core deposits. The Georgia counties in which First Charter operates boast some of the strongest demographic growth trends in the nation, and the median household income in these counties is significantly higher than the median income for Georgia and the southeastern United States. First Charter has two financial centers and operates three ATMs in the Atlanta market.

During the first quarter of 2007, the Corporation opened its fifth financial center in the Raleigh market and during the third quarter of 2007, the Corporation opened its Renaissance Square financial center, to bring its total financial centers to 60 at December 31, 2007. The Renaissance Square financial center is located in a rapidly expanding growth area in the northern section of Cabarrus County, North Carolina, adjacent to the Mecklenburg County line and the town of Davidson, North Carolina.

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. During 2007, management implemented a remediation plan to address these material weaknesses. As of December 31, 2007, the Corporation has concluded that these previously identified material weaknesses have been remediated and that the Corporation s internal controls over financial reporting were effective. See **Item 9A. Controls and Procedures.**

During the second quarter of 2007, the North Carolina Attorney General obtained a court order to appoint a receiver to take control of the Village of Penland and related development projects (Penland) located 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 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 December 31, 2007, the Corporation had an aggregate outstanding balance of $3.7 million to individual lot purchasers related to Penland, net of $10.4 million charged off during the year. Based on management s assessment of

probable incurred losses associated with the Penland loan portfolio, the Corporation recorded an allowance for loan losses of $1.3 million as of December 31, 2007. Additionally, based on management s assessment of the individual borrowers, $1.1 million of the Penland loans were on nonaccrual status as of December 31, 2007 and all of the previously recognized interest income related to these nonaccrual loans was reversed.

Table of Contents

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. First Charter, through its subsidiaries, participates in two entities classified as captive REITs from which First Charter has historically received dividends which resulted in certain tax benefits taken within First Charter s tax returns and consolidated financial statements. This legislation is effective for taxable years beginning on or after January 1, 2007.

As a result of this legislation, during the third quarter of 2007, First Charter recorded $1.0 million, net of reserve, of additional income tax expense as it eliminated the dividend received deduction previously recorded during 2007. This increased First Charter s effective tax rate for 2007, and it is expected to increase the effective tax rate for future periods. Additionally, tax expense was reduced by $0.4 million as a result of the expiration of the relevant Federal statute of limitations. The net impact of these two events was a $0.6 million increase to income tax expense for the year ended December 31, 2007.

On December 31, 2007, the Superior Court of North Carolina ruled in favor of the State of North Carolina in the *Wal-Mart Stores East Inc. v Reginald S. Hinton, Secretary of Revenue of State of North Carolina* case (Wal-Mart case). This ruling was made available to the public on January 4, 2008 and the case has been appealed by the taxpayer to the North Carolina Court of Appeals. The Corporation s REIT position has certain facts that are similar as those in the above-mentioned Wal-Mart case.

The Corporation is currently evaluating its reserves for uncertain tax positions in accordance with FIN 48 which requires remeasurement of uncertain tax positions to be based on the information that became available during the first quarter of 2008. The Corporation has yet to quantify the impact that the Wal-Mart case ruling will have on its consolidated financial statements, but believes the amount could be material. The Corporation s maximum exposure related to this matter is approximately $13.5 million. The Corporation will record the remeasurement of its uncertain tax position related to the Wal-Mart case in the first quarter of 2008.

Financial Summary

The Corporation s net income was $41.3 million, or $1.18 per diluted share, a $6.1 million decrease from net income of $47.4 million in 2006. Return on average assets and return on average equity was 0.85 percent and 9.07 percent for 2007, respectively, compared to 1.08 percent and 13.45 percent for 2006, respectively. Fiscal year 2007 includes a full-year s impact of the GBC acquisition, while 2006 includes two months of GBC results.

For 2007, the provision for loan losses was $19.9 million, a $14.6 million increase, from a $5.3 million provision for loan losses in 2006. The increase in provision for loan losses included $11.7 million related to Penland. The allowance for loan losses as a percentage of portfolio loans was 1.21 percent and 1.00 percent as of December 31, 2007 and 2006, respectively.

During 2007 and 2006, several material transactions occurred, which impacted noninterest income and noninterest expense. In 2007, the Corporation incurred costs related to the potential merger with Fifth Third, recognized distributions from the Corporation s equity method investments, and recorded gains on the sales of certain properties. In 2006, material transactions included the sale of the Corporation s employee benefits administration business, the sale of two financial centers, distributions received from the Corporation s equity method investments, the further repositioning of the Corporation s securities portfolio, the restructuring of the Corporation s BOLI investment, the acceleration of vesting on all stock options granted from 2003 to 2005, the separation expense of certain employees, and the merger costs associated with the GBC acquisition.

Earnings Analysis for Fourth Quarter 2007 versus Fourth Quarter 2006

For the fourth quarter of 2007, net income was $8.9 million, or $0.25 per diluted share, compared to net income of $12.0 million, or $0.36 per diluted share, for the 2006 fourth quarter. The fourth quarter of 2007 was impacted by continued higher provision for loan losses expense, largely due to the Penland

development, and ongoing merger expenses caused by the pending merger with Fifth Third. These items were partially offset by property sale gains that were recognized in the fourth quarter of 2007.

The net interest margin, on a tax-equivalent basis, decreased 15 basis points to 3.25 percent in the fourth quarter of 2007 from 3.40 percent in the fourth quarter of 2006. The margin was negatively impacted by the Corporation s interest earning assets repricing faster than interest bearing liabilities, and by unusually high competitive pricing for time deposits. Net interest income declined to $35.4 million, representing a $0.6 million, or 1.8 percent, decline over the fourth quarter of 2006.

Compared to the fourth quarter of 2006, earning-asset yields decreased 9 basis points to 6.87 percent. The decline was driven by a 28 basis point decline in loan yields to 7.28 percent, partially mitigated by a 45 basis point increase in securities yields to 5.29 percent. This decrease in loan yields was a direct result of lower short-term interest rates to the year-ago quarter. The Federal Reserve lowered the rate that banks can lend to each other (federal funds rate) by 100 basis points from year-end 2006 to year-end 2007. The ending federal funds rate was 4.25 percent as of December 31, 2007.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 8 basis points during the fourth quarter of 2007, compared to the fourth quarter of 2006. This was comprised of an 8 basis point increase in interest-bearing deposit costs to 3.81 percent, while other borrowing costs increased 7 basis points to 4.97 percent.

Provision for loan losses expense totaled $6.1 million, compared to $1.5 million in the fourth quarter of 2006. Provision for the Penland development resulted in $2.5 million of additional expense during the fourth quarter of 2007. Net charge-offs during the fourth quarter 2007 totaled $6.7 million, with $5.2 million attributable to Penland, compared to total net charge-offs of $0.7 million during the fourth quarter 2006.

Noninterest income from continuing operations totaled $20.1 million, compared to $17.4 million for the fourth quarter of 2006. Of this increase, $1.4 million was attributable to property sale gains that were realized in the fourth quarter of 2007. Additionally, deposit service charges, ATM, debit card, and merchant fees, mortgage services, and wealth management revenue were all contributors to growth in the Corporation s noninterest income. Partially offsetting the growth in these key areas was $0.2 million less in insurance revenue in the 2007 fourth quarter, compared to the 2006 fourth quarter.

Noninterest expense from continuing operations for the 2007 fourth quarter increased $1.9 million to $35.8 million, compared to $33.9 million for the fourth quarter of 2006. The most significant driver of the increase was professional fees, with total fourth quarter 2007 expense of $3.8 million, or $1.6 million higher than the year-ago quarter. Approximately $0.6 million of the increase resulted from expenses related to the pending merger with Fifth Third. Marketing expense increased $0.4 million as a result of a greater number of marketing campaigns in the fourth quarter 2007 compared to the year-ago quarter. During the fourth quarter 2007, charitable contribution expense increased $0.4 million, compared to the fourth quarter 2006. Data processing, foreclosed properties, and occupancy and equipment were also higher. These increases were partially offset by decreases in salaries and benefits, postage and supplies, telecommunications, and other noninterest expense.

The effective tax rate for the fourth quarter of 2007 was 33.9 percent, compared with 33.0 percent in the fourth quarter of 2006. The effective tax rate excludes the effects of discontinued operations in the fourth quarter of 2006. The higher effective tax rate for 2007 reflects the impact of the previously mentioned loss of the state dividend received deduction.

Average fully diluted shares increased 1.5 million to 35.1 million shares in the fourth quarter of 2007. The most significant drivers of the increase were a full quarter s impact resulting from the merger with GBC, which occurred on

November 1, 2006, and the decease in the number of anti-dilutive shares. Partially offsetting these increases was the share repurchases which occurred in the second quarter of 2007.

Table of Contents

Table One
Selected Financial Data

		For the Calendar Year			
n thousands, except share and per share amounts)	**2007**	2006	2005	2004	20
tatement					
come	**$ 309,892**	$ 264,929	$ 224,605	$ 187,303	$ 1
pense	**163,006**	131,219	99,722	64,293	
st income	**146,886**	133,710	124,883	123,010	1
for loan losses	**19,945**	5,290	9,343	8,425	
st income	**78,254**	67,678	46,738	57,038	
st expense	**142,528**	124,937	127,971	107,496	1
om continuing operations before income tax	**62,667**	71,161	34,307	64,127	
x expense	**21,363**	23,799	9,132	21,889	
om continuing operations, net of tax	**41,304**	47,362	25,175	42,238	
ued operations:					
oss) from discontinued operations		36	224	337	
ale		962			
x expense (benefit)		965	88	133	
oss) from discontinued operations, net of tax		33	136	204	
e	**$ 41,304**	$ 47,395	$ 25,311	$ 42,442	$
non share					
nings per share					
om continuing operations	**$ 1.19**	$ 1.50	$ 0.83	$ 1.41	$
om discontinued operations, net of tax				0.01	
e	**1.19**	1.50	0.83	1.42	
arnings per share					
om continuing operations	**1.18**	1.49	0.82	1.40	
om discontinued operations, net of tax				0.01	
e	**1.18**	1.49	0.82	1.40	
shares					
	34,612,184	31,525,366	30,457,573	29,859,683	29,7
	34,988,021	31,838,292	30,784,406	30,277,063	30,0

dends declared	**$ 0.78**	$ 0.78	$ 0.76	$ 0.75	$
d book value	**13.39**	12.81	10.53	10.47	
average equity	**9.07%**	13.45%	7.86%	14.05%	
average assets	**0.85**	1.08	0.56	0.98	
on earning assets	**3.36**	3.37	3.05	3.14	
ortfolio loans to average deposits	**108.89**	105.72	101.75	92.48	
quity to average assets	**9.39**	8.06	7.18	6.99	
ratio[1]	**62.6**	59.6	59.4	59.8	
payout	**66.1**	52.0	92.7	53.6	
eriod-end balances					
oans, net	**$ 3,460,593**	$ 3,450,087	$ 2,917,020	$ 2,412,529	$ 2,2
d for sale	**14,145**	12,292	6,447	5,326	
e for loan losses	**42,414**	34,966	28,725	26,872	
t in securities[2]	**909,661**	906,415	899,111	1,652,732	1,6
	4,862,417	4,856,717	4,232,420	4,431,605	4,2
	3,221,619	3,248,128	2,799,479	2,609,846	2,4
rowings	**1,120,141**	1,098,698	1,068,574	763,738	4
lities	**4,394,073**	4,409,355	3,908,825	4,116,918	3,9
ers equity	**468,344**	447,362	323,595	314,687	2
verage balances					
oans	**$ 3,511,560**	$ 3,092,801	$ 2,788,755	$ 2,353,605	$ 2,1
d for sale	**10,476**	9,019	6,956	9,502	
t in securities[2]	**914,233**	920,961	1,361,507	1,623,102	1,4
ssets	**4,446,895**	4,033,031	4,164,969	4,004,678	3,6
	4,852,712	4,369,834	4,489,083	4,322,727	4,0
	3,224,805	2,925,506	2,740,742	2,544,864	2,4
rowings	**1,118,089**	1,049,165	1,375,910	1,428,124	1,1
ers equity	**455,614**	352,253	322,226	302,101	3

(1) *Noninterest expense less debt extinguishment expense and derivative termination costs, 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.*

(2) *Includes available for sale securities and Federal Home Loan Bank and Federal Reserve Bank stock.*

Table of Contents

Critical Accounting Estimates and Policies

The Corporation s significant accounting policies are described in **Note 1** of the consolidated financial statements and 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 following is a summary of three accounting policies that the Corporation has identified as being critical in terms of judgments and the extent to which estimates are used. 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 that 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.

Allowance for Loan Losses

The Corporation considers its policy regarding the allowance for loan losses to be one of its most critical accounting policies, as it requires some of management s most subjective and complex judgments. The allowance for loan losses is maintained at a level the Corporation believes is adequate to absorb probable losses inherent in the loan portfolio as of the date of the consolidated financial statements. The Corporation has developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses that reflect its evaluation of credit risk considering all information available to it.

The determination of the level of the allowance and, correspondingly, the provision for loan losses, rests upon various judgments and assumptions, including: (i) general economic conditions, (ii) loan portfolio composition, (iii) prior loan loss experience, (iv) management s evaluation of credit risk related to both individual borrowers and pools of loans and (v) observations derived from the Corporation s ongoing internal credit review and examination processes and those of its regulators. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or decrease in the allowance for loan losses.

The Corporation employs a variety of statistical modeling and estimation tools in developing the appropriate allowance. The following provides a description of each of the components involved in the allowance for loan losses, the techniques the Corporation uses, and the estimates and judgments inherent to each component.

The first component of the allowance for loan losses, the valuation allowance for impaired loans, is computed based on documented reviews performed by the Corporation s Credit Risk Management for impaired relationships greater than $150,000. Credit Risk Management typically estimates these valuation allowances by considering the fair value of the underlying collateral for each impaired loan using current appraisals. The results of these estimates are updated quarterly or periodically as circumstances change. Changes in the dollar amount of impaired loans or in the estimates of the fair value of the underlying collateral can impact the valuation allowance on impaired loans and, therefore, the overall allowance for loan losses.

The second component of the allowance for loan losses, the portion attributable to all other loans without specific reserve amounts, is determined by applying reserve factors to the outstanding balance of loans. The portfolio is segmented into two major categories: commercial loans and consumer loans. Commercial loans are segmented further by risk grade, so that separate reserve factors are applied to each pool of commercial loans. The reserve factors applied to the commercial segments are determined using a migration analysis that computes current loss estimates by credit grade using a 60-month trailing loss history. Since the migration analysis is based on trailing data, the reserve factors are changed based on actual losses and other judgmentally determined factors. Changes in commercial loan

credit grades can also impact this component of the allowance for loan losses from period to period. Consumer loans which include mortgage, general consumer, consumer real estate, home equity and consumer unsecured loans are segmented by homogeneous pools in order to apply separate reserve factors to each pool of consumer

Table of Contents

loans. The reserve factors applied to the consumer segments are a 36-month rolling average of losses. Since the reserve factors are based on historical loss data, the percentage loss estimates can change period-to-period based on actual losses.

The third component of the allowance for loan losses is intended to capture the various risk elements of the loan portfolio which may not be sufficiently captured in the historical loss rates. These factors include intrinsic risk, operational risk, concentration risk and model risk. Intrinsic risk relates to the impact of current economic conditions on the Corporation s borrower base, the effects of which may not be realized by the Corporation in the form of charge-offs for several periods. The Corporation monitors and documents various local, regional and national economic data, and makes subjective estimates of the impact of changes in economic conditions on the allowance for loan losses. Operational risk includes factors such as the likelihood of loss on a loan due to procedural error. Historically, the Corporation has made additional loss estimates for certain types of loans that were either acquired from other institutions in mergers or were underwritten using policies that are no longer in effect at the Corporation. These identified loans are considered to have higher risk of loss than currently reflected in historical loss rates of the Corporation, so additional estimates of loss are made by management. Concentration risk includes the risk of loss due to extensions of credit to a particular industry, loan type or borrower that may be troubled. The Corporation monitors its portfolio for any excessive concentrations of loans during each period, and if any excessive concentrations are noted, additional estimates of loss are made. Model risk reflects the inherent uncertainty of estimates within the allowance for loan losses model. Changes in the allowance for loan losses for these subjective factors can arise from changes in the balance and types of outstanding loans, as well as changes in the underlying conditions which drive a change in the percentage used. As more fully discussed below, the Corporation continually monitors the portfolio in an effort to identify any other factors which may have an impact on loss estimates within the portfolio.

All estimates of the 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. Since a significant portion of the loan portfolio is comprised of real estate loans and loans to area businesses, the Corporation is subject to continued risk that the real estate market and economic conditions in general could change and therefore result in additional losses and require increases in the provision for loan losses. If management had made different assumptions about probable loan losses, the Corporation s financial position and results of operations could have differed materially.

As previously disclosed, the Corporation has recorded a provision for loan losses related to Penland. The Corporation continues to evaluate the Penland lot loan portfolio. Subsequent developments related to the Penland loans may have a significant impact on the provision for loan losses.

For additional discussion concerning the Corporation s allowance for loan losses and related matters, see **Credit Risk Management Allowance for Loan Losses.**

Income Taxes

Calculating the Corporation s income tax expense requires significant judgment and the use of estimates. The Corporation periodically assesses its tax positions based on current tax developments, including enacted statutory, judicial and regulatory guidance. In analyzing the Corporation s overall tax position, consideration is given to the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, income tax balances are adjusted appropriately through the income tax provision.

Reserves for income tax uncertainties are determined using a two-step process in accordance with FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes*, and requires significant management judgment. In the first step of the process, the Corporation determines whether it is more likely than not that a tax position will be

sustained upon examination based on the technical merits of the position. If the Corporation determines that a tax position has met the more-likely-than-not threshold, the Corporation then determines the amount that would be recognized in its financial statements. In calculating the amount recognized in the financial statements, the Corporation considers the amounts and probabilities that could be recognized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

Table of Contents

Identified Intangible Assets and Goodwill

The Corporation records all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles, and other intangibles, at fair value as required by SFAS 141, *Business Combinations*. The initial recording of goodwill and other intangibles requires subjective judgments concerning estimates of the fair value of the acquired assets and liabilities. During 2007, the Corporation finalized the valuations of certain of its acquired assets and liabilities related to GBC. This refinement impacted the allocation of the GBC purchase price and the resulting goodwill. Goodwill and indefinite-lived intangible assets are not amortized but are subject to annual tests for impairment or more often if events or circumstances indicate they may be impaired. Other identified intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

The ongoing value of goodwill is ultimately supported by revenue from the Corporation s businesses and its ability to deliver cost-effective services over future periods. Any decline in revenue resulting from a lack of growth or the inability to effectively provide services could potentially create an impairment of goodwill.

Earnings Performance

First Charter Corporation s net income was $41.3 million for 2007, compared to $47.4 million for 2006. Earnings were $1.18 per diluted share, a decrease of $0.31 per diluted share from $1.49 a year ago. Total revenue increased 11.8 percent to $225.1 million, compared to $201.4 million a year ago. The increase in revenue was primarily driven by two factors. First, net interest income increased $13.2 million to $146.9 million. This increase is attributable to a full year of GBC results in 2007, compared to two months of GBC results in 2006 and the Corporation s net interest margin expanding 3 basis points to 3.40 percent. Second, noninterest income from continuing operations, excluding securities losses in both 2007 and 2006, increased $4.5 million, or 6.2 percent, primarily due to higher deposit service charges, ATM, debit card, and merchant fees, wealth management and BOLI revenue, and the gain on property sales. Partially offsetting these revenue increases was a $17.6 million increase of noninterest expense from continuing operations.

Net charge-offs as a percentage of average portfolio loans has increased from 0.11 in 2006 to 0.36 percent in 2007.

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 last three years is presented in **Table Two**. Net interest income on a taxable-equivalent basis (FTE) 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, from year to year are analyzed in **Table Three**. The discussion below is based on net interest income computed under accounting principles generally accepted in the United States of America. For 2007, net interest income was $146.9 million, an increase of $13.2 million, or 9.9 percent, from net interest income of $133.7 million in 2006.

Compared to 2006, earning-asset yields increased 39 basis points to 7.02 percent. This increase was driven by several factors. First, loan yields increased 27 basis points to 7.53 percent. Second, securities yields increased 59 basis points to 5.11 percent. Third, the mix of higher-yielding (loan) assets continued to improve as the Corporation continues to focus on generating higher-yielding commercial loans, partially funded by runoff in its lower yielding mortgage loan portfolio. Lastly, the percentage of investment security average balances (which, on average, have lower yields than loans) to total earning asset average balances fell from 22.8 percent to 20.6 percent over the past year.

Table of Contents

Earning-asset average balances increased $413.9 million to $4.4 billion at December 31, 2007, compared to $4.0 billion for 2006. The increase was primarily due to the GBC acquisition and also some organic loan growth.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 49 basis points, compared to 2006. This increase was comprised of a 53 basis point increase in interest-bearing deposit costs to 3.84 percent, while other borrowing costs increased 42 basis points to 5.07 percent. During the first half of 2006, the Federal Reserve raised the federal funds rate by 100 basis points. The Federal Reserve lowered the federal funds rate by 50 basis points in third quarter 2007 and by an additional 50 basis points in the fourth quarter 2007.

Net interest income and yields on earning-asset average balances and interest expense and rates paid on interest-bearing liability average balances, and the net interest margin follow:

Table Two
Average Balances and Net Interest Income Analysis

	For the Calendar Year								
	2007			2006			2005		
in thousands)	**Daily Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid**	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid	Daily Average Balance	Interest Income/ Expense	A Yi
assets									
d loans held for 3)(4)	**$ 3,522,036**	**$ 265,119**	**7.53%**	$ 3,101,820	$ 225,195	7.26%	$ 2,795,711	$ 172,961	
nt securities -)(5)	**819,023**	**41,133**	**5.02**	819,791	35,613	4.34	1,251,477	47,657	
nt securities - pt	**95,210**	**5,619**	**5.90**	101,170	6,012	5.94	110,030	6,100	
unds sold	**5,572**	**282**	**5.06**	5,369	267	4.97	1,883	60	
earing bank	**5,054**	**224**	**4.43**	4,881	204	4.18	5,868	163	
ning assets	**4,446,895**	**$ 312,377**	**7.02%**	4,033,031	$ 267,291	6.63%	4,164,969	$ 226,941	
due from banks	**79,902**			81,497			94,971		
ets	**325,915**			255,306			229,143		
sets	**$ 4,852,712**			$ 4,369,834			$ 4,489,083		

es and shareholders								
bearing liabilities								
deposits	**$ 417,682**	**$ 5,110**	**1.22%**	$ 370,458	$ 2,949	0.80%	$ 343,663	$ 1,111
arket accounts	**621,398**	**21,567**	**3.47**	589,887	18,718	3.17	496,982	9,220
deposits	**110,343**	**242**	**0.22**	117,862	259	0.22	123,305	277
rtificates of deposit	**1,214,037**	**57,660**	**4.75**	993,631	41,066	4.13	968,752	29,358
certificates of	**408,120**	**21,720**	**5.32**	421,108	19,456	4.62	409,882	13,490
her borrowings	**89,894**	**2,701**	**3.00**	113,126	2,877	2.54	115,308	1,812
le other borrowings	**1,028,195**	**54,006**	**5.25**	936,039	45,894	4.90	1,260,602	44,454
erest-bearing	**3,889,669**	**163,006**	**4.19%**	3,542,111	131,219	3.70%	3,718,494	99,722
est-bearing deposits	**453,225**			432,560			398,158	
bilities	**54,204**			42,910			50,205	
ders equity	**455,614**			352,253			322,226	
bilities and ders equity	**$ 4,852,712**			$ 4,369,834			$ 4,489,083	
est spread			**2.83%**			2.93%		
tion of noninterest ources			**0.53**			0.44		
rest income/ earning assets		**$ 149,371**	**3.36%**		$ 136,072	3.37%		$ 127,219

(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 $4,324, $3,104, and $2,343 for 2007, 2006, and 2005, 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, 2006, and 2005. The adjustments made to convert to a taxable-equivalent basis were $2,486, $2,362, and $2,336 for 2007, 2006, and 2005, respectively.*

(5) *Includes available for sale securities and Federal Home Loan Bank and Federal Reserve Bank stock.*

Table of Contents

The following table shows changes in tax-equivalent interest income, interest expense, and tax-equivalent net interest income arising from volume and rate 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 Three
Volume and Rate Variance Analysis

	2007 vs 2006			2006 vs 2005		
	Due to Change in		**Net**	Due to Change in		Net
(In thousands)	**Volume**	**Rate**	**Change**	Volume	Rate	Change
Increase (decrease) in tax-equivalent interest income						
Loans and loans held for sale[1]	**$ 31,391**	**$ 8,533**	**$ 39,924**	$ 20,209	$ 32,025	$ 52,234
Investment securities - taxable[1][2]	**(33)**	**5,553**	**5,520**	(18,082)	6,038	(12,044)
Investment securities - tax-exempt	**(352)**	**(41)**	**(393)**	(510)	422	(88)
Federal funds sold	**10**	**5**	**15**	159	48	207
Interest-bearing bank deposits	**7**	**13**	**20**	(31)	72	41
Total	**$ 31,023**	**$ 14,063**	**$ 45,086**	$ 1,745	$ 38,605	$ 40,350
Increase (decrease) in interest expense						
Deposits:						
Demand	**$ 415**	**$ 1,746**	**$ 2,161**	$ 93	$ 1,745	$ 1,838
Money market	**1,034**	**1,815**	**2,849**	1,979	7,519	9,498
Savings	**(16)**	**(1)**	**(17)**	(12)	(6)	(18)
Retail certificates of deposit	**9,922**	**6,672**	**16,594**	772	10,936	11,708
Brokered certificates of deposit	**(615)**	**2,879**	**2,264**	379	5,587	5,966
Retail other borrowings	**(648)**	**472**	**(176)**	(35)	1,100	1,065
Wholesale other borrowings	**4,705**	**3,407**	**8,112**	(13,221)	14,661	1,440
Total	**$ 14,797**	**$ 16,990**	**$ 31,787**	$ (10,045)	$ 41,542	$ 31,497
Increase in tax-equivalent net interest income			**$ 13,299**			$ 8,853

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

(2) *Includes available for sale securities and Federal Home Loan Bank and Federal Reserve Bank stock.*

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 (SBA) 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.

Details of noninterest income follow:

Table Four
Noninterest Income

	For the Calendar Year		
(In thousands)	**2007**	2006	2005
Service charges on deposits	**$ 30,893**	$ 28,962	$ 27,809
ATM, debit, and merchant fees	**10,366**	8,395	6,702
Insurance services	**13,077**	13,366	12,546
Brokerage services	**4,053**	3,182	3,119
Mortgage services	**3,813**	3,062	2,873
Wealth management	**3,487**	2,847	2,410
Bank owned life insurance	**4,631**	3,522	4,311
Equity method investment gains (losses), net	**1,866**	3,983	(271)
Property sale gains, net	**1,706**	645	1,853
Gain on sale of Small Business Administration loans	**1,187**	126	
Securities gains (losses), net	**204**	(5,828)	(16,690)
Gain on sale of deposits and loans		2,825	
Other	**2,971**	2,591	2,076
Noninterest income from continuing operations	**78,254**	67,678	46,738
Noninterest income from discontinued operations		3,012	3,475
Gain on sale from discontinued operations		962	
Total noninterest income	**$ 78,254**	$ 71,652	$ 50,213

Selected items included in noninterest income follow:

Table Five
Selected Items Included in Noninterest Income

	For the Calendar Year		
(In thousands)	**2007**	2006	2005
Equity method investment gains (losses), net	**$ 1,866**	$ 3,983	$ (271)
Property sale gains, net	**1,706**	645	1,853
Securities gains (losses), net	**204**	(5,828)	(16,690)
Gain on sale of deposits and loans		2,825	
Gains related to reinsurance arrangement	**335**	99	

Table of Contents

Noninterest income from continuing operations for 2007 was $78.3 million, an increase of $10.6 million, or 15.6 percent, from $67.7 million for 2006. The primary factors for this increase include the following:

Revenue from deposit service charges increased $1.9 million, principally reflecting a growth in the number of checking accounts.

ATM, debit and merchant card services revenue was $2.0 million higher, reflecting both a growth in the number of accounts and increased transactions.

The $1.1 million increase in BOLI was the result of the restructuring of $21.5 million of BOLI in mid-2006, the purchase of $10.0 million in new coverage, and the addition of $5.9 million of BOLI from GBC.

Equity method investment gains were $2.1 million lower in 2007 as compared with 2006. The returns on the equity method investments vary from period to period and income is recorded when earned.

Property sale gains increased $1.1 million. During 2007, property sale gains of $1.7 million were principally due to two properties. During 2006, the sale of two financial centers resulted in property sale gains of $0.4 million.

Although the Corporation originated SBA loans prior to the GBC acquisition, the Corporation retained these loans. The Corporation now sells certain of these loans. Gains on SBA loan sales were $1.2 million in 2007 and $0.1 million in 2006.

During 2007, the Corporation recognized $0.2 million of gains related to the sale of certain equity securities, net of $48,000 of other-than-temporary impairment charges. The Corporation recognized losses of $5.8 million on the sale of lower-yielding securities during 2006.

The sale of two financial centers in 2006 generated gains of $2.8 million attributable to the sale of loans and deposits. There were no similar gains recognized during 2007.

Table of Contents

Noninterest Expense

Details of noninterest expense follow:

Table Six
Noninterest Expense

(Dollars in thousands)	For the Calendar Year **2007**	2006	2005
Salaries and employee benefits	**$ 79,136**	$ 69,237	$ 61,428
Occupancy and equipment	**18,744**	18,144	16,565
Data processing	**6,681**	5,768	5,171
Marketing	**4,587**	4,711	4,668
Postage and supplies	**4,425**	4,834	4,478
Professional services	**14,054**	8,811	8,072
Telecommunications	**2,261**	2,193	2,139
Amortization of intangibles	**1,098**	654	378
Foreclosed properties	**976**	755	386
Debt extinguishment expense			6,884
Derivative termination costs			7,770
Other	**10,566**	9,830	10,032
Noninterest expense from continuing operations	**142,528**	124,937	127,971
Noninterest expense from discontinued operations		2,976	3,251
Total noninterest expense	**$ 142,528**	$ 127,913	$ 131,222
Full-time equivalent employees at year-end	**1,073**	1,099	1,064
Efficiency ratio[1]	**62.6%**	59.6%	59.4%

[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 and the impact of the debt extinguishment and derivative termination charges related to the balance sheet repositioning in 2005.

Selected items included in noninterest expense follow:

Table Seven
Selected Items Included in Noninterest Expense

(In thousands)	For the Calendar Year **2007**	2006	2005
Separation agreements	**$ 241**	$ 675	$ 1,010
Merger-related costs	**1,492**	302	
Accelerated vesting of stock options		665	
Actuarial revision to medical reserve		(391)	
Medical claims IBNR reserve		(470)	
Employee benefit plan modification			1,079
Fixed asset correction			(1,386)
Debt extinguishment expense			6,884
Derivative termination costs			7,770

Noninterest expense from continuing operations for 2007 was $142.5 million, a $17.6 million increase from $124.9 million for 2006. The primary factors for this increase include the following:

Salaries and benefits expense for 2007 was $79.1 million, a $9.9 million increase compared to 2006. The increase in salaries and benefits expense was primarily due to higher salaries and wages which

were driven by an increased average number of full-time equivalent employees as a result of the GBC acquisition, as well as higher stock-based compensation expense, normal salary increases and higher medical insurance costs. These increases were partially offset 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 transition period following the GBC acquisition, as well as executive retirement expenses related to Gwinnett Bank.

Professional services expense increased $5.2 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, costs associated with the previously disclosed first quarter 2007 audit committee inquiry and $1.1 million of Fifth Third merger-related costs.

Data processing expense increased $0.9 million as a result of increased transaction volume.

Other noninterest expense increased $0.7 million, principally due to a $0.4 million increase in charitable contribution expense, as well as increases in insurance, franchise tax, travel and other miscellaneous operational expenses.

The efficiency ratio, equal to noninterest expense as a percentage of tax-equivalent net interest income and total noninterest income, was 62.6 percent in 2007, compared to 59.6 percent in 2006. The calculation of the efficiency ratio excludes the impact of securities sales.

Income Tax Expense

Income tax expense from continuing operations for 2007 totaled $21.4 million, compared to $23.8 million for 2006. Income tax expense from discontinued operations was $1.0 million for 2006. There were no discontinued operations for 2007. The effective tax rate related to continuing operations was 34.1 percent and 33.4 percent for 2007 and 2006, respectively. The effective tax rate increased primarily due to the new tax legislation discussed below and in **Note 16** 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.

As a result of this legislation, during the third quarter of 2007, the Corporation recorded $1.0 million, net of reserve, of additional income tax expense as it eliminated the dividend received deduction previously recorded during 2007. This increased the Corporation s effective tax rate for 2007, and it is expected to increase the effective tax rate for future periods. Additionally, tax expense was reduced by $0.4 million as a result of the expiration of the relevant Federal statute of limitations. The net impact of these two events was a $0.6 million increase to income tax expense for 2007.

On December 31, 2007, the Superior Court of North Carolina ruled in favor of the State of North Carolina in the Wal-Mart case. This ruling was made available to the public on January 4, 2008 and the case has been appealed by the taxpayer to the North Carolina Court of Appeals. The Corporation s REIT position has certain facts that are similar as those in the above mentioned Wal-Mart case.

The Corporation is currently evaluating its reserves for uncertain tax positions in accordance with FIN 48, which requires remeasurement of uncertain tax positions to be based on the information that became available during the first quarter of 2008. The Corporation has yet to quantify the impact that the Wal-Mart case ruling will have on its consolidated financial statements, but believes the amount could be material. The Corporation s maximum exposure related to this matter is approximately $13.5 million. The Corporation will record the remeasurement of its uncertain tax position related to the impact Wal-Mart case, if any, in the first quarter of 2008.

Table of Contents

The following table provides certain selected quarterly data:

Table Eight
Selected Financial Data by Quarter

	2007 Quarters				2006 Quarter		
pt per share amounts)	Fourth	Third	Second	First	Fourth	Third	Se
	$ 75,660	$ 78,727	$ 78,291	$ 77,214	$ 74,456	$ 67,085	$
	40,284	41,496	40,747	40,479	38,441	34,127	
	35,376	37,231	37,544	36,735	36,015	32,958	
	6,144	3,311	9,124	1,366	1,486	1,405	
	20,120	18,427	20,141	19,566	17,388	17,007	
	35,845	35,556	35,207	35,920	33,853	29,655	
erations before income							
	13,507	16,791	13,354	19,015	18,064	18,905	
	4,576	5,724	4,404	6,659	5,962	6,223	
erations, net of tax	8,931	11,067	8,950	12,356	12,102	12,682	
nued operations					(162)		
					962		
					887		
nued operations, net of							
					(87)		
	$ 8,931	$ 11,067	$ 8,950	$ 12,356	$ 12,015	$ 12,682	$
erations, net of tax	$ 0.25	$ 0.32	$ 0.26	$ 0.36	$ 0.36	$ 0.41	$
operations, net of tax							
	0.25	0.32	0.26	0.36	0.36	0.41	
e							
erations, net of tax	0.25	0.32	0.26	0.35	0.36	0.40	
operations, net of tax							

	0.25	0.32	0.26	0.35	0.36	0.40	
	34,562	34,423	34,698	34,770	33,269	31,056	
	35,053	34,796	34,987	35,086	33,584	31,427	
	$ 0.195	$ 0.195	$ 0.195	$ 0.195	$ 0.195	$ 0.195	$
	13.39	13.16	12.85	12.97	12.81	11.20	
	7.67%	9.72%	7.86%	11.09%	11.69%	14.76%	
	0.74	0.91	0.74	1.03	1.02	1.16	
1)	3.25	3.39	3.42	3.38	3.40	3.33	
verage deposits	108.72	109.37	109.50	107.98	105.88	103.37	
ssets	9.59	9.33	9.37	9.28	8.75	7.86	
	64.2	63.2	60.4	63.1	62.6	52.6	
ces							
	$ 3,460,593	$ 3,434,389	$ 3,509,047	$ 3,494,015	$ 3,450,087	$ 3,061,864	$ 3,0
	14,145	10,362	11,471	13,691	12,292	10,923	
	42,414	43,017	44,790	35,854	34,966	29,919	
	909,661	907,608	898,528	897,762	906,415	899,120	8
	4,862,417	4,839,693	4,916,721	4,884,495	4,856,717	4,382,507	4,3
	3,221,619	3,208,026	3,230,346	3,321,366	3,248,128	2,954,854	2,9
	1,120,141	1,113,332	1,176,758	1,044,229	1,098,698	1,031,798	9
	4,394,073	4,382,205	4,470,893	4,429,123	4,409,355	4,033,069	4,0
	468,344	457,488	445,828	455,372	447,362	349,438	3
	3,488,598	3,514,699	3,532,713	3,510,437	3,336,563	3,070,286	3,0
	10,028	9,345	11,127	11,431	10,757	8,792	
	901,068	914,569	914,606	926,970	924,773	923,293	9
	4,412,038	4,445,923	4,467,031	4,463,161	4,284,735	4,013,745	3,9
	4,819,264	4,846,399	4,874,742	4,871,083	4,664,431	4,336,270	4,2
	3,208,859	3,213,507	3,226,308	3,251,137	3,151,120	2,970,047	2,7
	1,103,585	1,124,021	1,131,599	1,113,191	1,054,550	984,504	1,1
	461,972	451,946	456,634	451,835	407,929	340,986	3

(1) *Annualized.*

(2) *Noninterest expense less debt extinguishment expense and derivative termination costs, 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.*

(3) *Includes available for sale securities and Federal Home Loan Bank and Federal Reserve Bank stock.*

Table of Contents

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 a date within close proximity to 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 December 31, 2007, securities available for sale were $860.7 million, compared to $856.5 million at December 31, 2006. Pretax unrealized net losses on securities available for sale were $2.4 million at December 31, 2007, compared to pretax unrealized net losses of $9.8 million at December 31, 2006. A decrease in market interest rates, the recognition of approximately $48,000 of other-than-temporary impairment losses during the year, pay downs and maturities of existing maturities totaling $258.0 million, and the sale of $18.7 million of securities led to the reduction in the unrealized losses between December 31, 2006 and December 31, 2007.

During 2007, proceeds from the aforementioned sale of securities, along with maturities, paydowns, and calls were used to purchase $273.7 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 obligations, (ii) U.S. government agency obligations, (iii) mortgage-backed securities, (iv) state, county, and municipal obligations, (v) asset-backed securities, and (vi) equity securities.

Table Nine
Investment Portfolio

	December 31		
(In thousands)	**2007**	2006	2005
U.S. government obligations	**$**	$	$ 14,878
U.S. government agency obligations	**146,554**	275,394	320,407
Mortgage-backed securities	**565,434**	412,020	405,450
State, county, and municipal obligations	**92,938**	102,602	108,996
Asset-backed securities	**54,229**	65,115	4,994
Equity securities	**1,516**	1,356	1,303
Total	**$ 860,671**	$ 856,487	$ 856,028

Loan Portfolio

The Corporation s loan portfolio at December 31, 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 December 31, 2007, the Corporation s total loan portfolio included $277.7 million of loans originated through the strategic partners program and correspondent relationships.

Commercial Non Real Estate

The Corporation s commercial non real estate lending program is generally targeted to serve small-to-middle market businesses with annual sales of $50 million or less in the Corporation s geographic area. Commercial non real estate lending includes commercial, financial, agricultural and industrial loans. Pricing on commercial non real estate loans is usually tied to widely recognized market indexes, such as the prime rate, the London InterBank Offer Rate (LIBOR), the U.S. dollar interest-rate swap curve, or rates on U.S. Treasury securities.

Commercial Real Estate

Similar to commercial non real estate lending, the Corporation s commercial real estate lending program is generally targeted to serve small-to-middle market businesses and local developers with annual sales of $50 million or less in the Corporation s geographic area. The real estate loans are both owner occupied and project related.

Construction

Real estate construction loans include both commercial and residential construction, together with construction/permanent loans, which are intended to convert to permanent loans upon completion of the construction project. Loans for commercial construction are usually to in-market developers, builders, businesses, individuals or real estate investors for the construction of commercial structures, primarily in the Corporation s market area. Loans are made for purposes including, but not limited to, the construction of industrial facilities, apartments, shopping centers, office buildings, homes and warehouses. The properties may be constructed for sale, lease or owner-occupancy.

Mortgage

The Corporation originates one-to-four family residential mortgage loans throughout its footprint and through its loan origination office in Reston, Virginia. From time to time, the Corporation has purchased Adjustable Rate Mortgage (ARM) loans in other market areas through a correspondent relationship. At December 31, 2007, loans purchased through this relationship represented $136.7 million, or 23.5 percent, of the total mortgage loan portfolio. The majority of the purchased loans consist of interest-only ARMs, which currently reprice in 2 to 4 years. No mortgage loans have been purchased since the first quarter of 2005. The Corporation offers a full line of products, including conventional, conforming, and jumbo fixed-rate and adjustable-rate mortgages, which are originated and sold into the secondary market; however, from time to time, a portion of this production is retained and then serviced through a third-party arrangement.

Home Equity

Home equity loans and lines are secured by first and second liens on the borrower s residential real estate. As with all consumer lending, home equity loans are centrally decisioned and documented to ensure the underwriting conforms to the corporate lending policy.

Table of Contents

Consumer

The Corporation offers a wide variety of consumer loan products. Various types of secured and unsecured loans are marketed to qualifying existing customers and to other creditworthy candidates in the Corporation s market area. Unsecured loans, including revolving credits (e.g., checking account overdraft protection and personal lines of credit) are provided and various installment loan products such as lot loans, as well as vehicle and marine loans are also offered.

The table below summarizes loans in the classifications indicated.

Table Ten
Loan Portfolio Composition

	December 31				
(In thousands)	**2007**	2006	2005	2004	2003
Commercial real estate	**$ 1,073,983**	$ 1,034,317	$ 780,597	$ 776,474	$ 724,340
Commercial non real estate	**308,792**	301,958	233,409	212,031	212,010
Construction	**871,579**	793,294	517,392	332,264	358,217
Mortgage	**582,398**	618,142	660,720	449,206	391,641
Home equity	**413,873**	447,849	495,181	474,295	400,792
Consumer	**252,382**	289,493	258,619	195,422	165,804
Total portfolio loans	**3,503,007**	3,485,053	2,945,918	2,439,692	2,252,804
Allowance for loan losses	**(42,414)**	(34,966)	(28,725)	(26,872)	(25,607)
Unearned income			(173)	(291)	(167)
Portfolio loans, net	**$ 3,460,593**	$ 3,450,087	$ 2,917,020	$ 2,412,529	$ 2,227,030

Gross loans increased $18.0 million, or 0.5 percent, to $3.5 billion by December 31, 2007. Commercial and construction loans increased $124.8 million, or 5.9 percent, during 2007 with $78.3 million of the increase attributable to construction lending. Mortgage loans declined by $35.7 million, or 5.8 percent. The decline is attributable to normal principal amortizations and the Corporation s strategy to sell the bulk of new originations into the secondary market. Home equity loans declined $34.0 million, or 7.6 percent, during the year as customers refinanced first mortgages and paid off high cost home equity loans. This customer trend reversed itself during the fourth quarter due to cuts in the prime rate, which contributed to a net growth in home equity loans. Consumer loans decreased by $37.1 million, or 12.8 percent. The decline is primarily attributable to the Corporation s decision to reduce the emphasis on lot loans and shift the focus to home equity loans.

The mix of variable-rate, adjustable-rate and fixed-rate loans is incorporated into the Corporation s ALM strategy. As of December 31, 2007, of the $3.5 billion loan portfolio, $1.9 billion were tied to variable interest rates, $1.2 billion were fixed-rate loans, and $0.4 billion were ARMs with an initial fixed-rate period after which the loan rate floats on a predetermined schedule.

During the third quarter of 2006, approximately $93.9 million of consumer loans secured by real estate were transferred from the consumer loan category to the home equity ($13.5 million) and mortgage ($80.4 million) loan categories to make the balance sheet presentation more consistent with bank regulatory definitions. The balance sheet transfer had no effect on credit reporting, underwriting, reported results of operations, or liquidity. Prior period-end balances have been reclassified to conform to the current-period presentation.

Table of Contents

Deposits

A summary of deposits follows:

Table Eleven
Deposits

(In thousands)			December 31		
	2007	2006	2005	2004	2003
Noninterest bearing demand	**$ 438,313**	$ 454,975	$ 429,758	$ 377,793	$ 326,679
Interest bearing demand	**478,186**	420,774	368,291	348,677	322,471
Money market accounts	**564,053**	620,699	559,865	478,314	470,551
Savings deposits	**101,234**	111,047	119,824	119,615	118,025
Certificates of deposit	**1,639,833**	1,640,633	1,321,741	1,285,447	1,190,171
Total deposits	**$ 3,221,619**	$ 3,248,128	$ 2,799,479	$ 2,609,846	$ 2,427,897

Deposits totaled $3.2 billion at December 31, 2007 and December 31, 2006. For 2007, core deposit balances (demand, money market and savings) declined $25.7 million, or 1.6 percent. Growth in interest bearing checking of $57.4 million, or 13.6 percent, was offset with a $56.6 million, or 9.1 percent, decline in money market balances. Interest bearing checking included an increase of $43.0 million in public fund checking deposits. As rates fell during the fourth quarter of 2007, customer preference switched to certificates of deposit (CDs) and contributed to the decline in money market deposits. CDs were flat year to year at $1.64 billion. Retail and public CDs grew by $90.2 million, or 7.4 percent, while Broker CDs declined by $91.0 million. A favorable rate advantage for new retail and public CDs in the fourth quarter of 2007 relative to Broker CDs led to the change in mix.

Deposit balances in Raleigh were $71.1 million at December 31, 2007, an increase of $39.3 million from $31.8 million at December 31, 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 December 31, 2007, the Bank had federal funds back-up lines of credit totaling $648.0 million with $233.0 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 banking subsidiaries with maturities less than one year collateralized by a portion of the Corporation s United States government or agency securities. Securities with an aggregate carrying value of $124.8 million and $214.9 million at December 31, 2007 and 2006, respectively, were pledged to secure securities sold under agreements to repurchase. These borrowings are an important source of funding to the Corporation. Access to alternative short-tem funding sources allows the Corporation to meet funding needs without relying on increasing deposits on a short-term basis.

First Charter 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 December 31, 2007 was $64.2 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 December 31, 2007, the Bank had $220.0 million of short-term FHLB borrowings, compared to $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 December 31, 2007, the Bank had $505.9 million of long-term FHLB borrowings, compared to $425.9 million at December 31, 2006. In addition, the Corporation had $61.9 million of subordinated debentures at December 31, 2007 and 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 from the Corporation, which are presented as long-term borrowings in the consolidated balance sheets and qualify for inclusion in Tier 1 Capital for regulatory capital purposes, subject to certain limitations.

The following is a schedule of other borrowings which consists of federal funds purchased and securities sold under repurchase agreements, commercial paper, and other short-term borrowings:

Table Twelve
Other Borrowings

	December 31					
	2007		2006		2005	
(Dollars in thousands)	**Balance**	Rate	Balance	Rate	Balance	Rate
Federal funds purchased and securities sold under agreements to repurchase:						
Balance as of	**$ 268,232**	**3.77%**	$ 201,713	4.60%	$ 312,283	3.01%
Average balance for the year	**220,352**	**4.59**	260,548	4.24	348,051	2.94
Maximum outstanding at any month-end	**293,346**		323,775		494,566	
Commercial paper:						
Balance as of	**64,180**	**2.76**	38,191	2.72	58,432	1.79
Average balance for the year	**28,430**	**2.91**	26,239	2.41	40,786	1.62
Maximum outstanding at any month-end	**77,844**		43,057		58,432	
Other short-term borrowings:						
Balance as of	**220,000**	**4.61**	371,000	5.35	140,000	4.39
Average balance for the year	**308,332**	**5.27**	145,419	5.08	266,121	3.32
Maximum outstanding at any month-end	**467,000**		371,000		716,000	

Table of Contents

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 prepared 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 December 31, 2007, the Corporation had a legal lending limit of $69.1 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.

The Corporation utilizes a consumer loan platform for servicing of its customers by providing loan officers with tools and real-time access to credit bureau information at the time of loan application. This platform also delivers reporting capabilities and 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 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 of 2007, the Bank identified a large exposure to undeveloped lots in real estate development projects in Spruce Pine, North Carolina (Penland). 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) strengthening internal controls to enhance the Corporation s ability to identify fraud.

At December 31, 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.

Previously, certain of the Corporation s construction and real estate loans were originated through HomeBanc Corporation (HomeBanc). HomeBanc serviced the loans it originated on behalf of First Charter. On August 1, 2007, HomeBanc declared bankruptcy and, as a result, First Charter began servicing its loans that had been originated through HomeBanc. As of December 31, 2007, the Corporation s balance of HomeBanc originated loans was $97.6 million. As of December 31, 2007, ten loans, approximating $4.0 million, were in dispute as a result of the HomeBanc bankruptcy. Based on the advice of counsel, the Corporation expects to be successful in resolving its dispute with HomeBanc and a secured lender to HomeBanc.

Derivatives

Credit risk associated with derivatives is measured as the net replacement cost should the counter-parties with contracts in a gain position to the Corporation fail to perform under the terms of those contracts after considering recoveries of underlying collateral and netting agreements. In managing derivative credit risk, both the current exposure, which is the replacement cost of contracts on the measurement date, as well as an estimate of the potential change in value of contracts over their remaining lives are considered. To minimize credit risk, the Corporation enters into legally enforceable master netting agreements, which reduce risk by permitting the closeout and netting of transactions with the same counter-party upon the occurrence of certain events. In addition, the Corporation reduces risk by obtaining collateral based on individual assessments of the counter-parties to these agreements. The determination of the need for and levels of collateral will vary depending on the credit risk rating of the counter-party. As previously disclosed, the Corporation repositioned its balance sheet in the fourth quarter of 2005. As a result, the

Corporation extinguished $222 million in debt and related interest-rate swaps in October of 2005. As of December 31, 2007 and 2006, the Corporation had no interest rate swap agreements or other derivative transactions outstanding.

Table of Contents

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 December 31, 2007, no loans were 90 days or more past due and still accruing interest.

A summary of nonperforming assets follows:

Table Thirteen
Nonperforming Assets

	December 31				
(Dollars in thousands)	**2007**	2006	2005	2004	2003
Nonaccrual loans	**$ 28,695**	$ 8,200	$ 10,811	$ 13,970	$ 14,910
Loans 90 days or more past due accruing interest					21
Total nonperforming loans	**28,695**	8,200	10,811	13,970	14,931
Other real estate	**10,056**	6,477	5,124	3,844	6,836
Nonperforming assets	**$ 38,751**	$ 14,677	$ 15,935	$ 17,814	$ 21,767
Nonaccrual loans as a percentage of total portfolio loans	**0.82%**	0.24%	0.37%	0.57%	0.66%
Nonperforming assets as a percentage of:					
Total assets	**0.80**	0.30	0.38	0.40	0.52
Total portfolio loans and other real estate	**1.11**	0.42	0.54	0.73	0.96
Net charge-offs to average portfolio loans	**0.36**	0.11	0.27	0.28	0.39

Allowance for loan losses to portfolio loans	**1.21**	1.00	0.98	1.10	1.14
Allowance for loan losses to net charge-offs	**3.39x**	10.73x	3.84x	4.09x	3.07x
Allowance for loan losses to nonperforming loans	**1.48**	4.26	2.66	1.92	1.72

Nonaccrual loans totaled $28.7 million, or 0.82 percent of total portfolio loans, at December 31, 2007, representing a $20.5 million increase from $8.2 million, or 0.24 percent of total portfolio loans, at December 31, 2006. Nonperforming assets as a percentage of total loans and OREO increased to 1.11 percent at December 31, 2007, compared to 0.42 percent at December 31, 2006.

As of December 31, 2007, $7.4 million of nonperforming loans were attributable to HomeBanc. Nonperforming loans attributable to Penland were $1.1 million. Commercial nonaccrual loans increased $9.7 million over December 31, 2006; one commercial relationship was the principle contributor of this increase with a nonaccrual loan balance of $6.5 million as of December 31, 2007.

Nonaccrual loans at December 31, 2007 were concentrated 25.6 percent in HomeBanc loans, 4.5 percent in the Penland lot loans and 8.5 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 loans losses. See **Allowance for Loan Losses** for a more detailed discussion.

Table of Contents

In January 2008, management identified a $5.5 million commercial construction loan as a potential problem loan and placed the loan on nonaccrual status. As a result, in January 2008, the Corporation increased its provision for loan losses by approximately $850,000 related to this loan.

In late February 2008, management identified two additional commercial construction loans with an aggregate balance of $13.1 million as potential problem loans. Management is currently evaluating the loans and is uncertain at this time what, if any, impact there will be to the provision for loan losses.

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.

The Corporation monitors its loss estimate percentage attributable to economic factors in its allowance for loan loss model. 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. Given the recent trends in the national and local economic environment, including a slow-down in the national and local housing markets and moderate increases in the unemployment rate, the Corporation has increased its estimated loss percentages for economic factors for the year ended December 31, 2007.

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 year ended December 31, 2007, the Corporation increased its allocation for operational risk factors due to increased portfolio risks associated with the Penland and HomeBanc loans and the heightened potential employee attrition risks associated with the proposed merger with Fifth Third.

Changes in the allowance for loan losses follow:

Table Fourteen
Allowance For Loan Losses

	For the Calendar Year				
(Dollars in thousands)	**2007**	2006	2005	2004	2003
Balance at beginning of period	**$ 34,966**	$ 28,725	$ 26,872	$ 25,607	$ 27,204
Charge-offs					
Commercial non real estate	**428**	723	3,116	1,449	3,484
Commercial real estate	**1,422**	762	1,967	2,791	1,898
Construction	**365**		7		
Mortgage	**138**	148	167	29	31
Home equity	**482**	1,108	857	1,008	685
Consumer	**11,003**	1,837	2,538	3,275	3,382
Total charge-offs	**13,838**	4,578	8,652	8,552	9,480
Recoveries					
Commercial non real estate	**763**	643	542	894	451
Commercial real estate	**2**				4
Construction					24
Mortgage	**54**	35	36	29	
Home equity		1	39		
Consumer	**522**	639	545	1,053	635
Other					34
Total recoveries	**1,341**	1,318	1,162	1,976	1,148
Net charge-offs	**12,497**	3,260	7,490	6,576	8,332
Provision for loan losses	**19,945**	5,290	9,343	8,425	27,518
Allowance of acquired company		4,211			
Allowance related to loans sold				(584)	(20,783)

Balance at end of period	**$ 42,414**	$ 34,966	$ 28,725	$ 26,872	$ 25,607
Average portfolio loans	**$ 3,511,560**	$ 3,092,801	$ 2,788,755	$ 2,353,605	$ 2,126,821
Net charge-offs to average portfolio loans	**0.36%**	0.11%	0.27%	0.28%	0.39%
Allowance for loan losses to portfolio loans	**1.21**	1.00	0.98	1.10	1.14

The Corporation s charge-off policy meets or exceeds regulatory minimums. Past-due status is based on contractual payment date. Losses on unsecured consumer debt are recognized at 90 days past due, compared to the regulatory loss criteria of 120 days. Secured consumer loans, including residential real estate, are typically charged-off between 120 and 180 days to the estimated collateral fair value, depending on the collateral type, in compliance with the Federal Financial Institutions Examination Council guidelines. Losses on commercial loans are recognized promptly upon determination that all or a portion of any loan balance is uncollectible. Any deficiency that exists after liquidation of collateral will be taken as a charge-off. Subsequent payment received will be treated as a recovery when collected.

The allowance for loan losses was $42.4 million, or 1.21 percent of portfolio loans, at December 31, 2007, compared to $35.0 million, or 1.00 percent of portfolio loans, at December 31, 2006. The Corporation s credit migration trends, increase in economic and operational risk, and Penland lot loans led to the higher allowance for loan loss ratio in 2007.

Table of Contents

The following table presents the dollar amount of the allowance for loan losses applicable to major loan categories and the percentage of the loans in each category to total loans. The amount of the allowance assigned to each loan category reflects both the absolute level of outstandings and the historical loss experience of the loans adjusted for current economic events or conditions.

Table Fifteen
Allocation of the Allowance for Loan Losses

	December 31									
	2007		2006		2005		2004		2003	
ollars in thousands)	**Amount**	**Loan/ Total Loans**	Amount	Loan/ Total Loans	Amount	Loan/ Total Loans	Amount	Loan/ Total Loans	Amount	Loar Tota Loar
mmercial real estate	**$ 19,618**	**31%**	$ 15,638	30%	$ 9,877	27%	$ 11,317	32%	$ 12,011	32
mmercial non real ate	**3,999**	**9**	2,847	8	5,007	8	4,496	9	4,368	9
nstruction	**9,985**	**25**	8,059	23	4,559	18	4,842	14	3,584	16
ortgage	**2,533**	**16**	2,441	18	2,351	19	980	14	812	13
me equity	**2,291**	**7**	2,550	13	2,887	16	1,392	19	1,263	17
nsumer	**3,988**	**12**	3,431	8	4,044	12	3,845	12	3,569	13
tal	**$ 42,414**	**100%**	$ 34,966	100%	$ 28,725	100%	$ 26,872	100%	$ 25,607	100

During 2007, the allowance for loan losses increased $7.4 million. The allowance was impacted by changes in the allocation of loan losses to various loan types. The allowance for impaired loans increased $4.1 million during the year, which primarily affected commercial and construction loan types. Additionally, greater uncertainty of the credit environment resulted in an increase in allowance of $1.4 million, which impacted all loan types. Lastly, Penland related allowance resulted in a $1.3 million increase, affecting consumer by $0.9 million and commercial real estate by $0.4 million. The remainder of the increase is explained by loan portfolio growth, continued mix change in the composition of the loan portfolio as the percentage of commercial loans continues to increase, and credit migration within the portfolio. At December 31, 2007 and 2006, the allocation associated with the inherent risk in modeling the allowance for loan losses was $1.2 million.

Management considers the allowance for loan losses adequate to cover inherent losses in the Corporation s loan portfolio as of the date of the consolidated 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.

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. Changes in these factors provided approximately an additional $1.4 million during 2007. 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.**

For 2007, the provision for loan losses was $19.9 million, while net charge-offs were $12.5 million, or 0.36 percent of average portfolio loans. Net charge-offs included $10.4 million related to the Penland residential loan portfolio. For 2006, the provision for loan losses was $5.3 million and net charge-offs were $3.3 million, or 0.11 percent of average portfolio loans.

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 December 31, 2007 and 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 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 December 31, 2007, the estimated EAR to a 200 basis point increase in rates was plus 2.1 percent while the estimated EAR to a 200 basis point decrease in rates was minus 4.7 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 December 31, 2007, the estimated EVE to a 200 basis point increase in rates was minus 10.9 percent, while the estimated EVE to a 200 basis point decrease in rates was plus 0.3 percent. This compares with minus 7.4 percent and plus 3.1 percent, respectively at December 31, 2006. 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

Table of Contents

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 Sixteen summarizes, as of December 31, 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 noninterest-bearing bank deposits are excluded from **Table Sixteen** 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 December 31, 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.

Table Sixteen
Market Risk

				Expected Maturity			
(Dollars in thousands)	**Total**	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**Thereafter**
Assets							
Debt securities							
Fixed rate							
Cost	$ 555,051	$ 284,278	$ 171,453	$ 67,003	$ 19,774	$ 2,938	$ 9,605
Weighted-average effective yield	4.94%						
Fair value	$ 555,077						
Variable rate							
Cost	$ 306,636	52,756	52,585	52,890	53,313	9,611	85,481
Weighted-average effective yield	5.32%						
Fair value	$ 304,078						
Loans and loans held for sale							
Fixed rate							
Book value	$ 1,006,920	262,104	195,403	169,564	120,736	118,362	140,751
Weighted-average effective yield	7.06%						
Fair value	$ 1,001,210						
Variable rate							
Book value	$ 2,467,818	1,307,997	277,011	180,438	99,702	64,746	537,924
Weighted-average effective yield	6.97%						
Fair value	$ 2,484,468						

Liabilities							
Deposits							
Fixed rate							
Book value	$ 1,639,833	1,526,959	84,975	14,017	6,936	6,351	595
Weighted-average effective yield	4.78%						
Fair value	$ 1,647,780						
Variable rate							
Book value	$ 1,143,473	280,750	280,583	280,258	131,823	79,593	90,466
Weighted-average effective yield	2.02%						
Fair value	$ 1,087,544						
Long-term borrowings							
Fixed rate							
Book value	$ 195,872	20,057	75,060	63	100,032	22	638
Weighted-average effective yield	4.79%						
Fair value	$ 195,765						
Variable rate							
Book value	$ 371,857		235,000	25,000	50,000		61,857
Weighted-average effective yield	4.22%						
Fair value	$ 372,553						

Table of Contents

Table Seventeen presents the contractual maturity distribution and interest sensitivity of commercial and construction loan categories at December 31, 2007. This table excludes nonaccrual loans.

Table Seventeen
Maturity and Sensitivity to Changes in Interest Rates

(In thousands)	Commercial Real Estate	Commercial Non Real Estate	Construction	Total
Fixed rate:				
1 year or less	$ 46,083	$ 12,075	$ 64,798	$ 122,956
1-5 years	269,933	59,842	33,980	363,755
After 5 years	127,622	80,515	27,217	235,354
Total fixed rate	443,638	152,432	125,995	722,065
Variable rate:				
1 year or less	314,048	103,499	597,533	1,015,080
1-5 years	276,496	37,684	117,105	431,285
After 5 years	30,105	10,999	10,275	51,379
Total variable rate	620,649	152,182	724,913	1,497,744
Total commercial and construction loans	$ 1,064,287	$ 304,614	$ 850,908	$ 2,219,809

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 $83.1 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 20** of the consolidated financial statements for further discussion of commitments. The Corporation does not have any off-balance-sheet financing arrangements, other than

Trust Securities, refer to **Note 15** of the consolidated financial statements.

Table of Contents

The following table presents aggregated information and expected maturities of commitments as of December 31, 2007.

Table Eighteen
Commitments

(In thousands)	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years	Timing not determinable	Total
Loan commitments	$ 639,812	$ 157,611	$ 9,977	$ 99,279	$	$ 906,679
Lines of credit	29,928	1,174	4,002	456,451		491,555
Standby letters of credit	18,563	8,059				26,622
Anticipated tax settlements					10,189	10,189
Total commitments	$ 688,303	$ 166,844	$ 13,979	$ 555,730	$ 10,189	$ 1,435,045

Commitments to extend credit, including loan commitments, standby letters of credit, 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. The Corporation s asset-liability management objectives include 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 $64.2 million at December 31, 2007. Primary uses of funds for the Corporation include repayment of commercial paper, share repurchases, and dividends paid to shareholders. During 2005, the Corporation issued trust preferred securities through specially formed trusts. These securities are presented as long-term borrowings in the consolidated balance sheets 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 December 31, 2007, the Bank had an available line of

credit with the FHLB totaling $1.5 billion, with $725.9 million outstanding. At December 31, 2007, the Bank also had $648.0 million of federal funds lines, with $233.0 million outstanding.

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

The Corporation has existing contractual obligations that will require payments in future periods. The following table presents aggregated information about such payments to be made in future periods. The

54

Table of Contents

Corporation generally anticipates refinancing or renewing, during 2008, contractual obligations that are due in less than one year.

Table Nineteen
Contractual Obligations

	Payments Due by Period				
(In thousands)	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**Over 5 Years**	**Total**
Other borrowings long-term debt	$ 20,000	$ 385,000	$ 100,130	$ 62,599	$ 567,729
Operating lease obligations	3,813	6,869	5,302	32,125	48,109
Purchase obligations[1]	9,130	6,803	3,226		19,159
Equity method investees funding	1,120				1,120
Deposits[2]	3,108,885	99,418	13,286	30	3,221,619
Other obligations[3]	1,890	2,701	1,392	6,245	12,228
Total contractual obligations	$ 3,144,838	$ 500,791	$ 123,336	$ 100,999	$ 3,869,964

(1) *Represents obligations under existing executory contracts.*

(2) *Deposits with no stated maturity (demand, money market, and savings deposits) are presented in the less than one year category.*

(3) *Represents obligations under employment, severance and retirement contracts and commitments to fund affordable housing investments.*

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
Capital Measures

	December 31	
	2007	2006

(Dollars in thousands)	**Amount**	**Ratio**	Amount	Ratio
Total equity/total assets				
First Charter Corporation	**$ 468,344**	**9.63%**	$ 447,362	9.21%
First Charter Bank	**499,322**	**10.30**	371,459	8.45
Gwinnett Banking Company	**N/A**	**N/A**	102,189	22.02
Tangible equity/tangible assets (1)				
First Charter Corporation	**$ 385,473**	**8.07%**	$ 362,294	7.59%
First Charter Bank	**416,450**	**8.74**	351,246	8.03
Gwinnett Banking Company	**N/A**	**N/A**	37,334	9.35

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

Shareholders equity at December 31, 2007 increased to $468.3 million, representing 9.6 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 increase in shareholders equity partially resulted from net income of $41.3 million and $13.5 million of stock issued under stock-based compensation plans and the Corporation s dividend reinvestment plan. This increase was partially offset by cash dividends of $0.78 per

common share, which resulted in cash dividend declarations of $27.2 million for the twelve months ended December 31, 2007 and the repurchase of 500,000 shares of common stock during the second quarter, which decreased equity by $10.6 million. Additionally, accumulated other comprehensive loss (after-tax unrealized losses on available-for-sale securities) decreased $4.5 million to $1.4 million at December 31, 2007, compared to $5.9 million at December 31, 2006.

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 December 31, 2007, the Corporation had repurchased all shares of its common stock under this authorization, at an average per-share price of $17.82, which 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. As of December 31, 2007, the Corporation had repurchased 374,600 shares under this authorization at an average per-share price of $21.19, which reduced shareholders equity by $8.0 million.

The Corporation has remaining authority to repurchase 1.1 million shares of its common stock. The Corporation does not anticipate repurchasing any additional shares due to the proposed merger with Fifth Third.

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 (Notes). The Notes are presented as long-term borrowings in the consolidated balance sheets 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 December 31, 2007, the Corporation and the Bank were classified as well capitalized under these regulatory frameworks.

The principal asset of the Corporation is its investment in the Bank. Thus, the Corporation derives its principal source of income through dividends from the Bank. Certain regulatory and other requirements restrict the lending of funds by the subsidiary bank to the Corporation and the amount of dividends which can be paid to the Corporation. In addition, certain regulatory agencies may prohibit the payment of dividends by the Bank if they determine that such payment would constitute an unsafe or unsound practice. See **Business-Government Supervision and Regulation, Business Capital and Operational Requirements** and **Note 23** of notes to consolidated financial statements for additional discussion of these restrictions.

The Corporation and the Bank must comply with regulatory capital requirements established by the applicable federal regulatory agencies. Under the standards of the Federal Reserve Board, the Corporation and the Bank must maintain a minimum ratio of Tier I Capital (as defined) to total risk-weighted assets of 4.00 percent and a minimum ratio of Total Capital (as defined) to risk-weighted assets of 8.00 percent. Tier 1 Capital includes common shareholders equity, trust preferred securities, minority interests and qualifying preferred stock, less goodwill and other adjustments. Total Capital is comprised of Tier I Capital plus certain adjustments, the largest of which for the Corporation is the allowance for loan losses (up to 1.25 percent of risk-weighted assets).Total Capital must consist of at least 50 percent of Tier 1 Capital. Risk-weighted assets refer to the on- and off-balance sheet exposures of the Corporation adjusted for their related risk levels using amounts set forth in Federal Reserve standards.

In addition to the aforementioned risk-based capital requirements, the Corporation is subject to a leverage capital requirement, requiring a minimum ratio of Tier I Capital (as defined previously) to total adjusted average assets of 3.00 percent to 5.00 percent.

Table of Contents

The Bank also has similar regulatory capital requirements imposed by the Federal Reserve Board. See **Business Government Supervision and Regulation, Business Capital and Operational Requirements** and **Note 23** of notes to consolidated financial statements for additional discussion of these requirements.

At December 31, 2007, the Corporation and the Bank were in compliance with all existing capital requirements and were classified as well capitalized under regulatory capital guidelines. In the judgment of management, there have been no events or conditions since December 31, 2007, that would change the well capitalized status of the Corporation or the Bank. It is management s intention for both the Corporation and the Bank to continue to be well capitalized for the foreseeable future. The capital requirements of the Corporation and the Bank are summarized in the table below as of December 31, 2007:

Table Twenty-One
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	**$ 446,890**	**9.43%**	**$ 189,630**	**4.00%**	**None**	**None**
First Charter Bank	**417,979**	**8.83**	**189,252**	**4.00**	**$ 236,565**	**5.00%**
Tier I Capital						
First Charter Corporation	**$ 446,890**	**11.17%**	**$ 159,985**	**4.00%**	**None**	**None**
First Charter Bank	**417,979**	**10.47**	**159,732**	**4.00**	**$ 239,598**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$ 489,389**	**12.24%**	**$ 319,970**	**8.00%**	**None**	**None**
First Charter Bank	**460,393**	**11.53**	**319,464**	**8.00**	**$ 399,330**	**10.00%**

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 (principal 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 Capital and the Total Risk-Based Capital ratios are computed by dividing the respective capital amounts by risk-weighted assets, as defined.

2006 VERSUS 2005

The following discussion and analysis provides a comparison or the Corporation s results of operations for 2006 and 2005. This discussion should be read in conjunction with the consolidated financial statements and related notes. In addition, **Table One** contains financial data to supplement this discussion.

Overview

Net income amounted to $47.4 million, or $1.49 per diluted share, for the year ended December 31, 2006, a $22.1 million increase from net income of $25.3 million, or $0.82 per diluted share, for the year ended December 31, 2005.

The return on average assets and return on average equity was 1.08 percent and 13.45 percent in 2006, respectively, compared to 0.56 percent and 7.86 percent in 2005, respectively. During 2006 and 2005, several material transactions occurred, which impacted noninterest income and expense. In 2006, these

transactions included the sale of the Corporation s employee benefits administration business, the sale of two financial centers, distributions received from the Corporation s equity method investments, the further repositioning of the Corporation s securities portfolio, the restructuring of the Corporation s BOLI investment, the acceleration of vesting on all stock options granted from 2003 to 2005, the separation expense for certain employees, and the merger costs associated with the acquisition of GBC. During 2005, these transactions included the initial repositioning of the Corporation s securities portfolio, early termination of derivatives and their associated hedged debt instruments, early extinguishment of debt, the expense associated with the retirement of a key executive, and the modification of a legacy employee benefit plan.

Net Interest Income

For 2006, net interest income totaled $133.7 million, an increase of $8.8 million, or 7.1 percent from net interest income of $124.9 million for 2005. This increase was primarily due to the Corporation s previously discussed balance sheet repositioning initiatives undertaken in the fourth quarter of 2005 and the third quarter of 2006, along with the addition of GBC s higher-margin balance sheet in the fourth quarter of 2006.

The net interest margin expanded 32 basis points to 3.37 percent in 2006, from 3.05 percent in 2005. The margin improvement benefited from the addition of GBC s higher-margin balance sheet and the continued benefits from the previously disclosed balance sheet repositionings. These benefits were partially offset by a somewhat more competitive deposit pricing environment and home equity loan attrition as a result of customers refinancing adjustable-rate home equity loans into fixed-rate mortgage loans. Since the balance sheet repositioning occurred in late October 2005, the benefit to the net interest margin for 2005 was minimal.

Provision for Loan Losses

The provision for loan losses for 2006 was $5.3 million, compared to $9.3 million for 2005. The decrease in the provision for loan losses was primarily attributable to improved credit quality trends and a decrease in net charge-offs. Net charge-offs for 2006 were $3.3 million, or 0.11 percent of average portfolio loans, compared to $7.5 million, or 0.27 percent of average portfolio loans for 2005.

Noninterest Income

Noninterest income from continuing operations increased $21.0 million in 2006, or 44.8 percent, to $67.7 million, compared to $46.7 million in 2005.

The increase was primarily due to:

- a reduction in net securities losses incurred in the balance sheet repositionings of $10.9 million;
- equity method investment gains of $4.3 million;
- gains from the sale of two financial centers and other assets (excluding SEBS) of $1.6 million;
- additional debit and ATM fees of $1.7 million; and
- service charges on deposits of $1.2 million.

Partially offsetting this increase was:

a BOLI revenue decrease of $0.8 million due to death benefits received in 2005 that did not recur in 2006; and

a charge in 2006 of $0.3 million to restructure the BOLI, partially offset by increased revenue resulting from the restructuring and increased investment.

Noninterest Expense

Noninterest expense from continuing operations totaled $124.9 million for 2006, a decrease of $3.1 million compared to $128.0 million for 2005. Noninterest expense in 2005 included a $7.8 million charge to

terminate derivative transactions, a $6.9 million charge due to the early extinguishment of debt and a $1.4 million reduction in occupancy and equipment expense due to a correction related to the Corporation s fixed asset records. These items did not recur in 2006.

Increases in noninterest expense were primarily due to:

Salaries and employee benefits costs increased $7.8 million in 2006. Of the increase, approximately $2.0 million was due to additional personnel in the Raleigh market and $1.1 million was due to the GBC acquisition. Beginning in 2006, the Corporation began expensing all stock-based compensation awards in accordance with SFAS 123(R). Equity-based compensation expense for 2006 totaled $2.8 million, including $0.7 million of expense related to the vesting of all stock options granted from 2003 to 2005, whereas restricted stock expense in 2005 was $0.2 million. These increases were partially offset by a $1.1 million expense associated with a legacy employee benefit plan in 2005, which did not recur in 2006, along with a $0.4 million favorable actuarial revision to a medical reserve and a $0.5 million favorable reduction in the medical claims IBNR, both recognized in 2006.

Occupancy and equipment expense increased $1.6 million due to additional financial center lease and depreciation costs, of which approximately $1.1 million related to additional Raleigh financial centers.

Professional services expense increased $0.7 million, reflecting an increase in outsourced services over 2005.

Data processing expense increased $0.6 million as a result of increased transaction volume.

The efficiency ratio was 59.6 percent in 2006, compared to 59.4 percent in 2005. The calculation of the efficiency ratio excludes the impact of securities sales in both years and the debt extinguishment and derivative termination charges related to the balance sheet repositioning in 2005.

Income Tax Expense

Income tax expense from continuing operations for 2006 amounted to $23.8 million, compared to $9.1 million for 2005. The effective tax rate related to continuing operations was 33.4 percent and 26.6 percent for 2006 and 2005, respectively. The lower effective tax rate in 2005 was primarily attributable to the decrease in income, principally resulting from the balance sheet repositioning, relative to nontaxable adjustments. The effective tax rate for both years was lowered by the reduction in previously accrued taxes due to reduced risk on certain tax contingencies. For further discussion, see **Note 16** of the consolidated financial statements.

Regulatory Recommendations

The Corporation and the Bank are subject to federal and state banking regulatory reviews from time to time. As a result of these reviews, the Corporation and the Bank receive various observations and recommendations from their respective regulators. Observations are matters that are informative, advisory, or that suggest a means of improving the performance or management of the operations of the Corporation. Recommendations are provided to enhance oversight of, or to improve or strengthen, the Corporation s or the Bank s processes. The Corporation does not believe that these observations and recommendations are material to the Corporation. In addition, neither the Corporation nor the Bank is currently subject to any formal or informal corrective action with respect to any of their regulators.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51,* which, among other things, provides guidance and establishes amended accounting and reporting standards for a parent company s noncontrolling interest in a subsidiary. The

Corporation is currently evaluating the impact of adopting the statement, which is effective for fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, which replaces SFAS 141, *Business Combinations*. SFAS 141(R), among other things, establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed (including intangibles) and any noncontrolling interests in the acquired entity. The Corporation is currently evaluating the impact of adopting the statement, which is effective for fiscal years beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS 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. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Corporation did not elect the fair value option as of January 1, 2008 for any of its financial assets or financial liabilities and, accordingly, the adoption of the statement did not have a material impact on the Corporation s consolidated financial statements.

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 adopted the guidance of SFAS 157 beginning January 1, 2008, and the adoption of the statement did not have a material impact on the Corporation s consolidated financial statements.

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 for all of its servicing assets. The initial adoption of SFAS 156 did not have an impact on the Corporation s consolidated financial statements.

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. The Corporation adopted SFAS 155 as of January 1, 2007 and 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 No. 48, (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. The Corporation has a liability for unrecognized tax benefits relating to uncertain tax positions and, as a result of adopting FIN 48 on January 1, 2007, the Corporation reduced this liability by approximately $29,000 and recognized a cumulative effect adjustment as an increase to retained earnings.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-*4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements.* EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity s obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee s active service period based on the future cost of insurance to be incurred during the employee s retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions*. The Corporation adopted EITF 06-4 effective as of January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings. The amount of the adjustment was not significant.

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings,* (SAB 109). SAB 109 supersedes guidance provided by SAB 105, *Loan Commitments Accounted for as Derivative Instruments,* (SAB 105) and provides guidance on written loan commitments accounted for at fair value through earnings. Specifically, SAB 109 addresses the inclusion of expected net future cash flows related to the associated servicing of a loan in the measurement of all written loan commitments accounted for at fair value through earnings. In addition, SAB 109 retains the SEC s position on the exclusion of internally-developed intangible assets as part of the fair value of a derivative loan commitment originally established in SAB 105. The Corporation adopted SAB 109 as of January 1, 2008 and the adoption of SAB 109 did not have a material impact on the Corporation s consolidated financial statements.

The Corporation has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements or do not apply to its operations.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

The information called for by Item 7A is set forth in **Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations** under the caption **Market Risk Management** and is incorporated herein by reference.

Table of Contents

Item 8. ***Financial Statements and Supplementary Data***

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
First Charter Corporation:

We have audited First Charter Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First Charter Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control over Financial Reporting.* Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Charter Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Charter Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

Charlotte, North Carolina
February 28, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
First Charter Corporation:

We have audited the accompanying consolidated balance sheets of First Charter Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Charter Corporation as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1, 2 and 4 to the consolidated financial statements, First Charter Corporation changed is method of accounting for income tax uncertainties during 2007 and changed its method for accounting for stock-based compensation and its method for quantifying errors in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Charter Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Charlotte, North Carolina
February 28, 2008

Table of Contents

First Charter Corporation
Consolidated Balance Sheets

(Dollars in thousands, except share data)	December 31 **2007**	December 31 2006
Assets		
Cash and due from banks	**$ 85,562**	$ 87,771
Federal funds sold	**10,926**	10,515
Interest-bearing bank deposits	**5,710**	4,541
Cash and cash equivalents	**102,198**	102,827
Securities available for sale (cost of $863,049 and $866,261; carrying amount of pledged collateral $654,965 and $632,918 at December 31, 2007 and 2006, respectively)	**860,671**	856,487
Federal Home Loan Bank and Federal Reserve Bank stock	**48,990**	49,928
Loans held for sale	**14,145**	12,292
Portfolio loans:		
Commercial and construction	**2,254,354**	2,129,569
Mortgage	**582,398**	618,142
Consumer	**666,255**	737,342
Total portfolio loans	**3,503,007**	3,485,053
Allowance for loan losses	**(42,414)**	(34,966)
Portfolio loans, net	**3,460,593**	3,450,087
Premises and equipment, net	**110,763**	111,588
Goodwill and other intangible assets	**82,871**	85,068
Other assets	**182,186**	188,440
Total Assets	**$ 4,862,417**	$ 4,856,717
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 438,313**	$ 454,975
Demand	**478,186**	420,774
Money market	**564,053**	620,699
Savings	**101,234**	111,047
Certificates of deposit	**1,313,482**	1,223,252
Brokered certificates of deposit	**326,351**	417,381

Total deposits	**3,221,619**	3,248,128
Federal funds purchased and securities sold under agreements to repurchase	**268,232**	201,713
Commercial paper and other short-term borrowings	**284,180**	409,191
Long-term debt	**567,729**	487,794
Accrued expenses and other liabilities	**52,313**	62,529
Total Liabilities	**4,394,073**	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 34,978,847 and 34,922,222 shares at December 31, 2007 and 2006, respectively	**233,974**	231,602
Common stock held in Rabbi Trust for deferred compensation	**(1,687)**	(1,226)
Deferred compensation payable in common stock	**1,687**	1,226
Retained earnings	**235,812**	221,678
Accumulated other comprehensive loss, net of tax	**(1,442)**	(5,918)
Total Shareholders Equity	**468,344**	447,362
Total Liabilities and Shareholders Equity	**$ 4,862,417**	$ 4,856,717

See notes to consolidated financial statements.

Table of Contents

First Charter Corporation
Consolidated Statements of Income

(Dollars in thousands, except per share amounts)	For the Calendar Year **2007**	2006	2005
Interest income			
Loans	**$ 264,600**	$ 224,937	$ 172,760
Securities	**44,786**	39,522	51,622
Federal funds sold	**282**	267	60
Interest-bearing bank deposits	**224**	203	163
Total interest income	**309,892**	264,929	224,605
Interest expense			
Deposits	**106,300**	82,448	53,456
Short-term borrowings	**26,322**	19,055	19,740
Long-term debt	**30,384**	29,716	26,526
Total interest expense	**163,006**	131,219	99,722
Net interest income	**146,886**	133,710	124,883
Provision for loan losses	**19,945**	5,290	9,343
Net interest income after provision for loan losses	**126,941**	128,420	115,540
Noninterest income			
Service charges on deposits	**30,893**	28,962	27,809
ATM, debit, and merchant fees	**10,366**	8,395	6,702
Wealth management	**3,487**	2,847	2,410
Equity method investments gains (losses), net	**1,866**	3,983	(271)
Mortgage services	**3,813**	3,062	2,873
Gain on sale of Small Business Administration loans	**1,187**	126	
Gain on sale of deposits and loans		2,825	
Brokerage services	**4,053**	3,182	3,119
Insurance services	**13,077**	13,366	12,546
Bank owned life insurance	**4,631**	3,522	4,311
Property sale gains, net	**1,706**	645	1,853
Securities gains (losses), net	**204**	(5,828)	(16,690)
Other	**2,971**	2,591	2,076

Total noninterest income		**78,254**		67,678		46,738
Noninterest expense						
Salaries and employee benefits		**79,136**		69,237		61,428
Occupancy and equipment		**18,744**		18,144		16,565
Data processing		**6,681**		5,768		5,171
Marketing		**4,587**		4,711		4,668
Postage and supplies		**4,425**		4,834		4,478
Professional services		**14,054**		8,811		8,072
Telecommunications		**2,261**		2,193		2,139
Amortization of intangibles		**1,098**		654		378
Foreclosed properties		**976**		755		386
Debt extinguishment expense						6,884
Derivative termination costs						7,770
Other		**10,566**		9,830		10,032
Total noninterest expense		**142,528**		124,937		127,971
Income from continuing operations before income tax expense		**62,667**		71,161		34,307
Income tax expense		**21,363**		23,799		9,132
Income from continuing operations, net of tax		**41,304**		47,362		25,175
Discontinued operations						
Income from discontinued operations before gain on sale and income tax expense				36		224
Gain on sale				962		
Income tax expense				965		88
Income from discontinued operations, net of tax				33		136
Net income	**$**	**41,304**	$	47,395	$	25,311
Net income per common share						
Basic						
Income from continuing operations, net of tax	**$**	**1.19**	$	1.50	$	0.83
Income from discontinued operations, net of tax						

Net income	**1.19**	1.50	0.83
Diluted			
Income from continuing operations, net of tax	**$ 1.18**	$ 1.49	$ 0.82
Income from discontinued operations, net of tax			
Net income	**1.18**	1.49	0.82
Average common shares outstanding			
Basic	**34,612,184**	31,525,366	30,457,573
Diluted	**34,988,021**	31,838,292	30,784,406
Dividends declared per common share	**$ 0.78**	$ 0.775	$ 0.76

See notes to consolidated financial statements.

First Charter Corporation
Consolidated Statements of Shareholders Equity

	Common Stock		Common Stock in Rabbi Trust for Deferred	Deferred Compensation Payable in Common		Accumulated Other Comprehensive Income	
thousands, except share and per share amounts)	Shares	Amount	Compensation	Stock	Retained Earnings	(Loss)	
ecember 31, 2004	30,054,256	$ 121,464	$ (808)	$ 808	$ 198,085	$ (4,862)	$
sive income:							
					25,311		
nrealized gains and losses on securities, net of ion adjustment for net losses included in net of income tax						(6,393)	
rehensive income							
ock purchased by Rabbi Trust for deferred on			(85)				
mpensation payable in common stock				85			
nds declared, $0.76 per share					(21,954)		
shares under stock-based compensation plans, lated tax effects	661,403	11,443					
shares pursuant to acquisition	21,277	501					
ecember 31, 2005	30,736,936	$ 133,408	$ (893)	$ 893	$ 201,442	$ (11,255)	$
adjustment to retained earnings for adoption of Note 4)					(2,745)		
sive income:							
					47,395		
nrealized gains and losses on securities, net of ion adjustment for net losses included in net of income tax						5,337	
rehensive income							
ock purchased by Rabbi Trust for deferred on			(333)				
mpensation payable in common stock				333			
nds declared, $0.775 per share					(24,414)		
	1,196,025	25,217					

shares under stock-based compensation plans, lated tax effects							
shares pursuant to acquisition	2,989,261	72,977					
ecember 31, 2006	34,922,222	$ 231,602	$ (1,226)	$ 1,226	$ 221,678	$ (5,918)	$
sive income:							
					41,304		
nrealized gains and losses on securities, net of ion adjustment for net losses included in net of income tax						**4,476**	
rehensive income							
transaction adjustment for FIN 48 (Note 16)					**29**		
ock purchased by Rabbi Trust for deferred on			**(461)**				
mpensation payable in common stock				**461**			
nds declared, $0.78 per share					**(27,199)**		
shares under stock-based compensation plans, lated tax effects	**537,485**	**13,467**					
of common stock	**(500,000)**	**(10,626)**					
shares pursuant to acquisition	**19,140**	**(469)**					
ecember 31, 2007	**34,978,847**	**$ 233,974**	**$ (1,687)**	**$ 1,687**	**$ 235,812**	**$ (1,442)**	**$**

See notes to consolidated financial statements.

Table of Contents

First Charter Corporation
Consolidated Statements of Cash Flows

(In thousands)	For the Calendar Year 2007	2006	2005
Operating activities			
Net income	**$ 41,304**	$ 47,395	$ 25,311
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**19,945**	5,290	9,343
Depreciation	**7,749**	8,443	7,876
Amortization of intangibles	**1,098**	823	538
Amortization of servicing rights	**351**	426	514
Stock-based compensation expense	**3,417**	2,791	196
Tax benefits from stock-based compensation plans	**(1,318)**	(1,568)	
Premium amortization and discount accretion, net	**409**	959	2,395
Securities (gains) losses, net	**(204)**	5,828	16,690
Net (gains) losses on sales of other real estate owned	**(234)**	87	50
Write-downs on other real estate owned	**795**	668	154
Equipment sale gains, net	**(4)**	(15)	(15)
Equity method investment (gains) losses, net	**(1,866)**	(3,983)	271
Gains on sales of loans held for sale	**(2,662)**	(1,121)	(1,465)
Gains on sales deposits and loans		(2,825)	
Gains on sale of Small Business Administration loans	**(1,187)**	(126)	
Debt extinguishment expense			6,884
Derivative termination costs			7,696
Property sale gains, net	**(1,706)**	(645)	(1,853)
Bank-owned life insurance claims			(935)
Origination of loans held for sale	**(270,205)**	(204,320)	(154,303)
Proceeds from sale of loans held for sale	**271,014**	199,596	154,647
Change in cash surrender value of life insurance	**(2,779)**	(3,604)	(1,587)
Change in other assets	**11,302**	1,661	(3,202)
Change in other liabilities	**(8,865)**	20,870	(16,291)
Net cash provided by operating activities	**66,354**	76,630	52,914
Investing activities			
Proceeds from sales of securities available for sale	**18,680**	160,941	644,770
Proceeds from sales of FHLB and Federal Reserve Bank stock	**19,874**	40,413	7,813
Proceeds from maturities, calls and paydowns of securities available for sale	**258,007**	122,691	164,616

Proceeds from maturities, calls and paydowns of FHLB and Federal Reserve Bank stock	**1,770**		1,575
Purchases of securities available for sale	**(273,669)**	(282,200)	(81,978)
Purchases of FHLB and Federal Reserve Bank stock	**(20,706)**	(47,258)	(12,888)
Net change in loans	**(40,381)**	(554,207)	(520,366)
Loans sold in branch sale		8,078	
Proceeds from sales of other real estate owned	**5,790**	5,840	5,048
Purchase of bank-owned life insurance		(15,876)	
Proceeds from equity method distributions		4,060	
Net purchases of premises and equipment	**(6,920)**	(13,243)	(17,069)
Cash paid in business acquisitions, net of cash acquired		(9,534)	
Net cash provided by (used in) investing activities	**(37,555)**	(580,295)	191,521
Financing activities			
Net change in deposits	**(26,509)**	486,691	189,633
Deposits sold in branch sale		(38,042)	
Net change in federal funds purchased and securities sold under repurchase agreements	**66,519**	(110,570)	61,968
Net change in commercial paper and other short-term borrowings	**(125,011)**	210,759	(127,252)
Proceeds from issuance of long-term debt and trust preferred securities	**240,000**	265,000	186,857
Retirement of long-term debt	**(160,065)**	(335,065)	(502,736)
Debt extinguishment expense			(6,884)
Derivative termination costs			(7,696)
Proceeds from issuance of common stock	**12,149**	23,649	11,443
Purchases of common stock	**(10,626)**		
Tax benefits from stock-based compensation plans	**1,318**	1,568	
Cash dividends paid	**(27,203)**	(23,050)	(22,227)
Net cash provided by (used in) financing activities	**(29,428)**	480,940	(216,894)
Net increase (decrease) in cash and cash equivalents	**(629)**	(22,725)	27,541
Cash and cash equivalents at beginning of period	**102,827**	125,552	98,011
Cash and cash equivalents at end of period	**$ 102,198**	$ 102,827	$ 125,552
Supplemental information for continuing operations			
Cash paid for:			
Interest	**$ 161,266**	$ 124,152	$ 96,857

Income taxes	**19,689**	19,816	21,520
Non-cash items:			
Transfer of loans to other real estate owned	**9,930**	7,772	6,532
Unrealized gains (losses) on securities available for sale (net of tax expense (benefit) of $2,921, $3,488, and ($4,235), respectively)	**4,476**	5,337	(6,393)
Issuance of common stock in business acquisitions	**(469)**	72,977	501
1035 exchange of bank-owned life insurance		21,541	

See notes to consolidated financial statements.

Table of Contents

First Charter Corporation
Notes to Consolidated Financial Statements

1. Business and Summary of Significant Accounting Policies

Description of Business

The accompanying consolidated financial statements include the accounts of the Corporation and its wholly-owned banking subsidiary, First Charter Bank, a North Carolina state bank (Bank), as of December 31, 2007. On November 1, 2006, the Corporation acquired GBC Bancorp (GBC), parent of Gwinnett Bank, a Georgia state bank (Gwinnett Bank) and on March 1, 2007, Gwinnett Bank was merged with and into the Bank. The Bank operates two subsidiaries First Charter Insurance Services, Inc. (First Charter Insurance) and First Charter Leasing and Investments, Inc. (First Charter Leasing). First Charter Insurance is a North Carolina corporation formed to meet the insurance needs of businesses and individuals throughout North Carolina and South Carolina. First Charter Leasing acts as the holding company for First Charter of Virginia Realty Investments, Inc., a Virginia corporation (First Charter Virginia). First Charter Virginia is engaged in the mortgage origination business and also acts as a holding company for First Charter Realty Investments, Inc., a Delaware real estate investment trust. First Charter Realty Investments, Inc. is the holding company for FCB Real Estate, Inc., a North Carolina real estate investment trust, and First Charter Real Estate Holdings, LLC, a North Carolina limited liability company, which owns and maintains the real estate property and assets of the Corporation. FCB Real Estate, Inc. primarily invests in commercial and one-to-four family residential real estate loans.

Basis of Presentation and Principles of Consolidation

The Corporation s consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) and the preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent liabilities as of the date of the consolidated financial statements, and the reported amounts of income and expense during the reporting periods. Material estimates subject to change in the near term include, among other items, the allowance for loan losses, income tax liabilities and benefits, and the carrying values of intangible assets. Future events and their effects cannot be predicted with certainty, and accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience related to the estimates is acquired, as additional information is obtained and as the Corporation s operating environment changes. Management evaluates and updates its assumptions and estimates on an ongoing basis. Actual results could differ from the estimates used.

Reclassifications of certain amounts in the previously issued consolidated financial statements have been made to conform to the financial statement presentation for 2007. Such reclassifications had no effect on previously reported net income or shareholders equity.

The Corporation consolidates those entities in which it holds a controlling financial interest, which is typically measured as a majority of the outstanding common stock. However, in certain situations, a voting interest may not be indicative of control, and in those cases, control is measured by other factors. Variable interest entities (VIE), certain of which are also referred to as special-purpose entities, are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinate financial support from other parties. Under the provisions of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* (FIN 46(R)), a company is deemed to be the primary beneficiary, and thus required to consolidate a VIE, if the company has a variable interest (or combination of

variable interests) that will absorb a majority of the VIE s expected losses, that will receive a majority of the VIE s expected residual returns, or both. A variable interest is a contractual ownership or other interest that fluctuates with changes

in the fair value of the VIE s net assets. Expected losses and expected residual returns are measures of variability in the expected cash flows of a VIE.

The Corporation formed First Charter Capital Trust I and First Charter Capital Trust II (collectively, the Trusts), in June 2005 and September 2005, respectively. Both are wholly-owned business trusts. The Trusts are not consolidated by the Corporation because it is not the primary beneficiary. The sole assets of the Trusts are subordinated debentures of the Corporation (Notes). The Trusts are 100 percent owned by the Corporation. The Notes are included in long-term debt in the consolidated balance sheets.

Business Combinations

Business combinations are accounted for under the purchase method of accounting. Under the purchase method of accounting, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the consolidated statements of income from the date of acquisition. Refer to **Note 5** for further discussion.

Discontinued Operations

On December 1, 2006, the Corporation completed the sale of Southeastern Employee Benefits Services (SEBS), its employee benefits administration business. Results for SEBS, the sole component of the Corporation s Employee Benefits Administration Business, including the gain associated with its disposition, are reported as *Discontinued Operations* in the consolidated statements of income for all periods presented. Refer to **Note 5** for further discussion.

Investment Securities

The Corporation classifies securities as available-for-sale, held-to-maturity, or trading based on management s intent at the date of purchase or securitization. At December 31, 2007, substantially all of the Corporation s securities are categorized as available-for-sale and, accordingly, are reported at fair value, based on quoted market prices, with any unrealized gains or losses, net of taxes, reflected as an element of accumulated other comprehensive income in shareholders equity. The Corporation intends to hold these available-for-sale securities for an indefinite period of time, but may sell them prior to maturity in response to changes in interest rates, changes in prepayment risk, changes in the liquidity needs of the Bank, and other factors. The fair value of the securities is determined by a third party as of the end of the reporting period. The valuation is based on available quoted market prices or quoted market prices for similar securities if a quoted market price is not available. Securities that the Corporation has the positive intent and ability to hold to maturity would be classified as held to maturity and reported at cost. At December 31, 2007 and 2006, the Corporation held no securities in this category. As discussed in **Note 9**, the Corporation had a nominal amount of trading assets at December 31, 2007 and 2006, which are carried at fair value, and included in other assets on the consolidated balance sheets. Changes in their fair value are reflected in the consolidated statements of income. The fair value of trading account assets is based on quoted market prices.

Gains and losses on sales of securities are recognized when realized on the trade date on a specific-identification basis. Premiums and discounts are amortized or accreted into interest income using the level-yield method or a method that approximates the level-yield method. If a decline in the fair value of a security below its cost or amortized cost is judged by management to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in noninterest income.

Investments in Federal Home Loan Bank and Federal Reserve Bank stock, which are carried at cost because they can only be redeemed at par, are required investments based on the Bank s capital, assets and borrowing levels.

Table of Contents

Loans and Loans Held for Sale

Loans that the Corporation intends to hold for investment purposes are classified as portfolio loans. Portfolio loans are carried at the principal amount outstanding net of unearned income, unamortized premiums or discounts, deferred loan fees and costs, and acquisition fair value adjustments, if any. Loans that the Corporation has committed to sell or securitize are classified as loans held for sale. Loans held for sale are carried at the lower of the carrying amount or fair value applied on an aggregate basis. Fair value is measured based on purchase commitments, bids received from potential purchasers, quoted prices for the same or similar loans, or prices of recent sales or securitizations.

Conforming residential mortgage loans are typically classified as held for sale upon origination based upon management s intent to generally sell all the production of these loans. Other types of loans may either be held for investment purposes, sold, or securitized. Loans originated for portfolio that are subsequently transferred to held for sale based on management s decision to sell are transferred at the lower of cost or fair value. Write-downs of the loans carrying value attributable to credit quality are charged to the allowance for credit losses while write-downs attributable to interest rates are charged to noninterest income.

Interest income is recognized on an accrual basis. Loan origination fees, certain direct costs, and unearned discounts are deferred and amortized into interest income as an adjustment to the yield over the term of the loan. Loan commitment fees are generally deferred and amortized into fee income on a straight-line basis over the commitment period. Other credit-related fees, including letter and line of credit fees are recognized as fee income when earned. The determination to discontinue the accrual of interest is based on a review of each loan. Generally, accrual of interest is discontinued on loans 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. 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. When the ultimate collectibility of the principal balance of an impaired loan is in doubt, the loan is placed on nonaccrual status and all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are recorded as recoveries of any amounts previously charged off, and then to interest income to the extent any interest has been foregone.

The Corporation s charge-off policy meets or exceeds regulatory minimums. Past-due status is based on contractual payment date. Losses on unsecured consumer debt are recognized at 90 days past due, compared to the regulatory loss criteria of 120 days. Secured consumer loans, including residential real estate, are typically charged-off between 120 and 180 days to the estimated collateral fair value, depending on the collateral type, in compliance with the Federal Financial Institutions Examination Council (FFIEC) guidelines. Losses on commercial loans are recognized promptly upon determination that all or a portion of any loan balance is uncollectible. Any deficiency that exists after liquidation of collateral will be taken as a charge-off. Subsequent payment received will be treated as a recovery when collected.

Allowance for Loan Losses

The Corporation uses the allowance method to provide for loan losses. Accordingly, all loan losses are charged to the allowance for loan losses and all recoveries are credited to it. The provision for loan losses is based on consideration of specific loans, past loan loss experience, and other factors, which in management s judgment, deserve current recognition in estimating probable loan losses. Such other factors considered by management include the growth and composition of the loan portfolio and current economic conditions.

The allowance also incorporates the results of measuring impaired loans as provided in SFAS 114, *Accounting by Creditors for Impairment of a Loan.* A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due (interest

as well as principal) according to the original contractual terms of the loan agreement. Factors that influence management s judgment include, but are not limited to, loan payment pattern, source of repayment, and value of collateral. A loan would not be considered impaired if an insignificant delay in loan payment occurs and management expects to collect all amounts due. The major sources for identification of loans to be evaluated for impairment include past due and nonaccrual reports, internally generated lists of loans of certain risk grades, and regulatory reports of examination. Specific reserves are determined on a loan-by-loan basis based on management s best estimate the Corporation s exposure, given the current payment status of the loan, the present value of expected payments, and the value of any underlying collateral.

Allowances for loan losses related to loans that are identified as impaired, in accordance with the impairment policy set forth above, are based on discounted cash flows using the loans initial interest rates, or the fair value of the collateral, if the loans are collateral dependent. Large groups of smaller-balance, homogenous loans that are collectively evaluated for impairment (residential mortgage, consumer installment, and certain commercial loans) are excluded from this impairment evaluation and their allowance is calculated in accordance with the allowance for loan losses policy discussed above.

Management considers the allowance for loan losses adequate to cover inherent losses in the Corporation s loan portfolio as of the date of the consolidated financial statements. Management believes it has established the allowance in consideration of the current economic environment. While management uses the best information available to make evaluations, future additions 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 allowances based on their judgments of information available to them at the time of their examinations.

Derivative Instruments

The Corporation enters into interest-rate swap agreements or other derivative transactions as business conditions warrant. As of December 31, 2007 and 2006, the Corporation had no interest-rate swap agreements or other derivative transactions outstanding. The interest-rate swap agreements entered into by the Corporation in the past qualified for hedge accounting as fair value hedges.

Loan Sales and Securitizations

The Corporation s residential real estate production is primarily originated in accordance with underwriting standards set forth by the government-sponsored entities (GSEs) of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (GNMA). The Corporation s production is sold in the secondary mortgage market primarily to investors, principally other financial institutions. These loans are generally collateralized by one-to-four family residential real estate, have loan-to-collateral value ratios of 80% or less, and are made to borrowers in good credit standing. First Charter originates residential real estate loans through financial centers located within the Corporation s market, loan origination office located in Reston, Virginia, and through a correspondent network. Over the last three years, substantially all residential real estate loans originated by First Charter were sold in the secondary mortgage market servicing released. During 2007 and 2006, $40.7 million and $20.1 million, respectively, of residential mortgage loans were sold with limited recourse. Through an arrangement with a third-party insurer, the Corporation has transferred recourse risk for loans with individual balances of $850,000 and less. During 2007 and 2006, $4.3 million and $1.4 million, respectively, of residential mortgage loans above the $850,000 threshold were sold with limited recourse.

The Corporation periodically securitizes mortgage loans held for sale and transfers them to securities available-for-sale. This is accomplished by exchanging loans for mortgage-backed securities issued primarily by Freddie Mac and Fannie Mae. Following the transfers, the securities are reported at estimated fair value based on quoted market prices, with unrealized gains and losses reflected in accumulated other

comprehensive income, net of deferred income taxes. Since the transfers are not considered a sale, no gain or loss is recorded in conjunction with these transactions. The Corporation retains the mortgage servicing on the loans exchanged for securities. At December 31, 2007 and 2006, the Corporation retained $36.4 million and $42.1 million, respectively, of securitized mortgage loans in its available-for-sale securities portfolio. There were no loan securitization transactions during 2007, 2006 or 2005.

Servicing Rights

The Corporation capitalizes servicing rights when loans are either securitized or sold and the loan servicing is retained. The cost of servicing rights is amortized in proportion to and over the estimated period of net servicing revenues. The amortization of servicing rights is recognized in the consolidated statements of income as an offset to other noninterest income.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization of premises and equipment are computed using the straight-line method over the estimated useful lives. Useful lives range from three to ten years for software, furniture and equipment, from fifteen to forty years for building improvements and buildings, and over the shorter of the estimated useful lives or the terms of the respective leases for leasehold improvements.

Foreclosed Properties

Foreclosed properties are included in other assets and represent real estate acquired through foreclosure or deed in lieu thereof and are carried at the lower of cost or fair value, less estimated costs to sell. The fair values of such properties are evaluated annually and the carrying value, if greater than the estimated fair value less costs to sell, is adjusted with a charge to income.

Intangible Assets

Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition, and therefore, the historical cost basis of individual assets and liabilities are adjusted to reflect their fair value. When a purchase agreement contemplates contingent consideration based on the performance of the acquired business, the contingent payments are recorded at the performance measurement date as an additional cost of the acquired enterprise. The additional cost is allocated to the appropriate assets, which are goodwill or other intangible assets with finite useful lives. Additional costs allocated to assets with finite useful lives are amortized over the remaining period benefited.

Intangible assets, other than goodwill, are amortized on an accelerated or straight-line basis over the period benefited, which is generally less than fifteen years. They are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections.

Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. A reporting unit is defined as an operating segment or one level below an operating segment. As of December 31, 2007, the Bank was the only reporting unit which carried goodwill on its balance sheet.

The goodwill impairment test is performed in two phases. The first step of the impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its

carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. In 2007 and 2006, the Corporation was not required to perform the second step of the impairment test as the fair value of its reporting units exceeded the carrying amount.

Table of Contents

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income during the period that includes the enactment date.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

The consolidated statements of cash flows reflect certain adjustments to previously reported amounts for the years ended December 31, 2006 and 2005. For the year ended December 31, 2006, the Corporation adjusted the amount reported as cash paid in business acquisitions, net of cash acquired, by $17,798. Below is a summary of the impact of this adjustment.

(In thousands)		For the Year Ended December 31, 2006
Net cash provided by operating activities, as previously reported	$	94,428
Adjustment for cash acquired in acquisition		(17,798)
Net cash provided by operating activities, as reported herein	$	76,630
Net cash used in investing activities, as previously reported	$	(598,093)
Adjustment for cash acquired in acquisition		17,798
Net cash used in investing activities, as reported herein	$	(580,295)
Net change in cash and cash equivalents	$	

For the year ended December 31, 2005, the primary adjustments were related to debt extinguishment expenses and derivative termination costs that were included as components of net income, rather than as financing activities. Below is a summary of the impact of these adjustments.

(In thousands)		For the Year Ended December 31, 2005
Net cash provided by operating activities, as previously reported	$	38,426
Adjustment for debt extinguishment expense		6,884
Adjustment for derivative termination costs		7,696
Other		(92)
Net cash provided by operating activities, as reported herein	$	52,914
Net cash used in financing activities, as previously reported	$	(202,406)
Adjustment for debt extinguishment expense		(6,884)
Adjustment for derivative termination costs		(7,696)
Other		92
Net cash used in financing activities, as reported herein	$	(216,894)
Net change in cash and cash equivalents	$	

Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured short-term borrowed funds, generally mature less than one year from the transaction date. Securities sold under agreements to

repurchase are reflected at the amount of cash received in connection with the borrowing. The terms of the repurchase agreement may require the Corporation to provide additional collateral if the fair value of the securities underlying the borrowings decline during the term of the agreement.

Equity Method Investments

The Corporation s equity method investments are principally investments in venture capital limited partnerships and small business investment companies.

The Corporation s recognition of earnings or losses from an equity method investment is determined by the Corporation s share of the investee s earnings on a quarterly basis (or, in the case of some smaller investments, on an annual basis if there has been no significant change in values). The limited partnerships provide their financial information quarterly or annually, and the Corporation s policy is to record its share of earnings or losses on these equity method investments in the quarter such financial information is received. The Corporation recognized gains from equity method investments of $1.9 million and $4.0 million in 2007 and 2006, respectively, and recognized losses of $0.3 million in 2005.

These limited partnerships record their investments in investee companies on a fair value basis, with changes in the underlying fair values being reflected as an adjustment to their earnings in the period such changes are determined. The earnings of these limited partnerships, and therefore the amount recorded on an equity-method basis by the Corporation, are impacted significantly by changes in the underlying value of the companies in which these limited partnerships invest. Most of the companies in which these limited partnerships invest are privately held, and their market values are not readily available. Estimations of these values are made by the management of the limited partnerships and are reviewed by the Corporation s management for reasonableness. The assumptions in the valuation of these investments include the viability of the business model, the ability of the investee company to obtain alternative financing, the ability to generate revenues in future periods and other subjective factors. Given the inherent risks associated with this type of investment in the current economic environment, there can be no guarantee that there will not be widely varying gains or losses on these equity method investments in future periods. At December 31, 2007 and 2006, the carrying value of the Corporation s equity method investments was $6.4 million and $5.3 million, respectively.

Bank Owned Life Insurance

The Corporation recognizes changes in the cash surrender value of bank-owned life insurance, net of insurance costs, in the consolidated statements of income as a component of noninterest income. The cash surrender value of the insurance policies is recorded as an asset in other assets in the Corporation s consolidated balance sheets.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the year. 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. The numerators of the basic net income per share computations are the same as the numerators of the diluted net income per share computations for all periods presented.

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

	For the Calendar Year		
	2007	2006	2005
Basic weighted-average number of common shares outstanding	**34,612,184**	31,525,366	30,457,573
Dilutive effect arising from potential common stock issuances	**375,837**	312,926	326,833
Diluted weighted-average number of common shares outstanding	**34,988,021**	31,838,292	30,784,406

Table of Contents

The effects of outstanding antidilutive stock options are excluded from the computation of diluted earnings per share. These amounts were 23,500 shares, 255,000 shares, and 1.1 million shares for 2007, 2006, and 2005, respectively.

Dividends Per Share

Dividends declared by the Corporation were $0.78 per share, $0.775 per share, and $0.76 per share for 2007, 2006, and 2005, respectively.

Share-Based Payments

Compensation cost is recognized for stock option, restricted stock, and performance share awards issued to employees and non-employee directors. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Corporation s common stock at the date of grant is used to estimate the fair value of restricted stock and performance share awards. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards, the restriction period for restricted stock awards, and the performance period for performance shares. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. When an award is granted to an employee who is eligible for retirement, the compensation cost of these awards is recognized over the period up to the date the employee first becomes eligible to retire. Compensation expense is recognized net of awards expected to be forfeited.

Prior to the adoption of the fair value method of accounting as prescribed in FAS 123(R), *Share-Based Payments,* on January 1, 2006, the Corporation accounted for these stock awards under the recognition provisions of Accounting Principles Board Opinion 25*, Accounting for Stock Issued to Employees.* The following table illustrates the effect on net income and earnings per share as if the Corporation had applied the fair value recognition provisions of FAS 123(R) to all outstanding stock option awards in 2005.

(Dollars in thousands, except per share data)		For the Calendar Year 2005
Net income, as reported	$	25,311
Add: Stock-based employee compensation expense included in reported net income		118
Add: Effect of change in prior-period forfeiture assumptions		932
Less: Stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects		(1,733)
Pro forma net income	$	24,628
Net income per share		
Basic - as reported	$	0.83
Basic - pro forma		0.81
Diluted - as reported		0.82
Diluted - pro forma		0.80

Average shares	
Basic	30,457,573
Diluted	30,784,406

2. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51,* which, among other things, provides guidance and establishes amended accounting and reporting standards for a parent company s noncontrolling interest in a subsidiary. The

Corporation is currently evaluating the impact of adopting the statement, which is effective for fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, which replaces SFAS 141, *Business Combinations*. SFAS 141(R), among other things, establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed (including intangibles) and any noncontrolling interests in the acquired entity. The Corporation is currently evaluating the impact of adopting the statement, which is effective for fiscal years beginning on or after December 15, 2008.

In February 2007, the FASB issued SFAS 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. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Corporation did not elect the fair value option as of January 1, 2008 for any of its financial assets or financial liabilities and, accordingly, the adoption of the statement did not have a material impact on the Corporation s consolidated financial statements.

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 adopted the guidance of SFAS 157 beginning January 1, 2008, and the adoption of the statement did not have a material impact on the Corporation s consolidated financial statements.

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 for all of its servicing assets. The initial adoption of SFAS 156 did not have an impact on the Corporation s consolidated financial statements.

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. The Corporation adopted SFAS 155 as of January 1, 2007 and 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 No. 48, (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

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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. The Corporation has a liability for unrecognized tax benefits relating to uncertain tax positions and as a result of adopting FIN 48 on January 1, 2007, the Corporation reduced this liability by approximately $29,000 and recognized a cumulative effect adjustment as an increase to retained earnings.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-*4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements.* EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity s obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee s active service period based on the future cost of insurance to be incurred during the employee s retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106, *Employer s Accounting for Postretirement Benefits Other Than Pensions*. The Corporation adopted EITF 06-4 effective as of January 1, 2008 as a change in accounting principle, through a cumulative-effect adjustment to retained earnings. The amount of the adjustment was not significant.

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings,* (SAB 109). SAB 109 supersedes guidance provided by SAB 105, *Loan Commitments Accounted for as Derivative Instruments,* (SAB 105) and provides guidance on written loan commitments accounted for at fair value through earnings. Specifically, SAB 109 addresses the inclusion of expected net future cash flows related to the associated servicing of a loan in the measurement of all written loan commitments accounted for at fair value through earnings. In addition, SAB 109 retains the SEC s position on the exclusion of internally-developed intangible assets as part of the fair value of a derivative loan commitment originally established in SAB 105. The Corporation adopted SAB 109 as of January 1, 2008 and the adoption of SAB 109 did not have a material impact on the Corporation s consolidated financial statements.

The Corporation has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements or do not apply to its operations.

3. Proposed Merger with Fifth Third

On August 15, 2007, First Charter and Fifth Third Bancorp (Fifth Third) entered into an Agreement and Plan of Merger, as amended by the Amended and Restated Agreement and Plan of Merger, dated September 14, 2007, (Merger Agreement) by and among First Charter, Fifth Third, and Fifth Third Financial Corporation (Fifth Third Financial). Under the terms of the Merger Agreement, First Charter will be merged with and into Fifth Third Financial. The Merger Agreement has been approved by the Board of Directors of First Charter, Fifth Third and Fifth Third Financial. On January 18, 2008, First Charter shareholders approved the Merger Agreement. The Merger Agreement is subject to customary closing conditions, including regulatory approval. First Charter is planning for a closing in the second quarter of 2008, although no assurance can be given in this regard.

Pursuant to the Merger Agreement, at the effective time of the merger, each common share of First Charter issued and outstanding immediately prior to the effective time (other than common shares held directly or indirectly by First Charter or Fifth Third) will be exchanged, at the election of the owner of the common share, into either $31.00 cash or shares of Fifth Third common stock with a value of $31.00 per share, or both. Under the terms of the Merger

Agreement, approximately 30 percent of First Charter shares will be converted to cash and approximately 70 percent will be converted to Fifth Third common stock.

Table of Contents

The Merger Agreement contains customary representations and warranties between First Charter and Fifth Third. The Merger Agreement also contains customary covenants and agreements, including (a) covenants related to the conduct of First Charter s business between the date of the signing of the Merger Agreement and the closing of the merger, (b) covenants prohibiting solicitation of competing merger proposals, and (c) agreements regarding efforts of the parties to cause the Merger Agreement to be completed.

The Merger Agreement contains certain termination rights and provides that, upon or following the termination of the Merger Agreement, under specified circumstances involving a competing merger transaction, First Charter may be required to pay Fifth Third a termination fee of $32.5 million.

In connection with the proposed merger with Fifth Third, the Corporation has incurred expenses of approximately $1.3 million of merger-related costs, principally legal fees, for the year ended December 31, 2007.

As previously disclosed, First Charter has been informed by Fifth Third that in February 2008 a shareholder of Fifth Third filed a derivative suit in the Court of Common Pleas for Hamilton County, Ohio, against the members of Fifth Third s board of directors and, nominally, Fifth Third, alleging breach of fiduciary duty and waste of corporate assets, among other charges, in relation to the approval of Fifth Third s acquisition of First Charter. The suit seeks, with respect to the completion of the acquisition, an injunction to stop the acquisition of First Charter and an independent valuation of First Charter as to its worth. The suit also seeks unspecified compensatory damages to be paid to Fifth Third by its directors as well as costs and attorneys fees to the plaintiff. The suit is in its earliest stage and Fifth Third has stated that the impact of the final disposition cannot be assessed at this time. First Charter and its legal counsel are reviewing the complaint carefully and intend to take such action as is appropriate and necessary to protect First Charter s interests in the Merger Agreement with Fifth Third.

4. Staff Accounting Bulletin 108

In December 2006, the Corporation adopted the provisions of SAB 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements,* which clarifies the way that a company should evaluate an identified unadjusted error for materiality. SAB 108 permits the Corporation to adjust for the cumulative effect of errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings in the year of adoption.

In adopting the provisions of SAB 108, the Corporation adjusted its opening retained earnings and its financial results for fiscal 2006 for the items described below. The Corporation considered these adjustments to be immaterial to prior periods.

Mortgage Services Revenue. The Corporation adjusted its opening retained earnings for 2006 and its financial results for each of the 2006 quarters to reflect the over accrual of mortgage services revenue ($1.7 million pre-tax at January 1, 2006), which arose during the 2003 through 2006 years, due to estimating and accruing for gains on the sale of mortgage loans combined with not reconciling these estimates and accruals to cash received.

Accounts Payable. The Corporation adjusted its opening retained earnings for 2006 and its financial results for each of the 2006 quarters to reflect the under accrual of certain accounts payables ($1.7 million pre-tax at January 1, 2006), representing certain invoices received and paid subsequent to year end that were incurred in the prior reporting period. Although the Corporation conducts a thorough review process of outstanding obligations at each reporting period to determine proper accruals, certain accounts payable items had historically been expensed on a cash basis due to the relative dollar amount remaining constant between periods.

Salaries and Employee Benefits Expense. The Corporation adjusted its opening retained earnings for 2006 and its financial results for each of the 2006 quarters for three compensation and benefits accruals. Such accruals related to (i) the under accrual of unused vacation benefits ($156,000 pre-tax at January 1, 2006), representing up to a five-day carryover into the following year; (ii) the under accrual of certain incentives for retail, commercial, and private banking personnel ($707,000 pre-tax at January 1, 2006),

Table of Contents

representing the historical expensing of these benefits on a cash basis ; and (iii) the under accrual of compensation expense for non-exempt employees ($342,000 pre-tax at January 1, 2006), representing compensation for a five-day lag between the last pay date and the accrual date for all employees. These three salaries and employee benefit expense items had historically been expensed on a cash basis.

The after-tax impact of each of the items noted above on fiscal 2006 opening shareholders equity, and on net income for each quarter of 2006 is presented below:

(In thousands)	Mortgage Services	Salaries & Employee Benefits	Accounts Payable	Total
Cumulative effect on shareholders equity as of December 31, 2005	$ (1,000)	$ (729)	$ (1,016)	$ (2,745)
Effect on:				
Net income for the first quarter of 2006	(173)	(28)		(201)
Net income for the second quarter of 2006	(63)	(28)		(91)
Net income for the third quarter of 2006	(71)	(28)		(99)
Net income for the fourth quarter of 2006	(44)	(75)		(119)
Net income for the six months ended June 30, 2006	(236)	(56)		(292)
Net income for the nine months ended September 30, 2006	(307)	(84)		(391)
Net income for the year ended December 31, 2006	(351)	(159)		(510)

The aggregate impact of these adjustments is summarized below (dollars in thousands, except per share data):

As of and for the Year Ended December 31, 2006	**Before Adjustment**	**Adjustment**	**As Adjusted**
Other assets	$ 190,674	$ (2,234)	$ 188,440
Accrued expenses and other liabilities	61,508	1,021	62,529
Shareholders equity	450,617	(3,255)	447,362
Mortgage services revenue	3,642	(580)	3,062
Total noninterest income	68,258	(580)	67,678
Salaries and employee benefits expense	68,975	262	69,237
Total noninterest expense	124,675	262	124,937
Total income tax expense	24,131	(332)	23,799
Net income	47,872	(510)	47,362
Diluted earnings per share from continuing operations	1.51	(0.02)	1.49

5. Acquisitions and Divestitures

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

Subsequent to the acquisition, the Corporation finalized its valuations of certain acquired assets and liabilities, including intangible assets. During 2007, the Corporation made certain refinements to its initial allocation of the GBC purchase price, including a $1.2 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,* and the recognition of an additional $0.8 million of deferred tax assets. The following table shows the excess of the purchase price and capitalized merger costs over carrying value of net assets acquired, the initial purchase price

Table of Contents

allocation and the resulting goodwill as of the date of the acquisition, subsequent purchase price refinements, and the final purchase price allocation.

(In thousands)	Initial Purchase Price Allocation	Purchase Price Refinements	Final Purchase Price Allocation
Purchase price	$ 103,221	$ (1,160)	$ 102,061
Capitalized merger costs	1,211	88	1,299
Carrying value of net assets acquired	39,869		39,869
Excess of purchase price and capitalized merger costs over carrying value of net assets acquired	64,563	(1,072)	63,491
Purchase accounting adjustments:			
Securities	241		241
Loans	643	(108)	535
Deferred taxes	794	(752)	42
Certificates of deposit		33	33
Subtotal	1,678	(827)	851
Core deposit intangibles	(3,091)	(469)	(3,560)
Other identifiable intangible assets	(1,186)	238	(948)
Goodwill	$ 61,964	$ (2,130)	$ 59,834

Insurance Agencies. On December 1, 2004, the Corporation, through a subsidiary of the Bank, acquired substantially all of the assets of Smith & Associates Insurance Services Inc., a property and casualty insurance agency (Agency). In connection with this transaction, the Corporation has previously issued to the Agency an aggregate of 42,198 shares of common stock, 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 to the Agency, valued at $0.3 million. Additionally, on December 1, 2007, based upon the performance of the business for the period of December 1, 2006 through November 30, 2007, the Corporation issued 8,508 additional shares of common stock to the Agency, valued at $0.3 million.

In July and October of 2003, the Corporation, through a subsidiary of the Bank, acquired Piedmont Insurance Agency, Inc. and Robertson Insurance Agency, Inc., respectively. These acquisitions were recorded using the purchase accounting method. The initial purchase price for both agencies totaled $1.1 million in cash. The purchase agreements also called for additional cash payments based on the post-closing performance of the acquired businesses. Based on this agreement and the performance of the businesses, the Corporation paid $356,000 and $371,000 during 2006 and

2005, respectively, and nothing was paid during 2007. There will be no additional consideration paid related to these transactions.

Sale of Employee Benefits Administration Business. On December 1, 2006, the Corporation completed the sale of SEBS, its employee benefits administration business, to an independent third-party benefits administrator for $3.1 million in cash. The transaction resulted in a pre-tax gain of $962,000. Income tax expense attributable to the gain was $951,000, as $1.4 million of goodwill and certain of the intangible assets was nondeductible.

In connection with this sale, the Corporation and the purchaser entered into a three-year agreement under which the Corporation will continue to use the purchaser as the strategic record-keeping partner for its wealth management clients and the administration of certain of the Corporation s employee benefits plans.

The results of SEBS are reported as *Discontinued Operations* for all periods presented. A condensed summary of the assets and liabilities of discontinued operations as of November 30, 2006, follows:

(In thousands)	November 30 2006
Goodwill and other intangible assets	$ 1,849
Other assets	325
Total assets of discontinued operations	$ 2,174
Other operating liabilities	$ 409
Liabilities incurred in connection with sale	373
Total liabilities of discontinued operations	$ 782

Condensed financial results for discontinued operations follow.

	For the Calendar Year		
(In thousands)	**2007**	2006 [1]	2005
Noninterest income	**$**	$ 3,012	$ 3,475
Noninterest expense		2,976	3,251
Income from discontinued operations before tax		36	224
Gain on sale		962	
Income tax expense		965	88
Income from discontinued operations, after tax	**$**	$ 33	$ 136

(1) *Includes the results of SEBS for the eleven months ended November 30, 2006.*

6. Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortized intangible assets and the carrying amount of unamortized intangible assets:

	December 31					
	2007			2006		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:						
Core deposits	**$ 3,560**	**$ 808**	**$ 2,752**	$ 3,091	$ 200	$ 2,891
Noncompete agreements	**90**	**90**		90	63	27
Customer lists	**2,615**	**1,640**	**975**	2,359	1,177	1,182
Total amortized intangible assets	**6,265**	**2,538**	**3,727**	5,540	1,440	4,100
Goodwill	**79,144**	**N/A**	**79,144**	80,968	N/A	80,968
Total goodwill and amortized intangible assets	**$ 85,409**	**$ 2,538**	**$ 82,871**	$ 86,508	$ 1,440	$ 85,068

The gross carrying amount of core deposit intangibles increased to $3.6 million at December 31, 2007, from $3.1 million at December 31, 2006. These changes are due to refinements made in the purchase accounting for the GBC acquisition. Refer to **Note 5** for further discussion of the GBC purchase accounting adjustments. The core deposit intangible is expected to be amortized into noninterest expense over a weighted-average period of 2.9 years.

The gross carrying amount of customer lists increased to $2.6 million at December 31, 2007, from $2.4 million at December 31, 2006. The increase was due to contractual payments made in connection with the acquisition of Smith & Associates Insurance Services, Inc. during the second and fourth quarters of 2007. The contractual payments are to be amortized over the weighted-average useful life of four years.

Table of Contents

The gross carrying amount of goodwill decreased from $81.0 million at December 31, 2006, to $79.1 million at December 31, 2007, primarily due to refinements made in the purchase accounting for the GBC acquisition. Refer to **Note 5** for further discussion of the GBC purchase accounting adjustments. There was no impairment of goodwill for 2007, 2006, or 2005.

On December 1, 2006, the Corporation completed the sale of SEBS, its third-party benefits administrator. Refer to **Note 5** for further discussion. At the time of sale, intangible assets, principally customer lists, of $574,000 and goodwill of $1.3 million were attributable to this divested business and were written off against the gain on sale.

Amortization expense from continuing and discontinued operations follows:

	For the Calendar Year		
(In thousands)	**2007**	2006	2005
Continuing operations	**$ 1,098**	$ 654	$ 378
Discontinued operations		169	160
Total intangibles amortization expense	**$ 1,098**	$ 823	$ 538

As of December 31, 2007, expected future amortization expense for intangible assets follows:

(In thousands)	Core Deposits	Customer Lists	Total
2008	$ 608	$ 388	$ 996
2009	531	263	794
2010	453	142	595
2011	375	83	458
2012	297	48	345
2013 and after	488	51	539
Total expected future intangibles amortization expense	$ 2,752	$ 975	$ 3,727

7. Comprehensive Income

Comprehensive income is defined as the change in equity from all transactions other than those with stockholders, and it includes net income and other comprehensive income (loss). The Corporation s only component of other

comprehensive income is the change in unrealized gains and losses on available-for-sale securities.

The components of comprehensive income follow:

	For the Calendar Year		
	2007	2006	2005
Comprehensive income			
Net income	**$ 41,304**	$ 47,395	$ 25,311
Other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities, net	**7,601**	2,997	(27,318)
Reclassification adjustment for gains (losses) included in net income	**204**	(5,828)	(16,690)
Income tax effect, net	**(2,921)**	(3,488)	4,235
Other comprehensive income (loss)	**4,476**	5,337	(6,393)
Total comprehensive income	**$ 45,780**	$ 52,732	$ 18,918

Table of Contents

8. Securities Available for Sale

Securities available for sale are summarized as follows:

	December 31, 2007			
(In thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agency obligations	**$ 145,810**	**$ 814**	**$ 70**	**$ 146,554**
Mortgage-backed securities	**565,872**	**4,399**	**4,837**	**565,434**
State, county, and municipal obligations	**92,324**	**692**	**78**	**92,938**
Asset-backed securities	**57,681**		**3,452**	**54,229**
Equity securities	**1,362**	**193**	**39**	**1,516**
Total securities	**$ 863,049**	**$ 6,098**	**$ 8,476**	**$ 860,671**

	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	969	387		1,356
Total securities	$ 866,261	$ 2,269	$ 12,043	$ 856,487

The contractual maturity distribution and yields (computed on a taxable-equivalent basis) of the Corporation s securities portfolio at December 31, 2007, are summarized below. Actual maturities may differ from contractual maturities shown below since borrowers may have the right to pre-pay these obligations without pre-payment penalties.

Due in 1 Year	Due after 1 through 5	Due after 5 through 10	Due after

	or less		years		years		10 years		Tot
thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
of securities for sale									
nment agency s	$ 115,994	4.71%	$ 26,572	4.39%	$ 3,988	5.43%	$	%	$ 146,554
backed securities(1)	2,880	4.93	213,469	4.86	304,665	5.47	44,420	5.60	565,434
nunicipal s(2)	28,727	6.93	24,809	5.19	4,757	5.95	34,645	5.32	92,938
ted securities			14,204	7.98	19,095	6.40	20,930	6.84	54,229
urities(3)							1,516	3.14	1,516
	$ 147,601	5.15%	$ 279,054	5.00%	$ 332,505	5.53%	$ 101,511	5.72%	$ 860,671
l cost of securities for sale	$ 146,663		$ 280,710		$ 332,602		$ 103,074		$ 863,049

(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 3.14 percent yield represents the expected dividend yield to be earned on equity securities.*

Securities with an aggregate carrying value of $655.0 million and $632.9 million at December 31, 2007 and 2006, respectively, were pledged to secure public deposits, trust account deposits, securities sold under agreements to repurchase, and Federal Home Loan Bank (FHLB) borrowings.

Table of Contents

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

	For the Calendar Year		
(In thousands)	**2007**	2006	2005
Gross gains	**$ 357**	$ 32	$ 1,225
Gross losses	**(153)**	(5,860)	(17,915)
Securities gains (losses), net	**$ 204**	$ (5,828)	$ (16,690)

During 2007, the Corporation recognized $48,000 of other-than-temporary impairment losses related to certain equity securities. There were no write-downs for other-than-temporary declines in the fair value of debt and equity securities in 2006 or 2005.

As of December 31, 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.

The unrealized losses at December 31, 2007, shown in the following table, resulted primarily from an increase in interest rate spreads among the various types of bond investments.

	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	$	$	$ 49,918	$ 70	$ 49,918	$ 70
Mortgage-backed securities	74,397	1,414	171,933	3,423	246,330	4,837
State, county, and muncipal obligations			8,974	78	8,974	78
Total AAA/AA-rated securities	74,397	1,414	230,825	3,571	305,222	4,985
A/BBB-RATED SECURITIES						
Asset-backed securities	45,401	2,278	8,828	1,174	54,229	3,452
Total A/BBB-rated securities	45,401	2,278	8,828	1,174	54,229	3,452

UNRATED SECURITIES						
Equity securities	417	39			417	39
Total unrated securities	417	39			417	39
Total temporarily impaired securities	$ 120,215	$ 3,731	$ 239,653	$ 4,745	$ 359,868	$ 8,476

At December 31, 2007, investments in a gross unrealized loss position included five U.S. agency securities, 46 mortgage-backed securities, eight municipal obligations, and eight other asset-backed securities. The unrealized losses associated with these securities were not considered to be other-than-temporary, because they were primarily related to changes in interest rates and interest rate spreads and did not affect the expected cash flows of the underlying collateral or the issuer. At December 31, 2007, the Corporation had the ability and the intent to hold these investments to recovery of par 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.

9. Trading Activity

The Corporation records the write-up or write-down in the market value of the First Charter Corporation Option Plan Trust (OPT Plan) as a trading gain or loss. The OPT Plan is a tax-deferred capital accumulation plan. For more information concerning the OPT Plan, see **Note 17**. The Corporation recognized income, primarily from the mark to market of the investments in the OPT Plan, of $50,000,

$41,000, and $51,000 for 2007, 2006, and 2005, respectively. There were no written covered call options outstanding at December 31, 2007 and 2006, or at any time during those years.

10. Derivatives

In prior periods, the Corporation accounted for interest-rate swaps as a hedge of the fair value of the designated FHLB advances. At December 31, 2007 and 2006, the Corporation was not a party to any interest-rate swap agreements. In the fourth quarter of 2005, the Corporation extinguished its FHLB advances, which had related interest-rate swaps as hedges. The Corporation incurred a pre-tax loss of $7.8 million on the extinguishment of the related interest-rate swaps. For 2005, the Corporation recognized a net gain of $5,000 for the ineffective portion of the interest-rate swaps.

11. Loans and Allowance for Loan Losses

The Bank primarily makes commercial and installment loans to customers throughout its market areas. The Corporation s primary market area 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. At December 31, 2007, the majority of the total loan portfolio was to borrowers within this region. The real estate loan portfolio can be affected by the condition of the local real estate markets. The diversity of the region s economic base provides a stable lending environment. No areas of significant concentrations of credit risk have been identified due to the diverse industrial bases in the regions.

Total portfolio loans are categorized as follows:

	December 31			
	2007		2006	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Commercial real estate	**$ 1,073,983**	**30.7%**	$ 1,034,317	29.7%
Commercial non real estate	**308,792**	**8.8**	301,958	8.7
Construction	**871,579**	**24.9**	793,294	22.8
Mortgage	**582,398**	**16.6**	618,142	17.7
Home equity	**413,873**	**11.8**	447,849	12.8
Consumer	**252,382**	**7.2**	289,493	8.3
Total portfolio loans	**$ 3,503,007**	**100.0%**	$ 3,485,053	100.0%

Loans held for sale consist primarily of 15- and 30-year mortgages which the Corporation intends to sell as whole loans. Loans held for sale are carried at the lower of aggregate cost or market, and at December 31, 2007, no valuation allowance was recorded. Loans held for sale were $14.1 million and $12.3 million at December 31, 2007 and 2006, respectively.

The following is a summary of the changes in the allowance for loan losses:

(In thousands)	For the Calendar Year **2007**	2006	2005
Balance, January 1	**$ 34,966**	$ 28,725	$ 26,872
Charge-offs	**(13,838)**	(4,578)	(8,652)
Recoveries	**1,341**	1,318	1,162
Net charge-offs	**(12,497)**	(3,260)	(7,490)
Allowance related to acquired company		4,211	
Provision for loan losses	**19,945**	5,290	9,343
Balance, December 31	**$ 42,414**	$ 34,966	$ 28,725

The table below summarizes the Corporation s nonperforming assets.

(In thousands)	December 31 **2007**	2006
Nonaccrual loans	**$ 28,695**	$ 8,200
Loans 90 days or more past due and accruing interest		
Total nonperforming loans	**28,695**	8,200
Other real estate	**10,056**	6,477
Total nonperforming assets	**$ 38,751**	$ 14,677

At December 31, 2007 and 2006, nonaccrual loans amounted to $28.7 million and $8.2 million, respectively. Interest collected on these loans and included in interest income in 2007, 2006, and 2005 amounted to $1.4 million, $0.4 million, and $0.1 million, respectively.

At December 31, 2007 and 2006, impaired loans amounted to $23.2 million and $1.0 million, respectively. Included in the allowance for loan losses was $4.4 million and $0.3 million related to the impaired loans at December 31, 2007 and 2006, respectively. In 2007, 2006, and 2005, the average recorded investment in impaired loans was $11.2 million, $2.2 million, and $9.6 million, respectively. Prior to 2007, the Corporation recognized interest income on impaired loans using the cash-basis method of accounting. During 2006 and 2005, $35,000 and $195,000, respectively, of interest income was recognized on loans while the loans were impaired.

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 the methodology conforms the consumer and residential mortgage loan analysis to the Corporation s SFAS 114 analysis for commercial loans. Included in the $23.2 million of total impaired loans at December 31, 2007 were $11.9 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 the Village of Penland and related development projects (Penland) located 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 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 December 31, 2007, the Corporation had an aggregate outstanding balance of $3.7 million to individual lot purchasers related to Penland. The Corporation charged off $10.4 million related to these loans during 2007. Based on management s assessment of probable incurred losses associated with the Penland loan portfolio, the Corporation recorded an allowance for loan losses of $1.3 million as of December 31, 2007. Additionally, based on management s

assessment of the individual borrowers, $1.1 million of the Penland loans were on nonaccrual status as of December 31, 2007.

The following is a reconciliation of loans outstanding to executive officers, directors, and their associates:

(In thousands)	2007
Balance at December 31, 2006	**$ 634**
New loans	**2,682**
Principal repayments	**(51)**
Director and officer changes	**42**
Balance at December 31, 2007	**$ 3,307**

Table of Contents

In the opinion of management, these loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers. Such loans, in the opinion of management, do not involve more than the normal risks of collectibility.

12. Servicing Rights

As of December 31, 2007, the Corporation serviced $178.1 million of mortgage loans for other parties. The carrying value and aggregate estimated fair value of mortgage servicing rights (MSR) at December 31, 2007 was $0.6 and $1.8 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, 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. Subsequent to the acquisition, the Corporation finalized its valuations of certain acquired assets, including SBA loan servicing rights (SSR). As a result of these refinements, the value of SSRs acquired was decreased by $0.2 million. As of December 31, 2007, the Corporation serviced $35.2 million of SBA loans for other parties, and the carrying value and the estimated fair value of the SSR were $0.8 million and $0.9 million, respectively.

Servicing rights are periodically evaluated for impairment based on their fair value. Impairment would be 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 Corporation had no write-downs related to its mortgage servicing rights for 2007, 2006 or 2005.

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

(In thousands)	**2007**		2006		2005	
	MSR	**SSR**	MSR	SSR	MSR	SSR
Balance, January 1	**$ 756**	**$ 1,137**	$ 1,133	$	$ 1,647	$
Servicing rights capitalized or acquired		**82**		1,186		
Amortization expense	**(165)**	**(189)**	(377)	(49)	(514)	
Purchase accounting adjustment		**(238)**				
Valuation allowance						
Balance, December 31	**$ 591**	**$ 792**	$ 756	$ 1,137	$ 1,133	$

Assumptions used to value the MSR included an average conditional prepayment rate (CPR) of 14.8 percent, an average discount rate of 12.2 percent, and a weighted-average life of 3.4 years. An increase in the prepayment rates of

10 percent and 20 percent may result in a decline in fair value of $69,000 and $134,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $46,000 and $89,000, 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 MSR 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 10.5 percent, and a weighted-average life of 4.5 years. An increase in the prepayment rates of 10 percent and 20 percent may result in a decline in fair value of $39,000 and $75,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $23,000 and $45,000, respectively.

Table of Contents

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
2008	$ 135	$ 178	$ 313
2009	111	150	261
2010	92	124	216
2011	74	102	176
2012	61	83	144
2013 and after	118	155	273
Total amortization	$ 591	$ 792	$ 1,383

For the twelve months ended December 31, 2007, 2006, and 2005, contractual servicing fee revenue was $1.4 million, $1.1 million, and $1.2 million, respectively, and was included in the mortgage services line item of other noninterest income.

13. Premises and Equipment

Premises and equipment are summarized as follows:

	December 31	
(In thousands)	**2007**	2006
Land	**$ 24,315**	$ 24,467
Buildings	**81,412**	78,887
Furniture and equipment	**60,972**	58,077
Leasehold improvements	**11,551**	11,121
Construction in progress	**1,886**	2,247
Total premises and equipment	**180,136**	174,799
Less accumulated depreciation and amortization	**69,373**	63,211
Premises and equipment, net	**$ 110,763**	$ 111,588

In the fourth quarter of 2005, the Corporation corrected the net book value of premises and equipment to reflect the value of the assets in the fixed asset records. The net amount of the correction of this error was $1.4 million and was recognized as a current period reduction of occupancy and equipment expense on the consolidated statements of income.

14. Deposits

A summary of deposit balances follows:

(In thousands)	December 31 **2007**	2006
Noninterest bearing demand	**$ 438,313**	$ 454,975
Interest bearing demand	**478,186**	420,774
Money market accounts	**564,053**	620,699
Savings deposits	**101,234**	111,047
Certificates of deposit	**1,313,482**	1,223,252
Brokered certificates of deposit	**326,351**	417,381
Total deposits	**$ 3,221,619**	$ 3,248,128

Table of Contents

As of December 31, 2007, the scheduled maturities of all certificates of deposit, including brokered certificates of deposit, are as follows:

(In thousands)	
2008	**$ 1,527,099**
2009	**85,334**
2010	**14,084**
2011	**6,936**
2012	**6,350**
2013 and after	**30**
Total certificates of deposit	**$ 1,639,833**

At December 31, 2007, the scheduled maturities of certificate of deposits with denominations of $100,000 or greater are as follows:

(In thousands)	
Less than three months	**$ 405,921**
Three to six months	**289,886**
Six to twelve months	**217,529**
Greater than twelve months	**44,345**
Total certificates of deposit with denominations over $100,000	**$ 957,681**

15. Other Borrowings

The following is a schedule of other borrowings as of December 31:

	2007		2006	
		Weighted-Average Contractual		Weighted-Average Contractual

(Dollars in thousands)	**Balance**	**Rate**	Balance	Rate
Federal funds purchased and securities sold under agreements to repurchase	**$ 268,232**	**4.59%**	$ 201,713	4.60%
Commercial paper	**64,180**	**2.91**	38,191	2.72
Other short-term borrowings	**220,000**	**5.27**	371,000	5.35
Long-term debt	**567,729**	**5.26**	487,794	4.79
Total other borrowings	**$ 1,120,141**	**4.97%**	$ 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 $124.8 million and $214.9 million at December 31, 2007 and 2006, respectively, were pledged to secure securities sold under agreements to repurchase.

Federal funds purchased represent unsecured overnight borrowings from other financial institutions. At December 31, 2007, the Bank had available federal funds lines of credit totaling $648.0 million, with $233.0 million outstanding.

First Charter 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 December 31, 2007 was $64.2 million, compared to $38.2 million at December 31, 2006.

Table of Contents

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 December 31, 2007, the Bank had $220.0 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 December 31, 2007, the Bank had $505.9 million of long-term FHLB borrowings, compared to $425.9 million at December 31, 2006. In addition, the Corporation had $61.9 million of subordinated outstanding debentures at December 31, 2007 and 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 (Notes) from the Corporation, which are presented as long-term borrowings in the consolidated balance sheets and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

The following is a summary of the Corporation s outstanding trust preferred securities and Notes at December 31, 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				

At December 31, 2007, the Corporation had one advance that was puttable by the FHLB.

As of December 31, 2007, the scheduled maturities of other borrowings are as follows:

(In thousands)	2008	2009	2010	2011	2012	Thereafter	Total
Federal funds purchased and securities sold under agreements to repurchase	$ 268,232	$	$	$	$	$	$ 268,232
Commercial paper	64,180						64,180
Other short-term borrowings	220,000						220,000
Long-term debt	20,000	310,000	75,000	100,130		62,599	567,729
Total other borrowings	$ 572,412	$ 310,000	$ 75,000	$ 100,130	$	$ 62,599	$ 1,120,141

Table of Contents

16. Income Tax

The components of income tax expense consist of the following:

(In thousands)	For the Calendar Year **2007**	2006	2005
Current:			
Federal	**$ 20,439**	$ 22,310	$ 8,690
State	**4,207**	2,883	689
Total current	**24,646**	25,193	9,379
Deferred:			
Federal	**(2,820)**	(1,238)	(219)
State	**(463)**	(156)	(28)
Total deferred	**(3,283)**	(1,394)	(247)
Income tax expense from continuing operations	**$ 21,363**	$ 23,799	$ 9,132
Income tax expense from discontinued operations	$	$ 965	$ 88

Total income taxes were allocated as follows:

(In thousands)	For the Calendar Year **2007**	2006	2005
Net income from continuing operations	**$ 21,363**	$ 23,799	$ 9,132
Net income from discontinued operations		965	88
Shareholders equity, for unrealized losses on securities available for sale	**2,921**	3,488	(4,235)
Total	**$ 24,284**	$ 28,252	$ 4,985

Income tax expense attributable to net income differed from the amounts computed by applying the U.S. federal statutory income tax rate of 35 percent to pretax income follows:

	For the Calendar Year					
(Dollars in thousands)	**2007**		2006		2005	
Tax at statutory federal rate	**$ 21,934**	**35.0%**	$ 24,906	35.0%	$ 12,008	35.0%
Increase (reduction) in income taxes resulting from:						
Tax-exempt income	**(1,344)**	**(2.1)**	(1,409)	(2.0)	(1,335)	(3.9)
Bank-owned life insurance	**(1,621)**	**(2.6)**	(1,233)	(1.7)	(1,509)	(4.4)
State income tax, net of federal	**2,434**	**3.8**	1,773	2.5	429	1.2
Change in valuation allowance	**(30)**		(80)	(0.1)	(526)	(1.5)
Other, net	**(10)**		(158)	(0.3)	65	0.2
Income tax expense from continuing operations	**$ 21,363**	**34.1%**	$ 23,799	33.4%	$ 9,132	26.6%

Table of Contents

The change in net deferred tax assets follows:

(In thousands)	For the Calendar Year 2007	2006	2005
Deferred tax benefit (exclusive of the effects of other components below)	**$ (3,283)**	$ (1,394)	$ (247)
Shareholders equity, for unrealized gains (losses) on securities available for sale	**2,921**	3,488	(4,235)
Purchase accounting adjustment	**(134)**	(2,185)	
Total	**$ (496)**	$ (91)	$ (4,482)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities, included in other assets, are as follows:

(In thousands)	December 31 2007	2006
Deferred tax assets:		
Allowance for loan losses	**$ 16,107**	$ 13,201
Unrealized losses on securities available for sale	**939**	3,726
Deferred compensation	**3,007**	3,464
Investments	**638**	805
Stock based compensation	**2,219**	917
Depreciable assets	**3,486**	5,588
Other	**1,672**	2,459
Total deferred tax assets	**28,068**	30,160
Less valuation allowance		30
Net deferred tax assets	**28,068**	30,130
Deferred tax liabilities:		
Loan origination costs	**1,383**	2,718
Federal Home Loan Bank of Atlanta stock	**242**	1,053
Mortgage servicing rights	**1,633**	1,889
Intangibles	**1,850**	1,501
Other	**313**	818

Total deferred tax liabilities	**5,421**	7,979
Net deferred tax asset	**$ 22,647**	$ 22,151

The Corporation did not record a valuation allowance in 2007 and recorded a valuation allowance of $30,000 in 2006 against deferred tax assets, primarily for capital loss carryforwards. The Corporation did not have a capital loss carryforward as of December 31, 2007.

Effective January 1, 2007, the Corporation adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. The Corporation has a liability for unrecognized tax benefits relating to uncertain tax positions and, as a result of adopting FIN 48, the Corporation reduced this liability by approximately $29,000 and recognized a cumulative effect adjustment as an increase to retained earnings.

The amount of unrecognized tax benefits as of January 1, 2007 was $11.1 million, of which $10.3 million would impact the Corporation s effective tax rate, if recognized.

Table of Contents

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In thousands)	
Balance January 1, 2007	$ 11.1
Expiration of statute	(0.3)
Addition for tax positions of prior periods	0.1
Reductions for tax positions of prior periods	(0.1)
Balance December 31, 2007	$ 10.8

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 December 31, 2007, the Corporation had accrued approximately $1.0 million for the payment of interest and penalties.

The Corporation is under examination by the North Carolina Department of Revenue (DOR) for tax years 2001 through 2005 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 2006 is approximately $13.5 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 was examined by the Internal Revenue Service for the 2004 and 2005 tax years. The examination was of a routine nature and was not the result of any prior tax position taken by the Corporation. The Corporation s tax years prior to 2004 are no longer subject to examination by the Internal Revenue Service.

While it is possible that the unrecognized tax benefit could change significantly during the next year, it is reasonably possible that the Corporation will recognize approximately $0.8 million of unrecognized tax benefits as a result of the expected completion of the Internal Revenue Service examination of the 2004 and 2005 tax years.

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.

As a result of this legislation, the Corporation recorded $1.0 million, net of reserve, of additional income tax expense as it eliminated the dividend received deduction previously recorded during 2007. This increased the Corporation s effective tax rate for 2007, and it is expected to increase the effective tax rate for future periods. Additionally, tax expense was reduced by $0.4 million as a result of the expiration of the relevant Federal statute of limitations.

On December 31, 2007, the Superior Court of North Carolina ruled in favor of the State of North Carolina in the *Wal-Mart Stores East Inc. v Reginald S. Hinton, Secretary of Revenue of State of North Carolina* case (Wal-Mart case). This ruling was made available to the public on January 4, 2008 and the case has been appealed by the taxpayer to the North Carolina Court of Appeals. The Corporation s REIT position has

certain facts that are similar as those in the above-mentioned Wal-Mart case. See **Note 24** for further information regarding the impact of the Wal-Mart case on the Corporation s tax reserves during the first quarter of 2008.

17. Employee Benefit Plans

First Charter Retirement Savings Plan. The Corporation has a qualified Retirement Savings Plan (Savings Plan) for all eligible employees of the Corporation. Pursuant to the Savings Plan, an eligible employee may elect to defer between 1 percent and 50 percent of compensation. At the discretion of the Board of Directors, the Corporation may contribute an amount necessary to match all or a portion of a participant s elective deferrals in an amount to be determined by the Board of Directors from time to time, up to a maximum of six percent of a participant s compensation. In addition, the Corporation may contribute an additional amount to each participant s Savings Plan account as determined at the discretion of the Board of Directors. Participants may invest their Savings Plan account in a variety of investment options, including the Corporation s common stock. Effective March 1, 2002, the portion of the Savings Plan consisting of the Company Stock Fund (ESOP) was designated as an employee stock ownership plan under Code section 4975(e)(7), and that fund is designed to invest primarily in the Corporation s common stock. The Corporation s aggregate contributions to the Savings Plan amounted to $1.5 million for each of the years ended December 31, 2007, 2006, and 2005.

First Charter Option Plan Trust. Effective December 1, 2001, the Corporation approved and adopted a non-qualified compensation deferral arrangement called the First Charter Corporation Option Plan Trust (OPT Plan). The OPT Plan is a tax-deferred capital accumulation plan. Under the OPT Plan, eligible participants may defer up to 90 percent of base salary, up to 100 percent of annual incentive, and excess deferrals, if any, pursuant to Internal Revenue Code section 401(a)(17) and 401(k). Participants may invest in mutual funds with distinct investment objectives and risk tolerances. Eligible employees for the OPT Plan include executive management as well as key members of senior management. The deferred compensation obligation pursuant to this plan is equal to the Plan assets, which are held in a Rabbi Trust. Plan assets totaled $218,000 and $283,000 at December 31, 2007 and 2006, respectively, and are classified as trading assets, which is included in other assets on the consolidated balance sheets. As a result of Internal Revenue Code Section 409A, as well as in anticipation of the merger with Fifth Third, the Board of Directors of the Corporation amended the OPT Plan, effective December 19, 2007.

First Charter Directors Option Deferral Plan. Effective May 1, 2001, the Corporation approved and adopted a non-qualified compensation deferral arrangement called the First Charter Corporation Directors Option Deferral Plan (Plan). Under the Plan, eligible directors may elect to defer all or part of their director s fees and invest these deferrals into mutual fund investments with distinct investment objectives and risk tolerances. The deferred compensation obligation pursuant to this plan is equal to the Plan assets, which are held in a Rabbi Trust. Each participant is fully vested in their account balances under the Plan. Plan assets totaled approximately $280,000 and $321,000 at December 31, 2007 and 2006, respectively, and are classified as trading assets, which is included in other assets on the consolidated balance sheets. As a result of Internal Revenue Code Section 409A, as well as in anticipation of the merger with Fifth Third, the Board of Directors of the Corporation amended the Plan, effective December 19, 2007. As a result, distributions of approximately $27,600 under the Rabbi Trust were paid to Plan participants during January 2008.

Supplemental Executive Retirement Plans. The Corporation sponsors supplemental executive retirement plans (SERPs) for its Chief Executive Officer, Chief Banking Officer, and certain other retired executives. The Corporation s benefit obligation related to its SERPs was $5.7 million and $5.4 million at December 31, 2007 and 2006, respectively. The SERPs are unfunded plans and are reflected as liabilities on the consolidated balance sheets.

Deferred Compensation for Non-Employee Directors. Effective May 1, 2001, the Corporation amended and restated the First Charter Corporation 1994 Deferred Compensation Plan for Non-Employee Directors (Deferred

Compensation Plan). Under the Deferred Compensation Plan, eligible directors may elect to

defer all or part of their director s fees for a calendar year, in exchange for common stock of the Corporation. The amount deferred, if any, shall be in multiples of 25 percent of their total director s fees. Each participant is fully vested in his account balance under the Deferred Compensation Plan. The Deferred Compensation Plan generally provides for fixed payments or a lump sum payment, or a combination of both, in shares of common stock of the Corporation after the participant ceases to serve as a director for any reason.

The common stock purchased by the Corporation for this Deferred Compensation Plan is maintained in the First Charter Corporation Directors Deferred Compensation Trust, a Rabbi Trust (Trust), on behalf of the participants. The assets of the Trust are subject to the claims of general creditors of the Corporation. Dividends payable on the common shares held by the Trust will be reinvested in additional shares of common stock of the Corporation and held in the Trust for the benefit of the participants. Since the Deferred Compensation Plan does not provide for diversification of the Trust s assets and can only be settled with a fixed number of shares of the Corporation s common stock, the deferred compensation obligation is classified as a component of shareholders equity and the common stock held by the Trust is classified as a reduction of shareholders equity. Subsequent changes in the fair value of the common stock are not reflected in earnings or shareholders equity of the Corporation. The obligations of the Corporation under the Deferred Compensation Plan, and the shares held by the Trust, have no net effect on net income.

As a result of Internal Revenue Code Section 409A, as well as in anticipation of the merger with Fifth Third, the Board of Directors of the Corporation amended the Deferred Compensation Plan, effective December 19, 2007. As a result, approximately 69,500 shares of common stock under the Trust were re-registered to Deferred Compensation Plan participants during January 2008.

18. Share-Based Payments

The Corporation s executive compensation and long-term incentive programs were revised during 2005 and a new performance-oriented, long-term incentive plan was implemented for 2006. The resulting new long-term incentive plan combines the use of performance shares and service-based stock options. The Corporation also changed its long-term incentive program for other management members, whereby long-term incentive compensation is granted in the form of restricted stock, rather than stock options as previously granted in prior years.

The Corporation incurred $3.4 million of salaries and employee benefits expense in 2007 for stock-based compensation plans, which consisted of $158,000 related to stock options, $2.5 million related to service-based nonvested shares, and $735,000 related to performance-based nonvested shares.

The Corporation incurred $1.4 million of salaries and employee benefits expense in 2006 for stock options granted prior to 2006 as a result of the adoption of SFAS 123(R), including the effects of accelerating the vesting of all pre-2006 stock options. In addition, the Corporation incurred $172,000 of salaries and employee benefits expense in 2006 for restricted stock awards made prior to 2006. During 2006, the Corporation granted an aggregate of 127,250 stock options and performance share awards, principally to executive officers, which resulted in $494,000 of salaries and employee benefits expense during 2006. In addition, the Corporation granted 193,792 shares of restricted stock to select employees and directors, which resulted in $728,000 of salaries and employee benefits expense during 2006.

Restricted Stock Award Program. In April 1995, the Corporation s shareholders approved the First Charter Corporation Restricted Stock Award Program (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. As of December 31, 2007, 85,570 shares were available for future issuance. During 2007, 91,685 service-based nonvested shares were granted under this plan with vesting

periods of mainly three years. During 2006, 168,792 service-based nonvested shares were issued under this plan with vesting

periods of mainly three years. During 2005, 8,500 shares were granted under the Restricted Stock Plan with vesting periods of five years and 8,900 shares were granted with vesting periods of three years.

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. As of December 31, 2007, 107,084 shares were available for future issuance.

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. As of December 31, 2007, 14,180 shares were available for future issuance.

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 (2000 Omnibus Plan). Under the 2000 Omnibus Plan, 2,000,000 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 1,500,000 shares for issuance, for a total of 3,500,000 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 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 2007, 71,500 stock options, 21,000 service-based nonvested shares, and 54,600 performance-based nonvested shares were issued under this plan. During 2006, 69,250 stock options, 25,000 service-based nonvested shares, and 58,500 performance-based nonvested shares were issued under this plan. The number of these performance-based shares, which will ultimately be issued, is dependent upon the Corporation s performance as it relates to the performance of selected peer companies as discussed above. As of December 31, 2007, 1,615,134 shares were authorized for future issuance.

Employee Stock Purchase Plans. The Corporation adopted an Employee Stock Purchase Plan (ESPP) in 1996, pursuant to which stock options were granted to eligible employees based on their compensation. The option and vesting period were generally two years, and employees could purchase stock at a discount from the fair market value of the shares at date of grant. In April of 1997, shareholders approved a maximum of 180,000 shares reserved for issuance under the 1996 ESPP, and 180,000 shares were reserved for issuance under the subsequent offering in 1998.

In 1999, the Board of Directors implemented the 1999 Employee Stock Purchase Plan (1999 Plan). The Corporation intends that options granted and common stock issued under the 1999 Plan shall be treated for all purposes as granted and issued under an employee stock purchase plan within the meaning of

Table of Contents

Section 423 of the Internal Revenue Code and the Treasury Regulations issued there under, and that the Plan shall satisfy the requirements of Rule 16b-3 of the Exchange Act.

The 1999 Plan was adopted to provide greater flexibility with respect to the grant date, exercise period and number of options granted to employees, and is designed to remain in effect for as long as there are shares available for purchase. Under the 1999 Plan, 300,000 shares were reserved for issuance, subject to adjustment to protect against dilution in the event of changes in the capitalization of the Corporation. At December 31, 2007, 69,838 shares were available for future issuance.

The 1999 Plan was subsequently amended in 2006, primarily to change the basis for determining the number of shares available for purchase, and the option price. Eligible employees may save from one percent to fifteen percent of their eligible compensation over the option period, and their savings are used to purchase whole shares at the end of the option period. The purchase price represents a five percent discount of the fair market value of the shares at the end of the option period.

The 1999 Plan is administered by the Compensation Committee of the Board. The Committee determines the offering dates, offering periods, option prices, acceptance dates, and exercise dates under the 1999 Plan, and makes all other determinations necessary or advisable for the administration of the 1999 Plan. As a result of the proposed merger with Fifth Third, the Board of Directors of the Corporation, based on a recommendation of the Compensation Committee of the Corporation, approved effective December 19, 2007, the termination of the ESPP September 1, 2007 to February 29, 2008 offering period. Accordingly, all cash contributions made by participants during this ESPP offering period were returned to the participants, plus any accrued interest.

Summary of Stock Option and Employee Stock Purchase Plan Programs. The following is a summary of activity under the Comprehensive Plan, the Director Plan, the 2000 Omnibus Plan, and the 1999, 1998, and 1996 ESPPs for the years indicated. The following summary also includes activity for options assumed through various acquisitions.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2005	2,801,263	$ 19.97		
Granted	461,996	23.55		
Exercised	(499,194)	16.93		$ 3,103,802
Forfeited or expired	(126,007)	21.68		
Outstanding at December 31, 2005	2,638,058	$ 21.09	3.6	$ 7,572,117
Exercisable at December 31, 2005	1,786,287	$ 21.01	2.4	$ 5,498,109
Outstanding at January 1, 2006	2,638,058	$ 21.09		
Granted	69,250	23.68		
Exercised	(883,684)	21.50		$ 2,711,016
Forfeited or expired	(326,005)	22.95		
Outstanding at December 31, 2006	1,497,619	$ 20.57	4.7	$ 6,365,913
Exercisable at December 31, 2006	1,435,769	$ 20.43	4.5	$ 6,308,859
Outstanding at January 1, 2007	1,497,619	$ 20.57		
Granted	71,500	24.46		
Exercised	(423,618)	19.50		$ 3,526,979
Forfeited or expired	(262,648)	25.31		
Outstanding at December 31, 2007	**882,853**	**$ 19.98**	**5.1**	**$ 8,721,221**
Exercisable at December 31, 2007	**788,433**	**$ 19.48**	**4.6**	**$ 8,181,337**

The weighted-average Black-Scholes fair value of options granted during 2007, 2006, and 2005 was $5.63, $5.85, and $5.54, respectively. The aggregate intrinsic value of options exercised during 2007, 2006, and 2005 was $3.5 million, $2.7 million, and $3.1 million, respectively. The weighted-average remaining contractual lives of stock options were 5.1 years at December 31, 2007.

Cash received from the exercise of options for 2007, 2006, and 2005 was $7.9 million, $19.0 million, and $8.5 million, respectively. The tax benefit realized for the tax deductions from option exercises totaled $1.3 million for 2007. The tax benefit realized for the tax deductions from option exercises totaled $1.6 million for 2006, of which $0.8 million was attributable to 2005. The Corporation uses newly issued shares to satisfy stock option exercises.

On December 20, 2006, the Compensation Committee of the Board of Directors of First Charter Corporation approved, effective December 31, 2006, the immediate and full acceleration of the vesting of certain unvested stock options granted from 2003 through 2005 under the Corporation s various equity incentive plans (Accelerated Options). Approximately 430,000 Accelerated Options, each of which relates to one share of the Corporation s Common Stock, were accelerated pursuant to this action. The vesting schedules for stock options granted in 2006 were not affected by this action.

The Accelerated Options were granted pursuant to either the First Charter Corporation Comprehensive Stock Option Plan, as amended, the First Charter Corporation Stock Option Plan for Non-Employee Directors or the First Charter Corporation 2000 Omnibus Stock Option and Award Plan (together, the Plans).

Table of Contents

The decision to accelerate the vesting of these stock options was due primarily to two reasons. The first relates to a change in the Corporation s compensation philosophy, whereby stock options will serve as a more limited component of compensation. Beginning in 2006, the Corporation began to use restricted stock as the primary form of equity compensation for employees other than the executive officers. Equity compensation for executive officers consisted of a combination of performance share awards and stock option grants. The vesting schedules for the 2006 stock option grants were not accelerated. Secondly, the Corporation determined to accelerate the vesting schedules of the Accelerated Options to facilitate the ongoing calculations under SFAS 123(R). The Corporation incurred a one-time expense of $0.7 million in the fourth quarter of 2006 in connection with the stock option vesting acceleration.

The fair value of each option granted was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	For the Calendar Year		
	2007	2006	2005
Expected volatility	**22.4%**	24.8%	26.4%
Expected dividend yield	**3.2**	3.2	3.2
Risk-free interest rate	**4.8**	4.7	3.9
Expected term (in years)	**8.0**	8.0	7.4

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

The following table provides certain information about stock options outstanding at December 31, 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 Remaining Contractual Life (in years)	Weighted-Average Exercise Price
$ 5.01 - 10.00	3,400	1.7	$ 9.04	3,400	1.7	$ 9.04
10.01 - 12.50	18,702	1.0	11.63	18,702	1.0	11.63
12.51 - 15.00	34,594	2.0	14.38	34,594	2.0	14.38
15.01 - 17.50	201,604	3.5	16.59	201,604	3.5	16.59
17.51 - 20.00	186,536	3.9	18.44	186,536	3.9	18.44
20.01 - 22.50	123,603	5.9	20.80	123,603	5.9	20.80
22.51 - 25.00	297,914	7.3	23.84	203,494	6.6	23.71
25.01 - 27.50	16,500	2.7	26.42	16,500	2.7	26.42
Total	882,853	5.1	$19.98	788,433	4.6	$19.48

Service-Based and Performance-Based Awards. The Corporation recognizes compensation (salaries and employee benefits) expense over the restricted period for service-based awards and over the three-year performance period for performance-based awards. Pretax compensation expense recognized for nonvested service-based shares during 2007, 2006, and 2005 totaled $2.5 million, $0.9 million, and $0.2 million, respectively. The tax benefit was $1.3 million, $0.4 million, and $0.1 million for 2007, 2006, and 2005, respectively. Pretax compensation expense recognized for performance shares during 2007 and 2006 totaled $0.7 million and $0.4 million, respectively.

Table of Contents

Nonvested share activity under the Omnibus Plan and the Restricted Stock Plan at and for the years ended December 31, 2007, 2006, and 2005 follows:

	Service-Based		Performance-Based	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2005	18,547	$ 22.34		$
Granted	17,400	23.98		
Vested	(1,300)	23.50		
Forfeited	(2,000)	25.49		
Outstanding at December 31, 2005	32,647	22.97		
Granted	193,792	24.14	58,500	23.66
Vested	(1,300)	23.50		
Forfeited	(9,476)	23.30	(6,400)	23.66
Outstanding at December 31, 2006	215,663	24.00	52,100	23.66
Granted	112,685	23.74	54,600	22.70
Vested	(31,212)	25.10		
Forfeited	(33,968)	23.22	(16,533)	22.35
Outstanding at December 31, 2007	**263,168**	**$ 24.01**	**90,167**	**$ 22.31**

As of December 31, 2007, there was $4.1 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 1.67 years. The total fair value of shares vested during 2007, 2006, and 2005 was $717,000, $32,000, and $31,000, respectively.

As of December 31, 2007, there was $0.9 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 1.50 years.

Upon consummation of the proposed merger with Fifth Third, each option to purchase shares of First Charter common stock that is outstanding shall fully vest and be converted to an option to purchase Fifth Third common stock, based on a formula as specified in the Merger Agreement. In addition, all performance objectives with respect to performance shares of First Charter shall be deemed to be satisfied to the extent necessary to earn 100 percent of the performance shares and the performance period shall be deemed to be complete. Such performance shares shall be deemed to be converted to actual performance share awards and the actual performance share awards shall be paid out in cash as soon as practicable after the merger is completed. The restrictions on all awards of restricted stock under the

terms of the 2000 Omnibus Plan and the Restricted Stock Plan will automatically lapse, the restriction period will end, and such shares will be exchangeable for the merger consideration.

19. Shareholders Equity Programs

Stock Repurchase Programs. 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. During 2007, the Corporation repurchased in the aggregate a total of 125,400 shares of its common stock at an average per-share price of $21.04 under this authorization, which reduced shareholders equity by approximately $2.6 million. No shares were repurchased under this authorization during 2006 or 2005. As of December 31, 2007, the Corporation had repurchased all shares under this authorization for an average per-share price of $17.82, which reduced shareholders equity by approximately $27.1 million.

Table of Contents

On October 24, 2003, the Corporation s Board of Directors authorized a stock repurchase plan to acquire up to an additional 1.5 million additional shares of the Corporation s common stock. During 2007, the Corporation repurchased a total of 374,600 shares of its common stock at an average per-share price of $21.19 under this authorization, which reduced shareholders equity by approximately $8.0 million. As of December 31, 2007, the maximum number of shares that may yet be repurchased under this program was 1,125,400 shares. This program has no set expiration or termination date. The Corporation does not anticipate repurchasing any additional shares due to the proposed merger with Fifth Third.

Dividend Reinvestment and Stock Purchase Plan. On May 23, 2007, the Corporation s Board of Directors adopted the 2007 Dividend Reinvestment and Stock Purchase Plan (2007 DRIP), effective June 1, 2007. Under the 2007 DRIP, shareholders can elect to have dividends on shares of common stock reinvested and make optional cash payments of up to $25,000 per calendar quarter to be invested in common stock of the Corporation. Pursuant to the terms of the 2007 DRIP, common stock issued must be purchased by the administrator in the open market. During the period June 1, 2007 through December 31, 2007, 52,756 shares of common stock were issued under the 2007 DRIP.

Under the terms of the 1998 Amended and Restated Dividend Reinvestment and Stock Purchase Plan (1998 DRIP), shareholders could elect to have dividends on shares of common stock reinvested and make optional cash payments of up to $3,000 per calendar quarter to be invested in common stock of the Corporation. Pursuant to the terms of the 1998 DRIP, the Corporation could either issue new shares valued at the then-current market value of the common stock or the administrator of the 1998 DRIP could purchase shares of common stock in the open market. Effective April 5, 2007, the Corporation s Board of Directors authorized management to suspend the 1998 DRIP indefinitely. During the period January 1, 2007 through April 4, 2007, fiscal year 2006, and fiscal year 2005, the Corporation issued 33,366 shares, 134,996 shares, and 147,034 shares, respectively, pursuant to the 1998 DRIP and the administrator of the 1998 DRIP did not purchase any shares in the open market.

Stockholder Protection Rights Agreement. On July 19, 2000, the Corporation entered into a Stockholder Protection Rights Agreement (Rights Agreement). In connection with the Rights Agreement, the Board declared a dividend of one share purchase right (Right) on each outstanding share of common stock. Issuances of the Corporation s common stock after August 9, 2000 include share purchase Rights. Generally, the Rights will be exercisable only if a person or group acquires 15 percent or more of the Corporation s common stock or announces a tender offer. Each Right will entitle stockholders to buy 1/1000 of a share of a new series of junior participating preferred stock of the Corporation at an exercise price of $80. Prior to the time they become exercisable, the Rights are redeemable for one cent per Right at the option of the Board of Directors.

If the Corporation is acquired after a person has acquired 15 percent or more of its common stock, each Right will entitle its holder to purchase, at the Right s then-current exercise price, a number of shares of the acquiring company s common stock having a market value of twice-such price. Additionally, if the Corporation is not acquired, a Rights holder (other than the person or group acquiring 15 percent or more) will be entitled to purchase at the Right s then-current exercise price, a number of shares of the Corporation s common stock having a market value of twice-such price.

Following the acquisition of 15 percent or more of the common stock, but less than 50 percent by any Person or Group, the Board may exchange the Rights (other than Rights owned by such person or group) at an exchange ratio of one share of common stock for each Right.

The Rights were distributed on August 9, 2000, to stockholders of record as of the close of business on such date. The Rights will expire on July 19, 2010.

Pursuant to the Merger Agreement, the Rights Agreement will be terminated on or before the closing date of the proposed merger with Fifth Third.

Table of Contents

20. 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 December 31, 2007 of standby letters of credit issued or modified during 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.

As of December 31, 2007, 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	$ 639,812	$ 157,611	$ 9,977	$ 99,279	$	$ 906,679
Lines of credit	29,928	1,174	4,002	456,451		491,555
Standby letters of credit	18,563	8,059				26,622
Anticipated tax settlements					10,189	10,189
Total commitments	$ 688,303	$ 166,844	$ 13,979	$ 555,730	$ 10,189	$ 1,435,045

Included in loan commitments are commitments of $83.1 million to cover customer deposit account overdrafts should they occur. Of the $491.6 million of preapproved unused lines of credit, $24.1 million were at fixed rates and $467.5 million were at floating rates. Of the $906.7 million of loan commitments, $230.4 million were at fixed rates and $676.3 million were at floating rates. The maximum amount of credit loss of standby letters of credit is represented by the contract amount of the instruments. Management expects that these commitments can be funded through normal operations and other liquidity sources available to the Corporation. The amount of collateral obtained if deemed necessary by the Corporation upon extension of credit is based on management s credit evaluation of the borrower at that time. The Corporation generally extends credit on a secured basis. Collateral obtained may include, but is not limited to, accounts receivable, inventory, and commercial and residential real estate.

The Bank primarily makes commercial and installment loans to customers throughout its market areas. The Corporation s primary market area 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.

As of December 31, 2007, the scheduled maturities of all minimum lease payments are as follows:

(In thousands)	
2008	$ 3,813
2009	3,772
2010	3,097
2011	2,708
2012	2,594
2013 and after	32,125
Total minimum lease payments	**$ 48,109**

Rental expense for all operating leases for 2007, 2006, and 2005 was $3.9 million, $3.6 million, and $3.3 million, respectively.

Average daily Federal Reserve balance requirements for 2007 and 2006 amounted to $1.0 million and $9.1 million, respectively.

Contingencies. The Corporation is under examination by the North Carolina Department of Revenue for tax years 2001 through 2005 and is subject to examination for subsequent tax years. Additional information regarding the examination is included in **Note 16**.

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.

21. Related Party Transactions

The Corporation has no material related party transactions which would require disclosure. In compliance with applicable banking regulations, the Corporation may extend credit to certain officers and directors of the Corporation and its banking subsidiaries in the ordinary course of business under substantially the same terms as comparable third-party lending arrangements.

See **Note 11** for related party loan information.

22. Fair Value of Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Corporation s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various

financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Where information regarding the fair value of a financial instrument is available, those values are used, as is the case with securities available for sale. In this case, an open market exists in which the majority of the financial instruments are actively traded.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Corporation has a substantial trust department that contributes net fee income annually. The trust department is not considered a financial instrument, and its value has not been incorporated into the fair value estimates. Other significant assets and liabilities that are not considered financial assets or liabilities include the mortgage and insurance agency operations and premises and equipment. In addition, tax ramifications related to the realization of the

unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The Corporation s fair value methods and assumptions are as follows:

Cash and cash equivalents: Due to their short-term nature, the carrying amounts reported in the balance sheet are assumed to approximate fair value for these assets. For purposes of this disclosure, cash equivalents include Federal funds sold and other short-term investments.

Securities Available for Sale: The fair values of securities available for sale are based primarily upon quoted market prices. In some instances, for securities that are not widely traded, market quotes for comparable securities were used.

Federal Home Loan Bank and Federal Reserve Bank stock: Fair values of Federal Home Loan Bank and Federal Reserve Bank stock are based on current redemption prices, which are equal to the carrying amount.

Loans held for sale: Mortgage loans held for sale are valued at the lower of cost or market. Market value is determined by outstanding commitments from investors or current investor yield requirements.

Loans: The fair value for loans is estimated based upon discounted future cash flows using discount rates comparable to rates currently offered for such loans. The fair value for floating rate and short-term indexed loans is assumed to approximate the current carrying value.

Deposits: The fair value disclosed for deposits (interest checking, savings, money market, and certificates of deposit) is estimated based upon discounted future cash flows using rates currently offered for deposits of similar remaining maturities. The fair value disclosed for noninterest bearing demand deposits is the amount payable on demand at year-end.

Short-term borrowings: The fair value disclosed for federal funds borrowed, security repurchase agreements, commercial paper, and other short-term borrowings is estimated using rates currently offered for borrowing of similar remaining maturities.

Long-term debt: The fair value disclosed for long-term debt is estimated based upon discounted future cash flows using a discount rate comparable to the current market rate for such borrowings.

Based on the limitations, methods, and assumptions noted above, the following table presents the carrying amounts and fair values of the Corporation s financial instruments:

	December 31			
	2007		2006	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	**$ 102,198**	**$ 102,198**	$ 102,827	$ 102,827
Securities available for sale	**860,671**	**860,671**	856,487	856,487
Federal Home Loan Bank and Federal				

Reserve Bank stock	**48,990**	**48,990**	49,928	49,928
Loans held for sale	**14,145**	**14,145**	12,292	12,292
Portfolio loans, net of allowance for loan losses	**3,460,593**	**3,471,532**	3,450,087	3,441,803
Financial liabilities				
Deposits	**3,221,619**	**3,173,637**	3,248,128	3,170,976
Short-term borrowings	**552,412**	**548,228**	610,904	606,119
Long-term debt	**567,729**	**568,318**	487,794	477,650

Table of Contents

23. Regulatory Restrictions and Capital Ratios

The Corporation and the Bank are subject to various regulatory capital requirements administered by bank and bank holding company regulatory agencies (regulators). 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 December 31, 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 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 statements. At December 31, 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 December 31, 2007, that 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, including information related to Gwinnett Banking Company at December 31, 2006:

			For Capital Adequacy Purposes		To Be Well Capitalized	
(Dollars in thousands)	Actual Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
At December 31, 2007:						
Leverage						
First Charter Corporation	**$ 446,890**	**9.43%**	**$ 189,630**	**4.00%**	**None**	**None**
First Charter Bank	**417,979**	**8.83**	**189,252**	**4.00**	**$ 236,565**	**5.00%**
Tier I Capital						
First Charter Corporation	**$ 446,890**	**11.17%**	**$ 159,985**	**4.00%**	**None**	**None**
First Charter Bank	**417,979**	**10.47**	**159,732**	**4.00**	**$ 239,598**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$ 489,389**	**12.24%**	**$ 319,970**	**8.00%**	**None**	**None**
First Charter Bank	**460,393**	**11.53**	**319,464**	**8.00**	**$ 399,330**	**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%

Gwinnett Banking Company	37,049	9.75	15,192	4.00	18,991	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%
Gwinnett Banking Company	37,049	10.38	14,280	4.00	21,420	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%
Gwinnett Banking Company	41,321	11.57	28,560	8.00	35,700	10.00

Table of Contents

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 December 31, 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. As of December 31, 2007, the Bank did not have any loans to nonbank affiliates.

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. As of December 31, 2007, the Corporation and the Bank were in compliance with these limitations.

24. Subsequent Event

As discussed in **Note 16**, the Corporation, through its subsidiaries, participates in two entities classified as captive REITs. The Corporation has historically received dividends which resulted in certain tax benefits taken within the Corporation s tax returns and consolidated financial statements.

On December 31, 2007, the Superior Court of North Carolina ruled in favor of the State of North Carolina in the Wal-Mart case. This ruling was made available to the public on January 4, 2008 and the case has been appealed by the taxpayer to the North Carolina Court of Appeals. The Corporation s REIT position has certain facts that are similar as those in the above-mentioned Wal-Mart case.

The Corporation is currently evaluating its reserves for uncertain tax positions in accordance with FIN 48 which requires remeasurement of uncertain tax positions to be based on the information that became available during the first quarter of 2008. The Corporation has yet to quantify the impact that the Wal-Mart case ruling will have on its consolidated financial statements, but believes the amount could be material. The Corporation s maximum exposure related to this matter is approximately $13.5 million. The Corporation will record the remeasurement of its uncertain tax position related to the Wal-Mart case in the first quarter of 2008.

25. Business Segment Information

The Corporation operates one reportable segment, the Bank, representing 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.

Table of Contents

The accounting policies of the Bank are the same as those described in **Note 1**.

Information regarding the separate results of operations and assets for the Bank and Other follows:

	For the Calendar Year 2007			
(In thousands)	**The Bank**	**Other**	**Eliminations**	**Consolidated Total**
Interest income	**$ 309,787**	**$ 105**	$	**$ 309,892**
Interest expense	**157,787**	**5,219**		**163,006**
Net interest income (expense)	**152,000**	**(5,114)**		**146,886**
Provision for loan losses	**19,945**			**19,945**
Noninterest income	**77,792**	**462**		**78,254**
Noninterest expense	**141,641**	**887**		**142,528**
Income (loss) before income tax expense	**68,206**	**(5,539)**		**62,667**
Income tax expense (benefit)	**23,251**	**(1,888)**		**21,363**
Net income (loss)	**$ 44,955**	**$ (3,651)**	$	**$ 41,304**
Average portfolio loans	**$ 3,511,560**	$	$	**$ 3,511,560**
Average assets	**4,838,736**	**546,142**	**(532,166)**	**4,852,712**
Total assets at December 31, 2007	**4,847,132**	**598,605**	**(583,320)**	**4,862,417**

	For the Calendar Year 2006			
(In thousands)	The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 264,509	$ 420	$	$ 264,929
Interest expense	126,415	4,804		131,219
Net interest income (expense)	138,094	(4,384)		133,710
Provision for loan losses	5,290			5,290
Noninterest income	64,247	3,431		67,678
Noninterest expense	124,740	197		124,937

Income (loss) from continuing operations before income tax expense	72,311	(1,150)		71,161
Income tax expense (benefit)	24,185	(386)		23,799
Income (loss) from continuing operations, net of tax	48,126	(764)		47,362
Discontinued operations:				
Income from discontinued operations	36			36
Gain on sale	962			962
Income tax expense	965			965
Income from discontinued operations, net of tax	33			33
Net income (loss)	$ 48,159	$ (764)	$	$ 47,395
Average portfolio loans	$ 3,092,801	$	$	$ 3,092,801
Average assets of continuing operations	4,538,879	440,931	(612,208)	4,367,602
Average assets of discontinued operations	2,232			2,232
Total assets at December 31, 2006	4,737,578	552,045	(432,906)	4,856,717

Table of Contents

(In thousands)	For the Calendar Year 2005 The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 224,567	$ 38	$	$ 224,605
Interest expense	97,490	2,232		99,722
Net interest income (expense)	127,077	(2,194)		124,883
Provision for loan losses	9,343			9,343
Noninterest income	46,599	139		46,738
Noninterest expense	127,750	221		127,971
Income (loss) from continuing operations before income tax expense	36,583	(2,276)		34,307
Income tax expense (benefit)	9,740	(608)		9,132
Income (loss) from continuing operations, net of tax	26,843	(1,668)		25,175
Discontinued operations:				
Income from discontinued operations	224			224
Income tax expense	88			88
Income from discontinued operations, net of tax	136			136
Net income (loss)	$ 26,979	$ (1,668)	$	$ 25,311
Average portfolio loans	$ 2,788,755	$	$	$ 2,788,755
Average assets of continuing operations	4,566,915	391,698	(471,903)	4,486,710
Average assets of discontinued operations	2,373			2,373
Total assets of continuing operations at December 31, 2005	4,213,424	445,789	(429,432)	4,229,781
Total assets of discontinued operations at December 31, 2005	2,639			2,639

Table of Contents

26. First Charter Corporation (Parent Company)

The principal asset of the Parent Company is its investment in the Bank, and its principal source of income is dividends from the Bank. Certain regulatory and other requirements restrict the lending of funds by the Bank to the Parent Company and the amount of dividends that can be paid to the Parent Company. In addition, certain regulatory agencies may prohibit the payment of dividends by the Bank if they determine that such payment would constitute an unsafe or unsound practice.

The Parent Company s condensed balance sheets and related condensed statements of income and cash flows are as follows:

Condensed Balance Sheets

	December 31	
(In thousands)	**2007**	2006
Assets		
Cash	**$ 83,999**	$ 60,447
Securities available for sale	**1,099**	8,715
Investments in subsidiaries	**502,279**	479,028
Receivables from subsidiaries	**7,000**	
Other assets	**7,119**	6,945
Total Assets	**$ 601,496**	$ 555,135
Liabilities and Shareholders Equity		
Accrued liabilities	**$ 6,951**	$ 6,988
Payable to subsidiaries		737
Commercial paper	**64,180**	38,191
Long-term debt	**61,857**	61,857
Other liabilities	**164**	
Total liabilities	**133,152**	107,773
Shareholders equity	**468,344**	447,362
Total Liabilities and Shareholders Equity	**$ 601,496**	$ 555,135

Condensed Statements of Income

	For the Calendar Year		
(In thousands)	**2007**	2006	2005

Income			
Dividends from subsidiaries	**$ 28,000**	$ 45,000	$ 13,724
Interest and dividends on securities	**105**	546	79
Securities gains, net	**348**	6	
Noninterest income	**114**	3,300	98
Total income	**28,567**	48,852	13,901
Expense			
Interest	**5,219**	4,804	2,232
Noninterest expense	**887**	197	221
Total expense	**6,106**	5,001	2,453
Income before income tax benefit and equity in undistributed net income of subsidiaries	**22,461**	43,851	11,448
Income tax benefit	**1,888**	386	608
Income before equity in undistributed net income of subsidiaries	**24,349**	44,237	12,056
Equity in undistributed net income of subsidiaries	**16,955**	3,158	13,255
Net Income	**$ 41,304**	$ 47,395	$ 25,311

Table of Contents

Condensed Statements of Cash Flows

(In thousands)	For the Calendar Year **2007**	2006	2005
Operating Activities			
Net income	**$ 41,304**	$ 47,395	$ 25,311
Adjustments to reconcile net income to net cash provided by operating activities:			
Securities gains, net	**(348)**	(6)	
Tax benefits from stock-based compensation plans	**(1,318)**	(1,568)	
Premium amortization and discount accretion, net	**1**	1	
Change in accrued liabilities	**160**	24	177
Change in other assets	**1,144**	2,254	(1,787)
Change in receivable from subsidiaries	**(7,737)**	3,737	3,000
Equity in undistributed net income of subsidiaries	**(16,955)**	(3,158)	(13,255)
Net cash provided by operating activities	**16,251**	48,679	13,446
Investing Activities			
Purchases of securities available for sale	**(1)**	(22,370)	
Proceeds from sales of securities available for sale	**7,437**	14,994	
Investments in subsidiaries	**(1,762)**	(17,301)	(53,042)
Cash paid in business acquisitions, net of cash acquired		(9,534)	
Net cash provided by (used in) investing activities	**5,674**	(34,211)	(53,042)
Financing Activities			
Net change in commercial paper and other short-term borrowings	**25,989**	(20,241)	(13,252)
Proceeds from issuance of trust preferred securities			61,857
Proceeds from issuance of common stock	**12,149**	23,649	11,443
Purchases of common stock	**(10,626)**		
Tax benefits from stock-based compensation plans	**1,318**	1,568	
Cash dividends paid	**(27,203)**	(23,050)	(22,227)
Net cash provided by (used in) financing activities	**1,627**	(18,074)	37,821
Net increase (decrease) in cash and cash equivalents	**23,552**	(3,606)	(1,775)
Cash and cash equivalents at beginning of year	**60,447**	64,053	65,828
Cash and cash equivalents at end of year	**$ 83,999**	$ 60,447	$ 64,053

Supplemental Information			
Cash paid for:			
Interest	**$ 5,050**	$ 4,981	$ 2,056
Noncash transactions:			
Issuance of common stock in business acquisitions	**(469)**	72,977	501

Table of Contents

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of December 31, 2007, an evaluation of the effectiveness of the Registrant s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (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 upon, and as of the date of this evaluation, the Registrant s Chief Executive Officer and principal financial officer have concluded that the Registrant s disclosure controls and procedures were 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 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.

Remediation of Prior Year Material Weaknesses

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 identified material weaknesses (Material Weaknesses) in the Registrant s internal control over financial reporting. Throughout financial year 2007, the Registrant designed and implemented a remediation plan (Remediation Plan) to remedy the deficiencies in the control environment, which included an inadequate tone and control consciousness to support effective application of policies and the execution of procedures within the daily operation of financial reporting controls. The Remediation Plan also addressed the lack of sufficient complement of skilled finance, tax and accounting resources to perform supervisory reviews and monitoring activities over certain financial reporting matters and controls. Both of these deficiencies contributed to the identified Material Weaknesses in the development of significant transactions and estimates accounting and the reconciliation function. As described in the Registrant s Form 10-K for the year ended December 31, 2006 and the Registrant s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007, the Registrant took the following actions to remediate the Material Weaknesses:

- The Registrant evaluated its personnel resources and secured permanent skilled finance, tax and accounting resources.

- The Registrant engaged independent consultants to assist with the tax function and certain areas of the reconciliation and accounting functions.

- The Registrant enhanced its control environment to promote the adherence to appropriate internal control policies and procedures. These efforts were focused on redesigning the reconciliation process, improving strategic planning to assess the accounting implications of non-routine transactions, and improving the evaluation of significant estimates.

- The Registrant reassessed and revised key policies and procedures, including the general ledger, general ledger reconciliation, capital expenditure and accounts payable, to develop and deploy effective policies and procedures and reinforced compliance in an effort to constantly improve the Registrant s internal control environment.

The Registrant enhanced its internal governance and compliance function. Periodic and regular meetings were 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 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, and the Sarbanes-Oxley Review Committee. Where deemed necessary, various amendments to these documents were adopted. The Registrant s management 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.

The Registrant enhanced the tone and control consciousness to support effective application of policies and the execution of procedures within the daily operation of financial reporting controls.

The Registrant validated and monitored all improvements in the internal control environment in order to assess and to evaluate the effectiveness of the internal controls within the daily operation of financial reporting controls. This included an assessment and an evaluation of the application of the newly implemented policies and the execution of the appropriate internal control procedures.

All the steps identified in the Remediation Plan have been implemented as of December 31, 2007 and have remediated the prior year Material Weaknesses in the Registrant s internal control over financial reporting. 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 fourth quarter of 2007.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2007, the Registrant continued the process of educating management and employees about the importance of effective internal control procedures through periodic and regular meetings and through the activities of the internal governance, operational, compliance and financial functions.

The Registrant completed the refinement of the enhanced reconciliation procedures to support the effective application of the new general ledger reconciliation policy. Reconciliations were designed, prepared and independently reviewed at a level of precision to detect unusual variations or material misstatements.

The Registrant improved the process for an effective evaluation of significant transactions and accounting estimates. Consideration was given to new accounting pronouncements and the Registrant s established policies, procedures and internal controls relative to the evaluation of new pronouncements. The appropriate level of management was involved in the decision-making process. Independent experts were engaged and consulted as necessary during the evaluation phase. The evaluation process was documented and adequately supported.

Management s Annual Report on Internal Control Over Financial Reporting

The Registrant s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act). Internal control over financial reporting is a process, designed by, or under the supervision of, an entity s principal executive and principal financial officers, and effected by an entity s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and the dispositions of the assets of the entity;
(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the

entity are being made only in accordance with authorizations of the management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition,

Table of Contents

use, or disposition of the entity s assets that could have a material effect on its consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Registrant s management, including the Registrant s Chief Executive Officer and principal financial officer, the Registrant s management conducted an assessment of the effectiveness of its internal control over financial reporting based on the criteria set forth in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on that assessment, as of December 31, 2007, the Registrant s management concluded that its internal control over financial reporting was effective.

KPMG LLP, the independent registered public accounting firm that audited the Registrant s consolidated financial statements included in this annual report, has issued an attestation report on the Registrant s internal control over financial reporting which appears in this annual report on Form 10-K in **Item 8. Financial Statements and Supplementary Data Report of Independent Registered Public Accounting Firm**.

Item 9B. ***Other Information***

None.

Table of Contents

Part III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information called for by Item 10 with respect to directors and Section 16 matters is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K. The information called for by Item 10 with respect to the Registrant s executive officers is set forth in **Part 1, Item 4A** hereof. The information called for by Item 10 with respect to the identification of the members of the Registrant s Audit Committee, the identification of the Registrant s audit committee financial expert, and the Registrant s Code of Business Ethics is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K.

Item 11. ***Executive Compensation***

The information called for by Item 11 is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information called for by Item 12 is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information called for by Item 13 is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K.

Item 14. ***Principal Accountant Fees and Services***

The information called for by Item 14 is incorporated by reference from the Registrant s 2008 definitive proxy statement or an amendment to this Form 10-K to be filed no later than April 29, 2008, as permitted by General Instruction G(3) to Form 10-K.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

The following documents are filed as part of this report:

		Page
(1)	Financial Statements:	
	Reports of KPMG LLP, Independent Registered Public Accounting Firm	62
	Consolidated Balance Sheets as of December 31, 2007 and 2006	64
	Consolidated Statements of Income for the years ended December 31, 2007, 2006, and 2005	65
	Consolidated Statements of Shareholders Equity for the years ended December 31, 2007, 2006, and 2005	66
	Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005	67
	Notes to Consolidated Financial Statements	68
(2)	Financial Statement Schedules:	
	None	
(3)	Exhibits	

Table of Contents

Exhibit No. (per Exhibit Table in Item 601 of Regulation S-K)	Description of Exhibits
2.1	Agreement and Plan of Merger, dated June 1, 2006, by and between the Registrant and GBC Bancorp, Inc., incorporated herein by reference to Exhibit 2.1 of the Registrant s Current Report on Form 8-K, dated June 1, 2006.
2.2	Agreement and Plan of Merger dated as of August 15, 2007 by and between First Charter Corporation and Fifth Third Bancorp, incorporated herein by reference to Exhibit 2.1 of the Registrant s Current Report on Form 8-K, dated August 15, 2007.
2.3	Amended and Restated Agreement and Plan of Merger dated as of September 14, 2007, by and among First Charter Corporation, Fifth Third Bancorp, and Fifth Third Financial Corporation, incorporated herein by reference to Exhibit 2.1 of the Registrant s Current Report on Form 8-K, dated September 14, 2007.
3.1	Amended and Restated Articles of Incorporation of the Registrant, incorporated herein by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
3.2	Amended and Restated By-laws of the Registrant, as amended, incorporated herein by reference to Exhibit 3.2 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
4.1	Indenture dated June 28, 2005 between First Charter Corporation and Wilmington Trust Company, as trustee, incorporated herein by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K dated June 28, 2005.
4.2	Indenture dated September 29, 2005 between First Charter Corporation and Wilmington Trust Company, as trustee, incorporated herein by reference to Exhibit 4.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.3	Stockholder Protection Rights Agreement dated July 19, 2000 between the Registrant and Registrar and Transfer Company, incorporated herein by reference to Exhibit 99.1 of the Registrant s Current Report on Form 8-K, dated July 19, 2000.
4.4	First Amendment to the Stockholder Protection Rights Agreement, dated as of August 15, 2007 by and between First Charter Corporation and Registrar and Transfer Company, incorporated herein by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K, dated August 15, 2007.
*10.1	Comprehensive Stock Option Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 1992.
10.2	Amended and Restated Dividend Reinvestment and Stock Purchase Plan, incorporated herein by reference to Exhibit 99.1 of the Registrant s Registration Statement No. 333-60641, dated August 8, 1998.
*10.3	Executive Incentive Bonus Plan, incorporated herein by reference to Exhibit 10.3 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1998.
*10.4	Amended and Restated Employment Agreement dated November 2, 2007 by and between the Registrant and Robert E. James, incorporated herein by reference to Exhibit 10.6 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.5	Amended and Restated Supplemental Agreement dated December 19, 2001 for Lawrence M. Kimbrough, incorporated herein by reference to Exhibit 10.8 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001.

Table of Contents

Exhibit No. (per Exhibit Table in Item 601 of Regulation S-K)	Description of Exhibits
*10.6	Amended and Restated Supplemental Agreement dated December 19, 2001 for Robert O. Bratton, incorporated herein by reference to Exhibit 10.9 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001.
*10.7	Amended and Restated Supplemental Agreement dated November 2, 2007 by and between the Registrant and Robert E. James, incorporated herein by reference to Exhibit 10.8 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.8	Restricted Stock Award Program, incorporated herein by reference to Exhibit 99.1 of the Registrant s Registration Statement No. 033-60949, dated July 10, 1995.
*10.9	The 1999 Employee Stock Purchase Plan, incorporated herein by reference to Exhibit 99.1 of the Registrant s Registration Statement No. 333-54019, dated May 29, 1998.
*10.10	The First Charter Corporation Comprehensive Stock Option Plan, as amended effective March 26, 1996, incorporated herein by reference to Exhibit 99.1 of the Registrant s Registration Statement No. 333-54021, dated May 29, 1998.
*10.11	The Stock Option Plan for Non-Employee Directors, incorporated herein by reference to Exhibit 10.15 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1997.
*10.12	The Home Federal Savings and Loan Employee Stock Ownership Plan, incorporated herein by reference to the Registrant s Registration Statement No. 333-71495, dated January 29, 1999.
*10.13	The HFNC Financial Corp. Stock Option Plan, incorporated herein by reference to the Registrant s Registration Statement No. 333-71497, dated February 1, 1999.
*10.14	Amended and Restated Employment Agreement dated November 2, 2007 by and between the Registrant and Stephen M. Rownd, incorporated herein by reference to Exhibit 10.7 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.15	The First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant s Registration Statement No. 333-132033.
*10.16	The First Charter 1994 Deferred Compensation Plan for Non-Employee Directors, incorporated herein by reference to Exhibit 10.26 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.17	The First Charter Option Plan Trust, incorporated herein by reference to Exhibit 10.27 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.18	The Carolina First BancShares, Inc. Amended 1990 Stock Option Plan, incorporated herein by reference to Exhibit 10.28 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.19	The Carolina First BancShares, Inc. 1999 Long-Term Incentive Plan, incorporated herein by reference to Exhibit 10.29 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.20	Deferred Compensation Agreement dated as of February 18, 1993 by and between Cabarrus Bank of North Carolina and Ronald D. Smith, incorporated herein by reference to Exhibit 10.30 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.

Table of Contents

Exhibit No. (per Exhibit Table in Item 601 of Regulation S-K)	Description of Exhibits
*10.21	Deferred Compensation Agreement dated as of December 31, 1996 by and between Carolina First BancShares, Inc. and James E. Burt, III, incorporated herein by reference to Exhibit 10.31 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.22	Separation and Consulting Agreement between First Charter Corporation and James E. Burt, III dated June 29, 2000, incorporated herein by reference to Exhibit 10.32 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.23	Carolina First BancShares, Inc. Amended and Restated Directors Deferred Compensation Plan, incorporated herein by reference to Exhibit 10.33 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2000.
*10.24	Amended and Restated Deferred Compensation Plan for Non-Employee Directors, incorporated herein by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
*10.25	First Charter Corporation Directors Option Deferral Plan, incorporated herein by reference to Exhibit 10.35 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001.
*10.26	Amended and Restated Supplemental Agreement dated November 2, 2007 by and between the Registrant and Stephen M. Rownd, incorporated herein by reference to Exhibit 10.9 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.27	Form of Award Agreement for Incentive Stock Options Granted under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.32 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.
*10.28	Form of Award Agreement for Nonqualified Stock Options Granted under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.33 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.
*10.29	Form of First Charter Corporation Incentive Stock Option Agreement Pursuant to First Charter Corporation Comprehensive Stock Option Plan, incorporated herein by reference to Exhibit 10.34 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.
*10.30	Form of First Charter Corporation Nonqualified Stock Option Agreement Pursuant to First Charter Corporation Comprehensive Stock Option Plan, incorporated herein by reference to Exhibit 10.35 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004.
*10.31	Form of First Charter Corporation Restricted Stock Award Agreement for use under the Restricted Stock Award Program, incorporated herein by reference to Exhibit 10.5 of the Registrant s Current Report on Form 8-K, dated February 27, 2006.
*10.32	Separation Agreement and Release, dated February 1, 2005, by and between the Registrant and Robert O. Bratton, incorporated herein by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, dated February 1, 2005.
*10.33	

Employment Agreement, dated April 13, 2005, 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 April 13, 2005.

Exhibit No. (per Exhibit Table in Item 601 of Regulation S-K)	Description of Exhibits
*10.34	Amended and Restated Change in Control Agreement dated November 2, 2007 by and between the Registrant and Cecil O. Smith, incorporated herein by reference to Exhibit 10.4 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.35	Amended and Restated Change in Control Agreement dated November 2, 2007 by and between the Registrant and Stephen J. Antal, incorporated herein by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.36	Transition Agreement and Release, dated April 27, 2005, by and between the Registrant and Lawrence M. Kimbrough, incorporated herein by reference to Exhibit 10.1 of the Registrant s Form 8-K, dated April 27, 2005.
*10.37	Form of Performance Shares Award Agreement under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, dated February 27, 2006.
*10.38	Form of Restricted Stock Award Agreement under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.2 of the Registrant s Current Report on Form 8-K, dated February 27, 2006.
*10.39	Description of 2006 Compensation for Non-Employee Directors, incorporated herein by reference to Item 1.01 of the Registrant s Current Report on Form 8-K, dated January 25, 2006.
*10.40	Description of 2006 Performance Goals for Executive Officers, incorporated herein by reference to Item 1.01 of the Registrant s Current Report on Form 8-K, dated February 27, 2006.
*10.41	Amended and Restated Change in Control Agreement dated November 2, 2007 by and between the Registrant and Josephine P. Sawyer, incorporated herein by reference to Exhibit 10.2 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.42	Transition Agreement and Release, dated September 27, 2006, by and between the Registrant and Richard A. Manley, incorporated herein by reference to Exhibit 10.1 of the Registrant s Current Report on Form 8-K, dated September 27, 2006.
*10.43	Amended and Restated Change in Control Agreement dated November 2, 2007 by and between the Registrant and Jeffrey S. Ensor, incorporated herein by reference to Exhibit 10.3 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.44	Amended and Restated Change in Control Agreement dated November 2, 2007 by and between the Registrant and Sheila A. Stoke, incorporated herein by reference to Exhibit 10.5 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
*10.45	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.
*10.46	

	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.
11.1	Statement regarding computation of per share earnings, incorporated herein by reference to Note 1 of the Consolidated Financial Statements.

Exhibit No. (per Exhibit Table in Item 601 of Regulation S-K)	Description of Exhibits
12.1	Computation of Ratio of Earnings to Fixed Charges.
21.1	List of subsidiaries of the Registrant.
23.1	Consent of KPMG LLP.
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 the 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 the principal financial officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates a management contract or compensatory plan.

Table of Contents

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Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) 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: February 28, 2008 By: /s/ Robert E. James, Jr.
Robert E. James, Jr.,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Robert E. James, Jr. (Robert E. James, Jr.)	President, Chief Executive Officer and Director (principal executive officer)	February 28, 2008
/s/ James E. Burt, III (James E. Burt, III)	Chairman of the Board and Director	February 28, 2008
/s/ Michael R. Coltrane (Michael R. Coltrane)	Vice Chairman of the Board and Director	February 28, 2008
/s/ Sheila A. Stoke (Sheila A. Stoke)	Senior Vice President and Corporate Controller (principal financial officer and principal accounting officer)	February 28, 2008
/s/ William R. Black (William R. Black)	Director	February 28, 2008
/s/ Richard F. Combs (Richard F. Combs)	Director	February 28, 2008
/s/ John J. Godbold, Jr. (John J. Godbold, Jr.)	Director	February 28, 2008
/s/ Jewell D. Hoover (Jewell D. Hoover)	Director	February 28, 2008

/s/ Charles A. James	Director	February 28, 2008
(Charles A. James)		
/s/ Walter H. Jones, Jr.	Director	February 28, 2008
(Walter H. Jones, Jr.)		
/s/ Samuel C. King, Jr.	Director	February 28, 2008
(Samuel C. King, Jr.)		

Table of Contents

Signature	Title	Date
/s/ Jerry E. McGee	Director	February 28, 2008
(Jerry E. McGee)		
/s/ Ellen L. Messinger	Director	February 28, 2008
(Ellen L. Messinger)		
/s/ Hugh H. Morrison	Director	February 28, 2008
(Hugh H. Morrison)		
/s/ John S. Poelker	Director	February 28, 2008
(John S. Poelker)		
/s/ Lawrence. D. Warlick, Jr.	Director	February 28, 2008
(Lawrence. D. Warlick, Jr.)		
/s/ William W. Waters	Director	February 28, 2008
(William W. Waters)		