FIRST CHARTER CORP /NC/
Form 10-Q
November 01, 2001

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

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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

Commission File Number 0-15829

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

NORTH CAROLINA	56-1355866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

10200 DAVID TAYLOR DRIVE, CHARLOTTE, NC	28262-2373
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of November 1, 2001 the Registrant had outstanding 31,231,943 shares of Common Stock, no par value.

FIRST CHARTER CORPORATION

SEPTEMBER 30, 2001 FORM 10-Q

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CHARTER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30
2001

(Dollars in thousands, except share data)	(UNAUDITED)
ASSETS:	
Cash and due from banks	$ 79,288
Federal funds sold	--
Interest bearing bank deposits	3,194
Cash and cash equivalents	82,482
Securities available for sale (cost of $1,105,349 at September 30, 2001 and $437,684 at December 31, 2000; carrying amount of pledged collateral at September 30, 2001, $141,149)	1,134,374
Loans	1,987,397
Less: Unearned income	(227)
Allowance for loan losses	(28,221)
Loans, net	1,958,949
Premises and equipment, net	97,804
Other assets	75,261
TOTAL ASSETS	$ 3,348,870
LIABILITIES:	
Deposits, domestic:	
Noninterest bearing demand	$ 262,331
Interest bearing	1,901,468
Total deposits	2,163,799
Other borrowings	806,141
Other liabilities	51,357
TOTAL LIABILITIES	3,021,297
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 31,223,450 and 31,601,263 shares	143,974
Common stock held in Rabbi Trust for deferred compensation	(370)
Deferred compensation	370
Retained earnings	165,896
Accumulated other comprehensive income:	
Unrealized gains on securities available for sale, net	17,703
TOTAL SHAREHOLDERS' EQUITY	327,573
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,348,870

See accompanying notes to consolidated financial statements.

FIRST CHARTER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30		FOR THE NINE M ENDED SEPTEMB	
(Dollars in thousands, except share and per share data)	2001	2000	2001	
INTEREST INCOME:				
Loans	$ 39,045	$ 47,026	$ 123,357	$
Federal funds sold	11	17	57	
Interest bearing bank deposits	51	49	288	
Securities	15,542	7,647	40,408	
Total interest income	54,649	54,739	164,110	
INTEREST EXPENSE:				
Deposits	19,704	19,461	61,471	
Federal funds purchased and securities sold under agreements to repurchase	1,302	1,707	4,331	
Federal Home Loan Bank and other borrowings	6,820	6,897	19,758	
Total interest expense	27,826	28,065	85,560	
NET INTEREST INCOME	26,823	26,674	78,550	
PROVISION FOR LOAN LOSSES	1,325	2,200	3,265	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,498	24,474	75,285	
NONINTEREST INCOME:				
Service charges on deposit accounts	3,465	2,710	9,766	
Financial management income	569	832	1,984	
Gain (loss) on sale of securities	824	(3,425)	1,373	
Income from equity method investees	73	4,106	82	
Mortgage loan fees	662	301	1,920	
Brokerage services income	476	380	1,390	
Insurance services income	1,959	1,636	5,815	
Gain on sale of property	129	--	129	
Trading gains	829	--	1,062	
Other	1,370	1,146	4,069	
Total noninterest income	10,356	7,686	27,590	
NONINTEREST EXPENSE:				
Salaries and employee benefits	11,206	9,521	32,218	
Occupancy and equipment	3,434	2,898	10,803	
Data processing	806	318	2,161	
Advertising	593	715	1,788	
Postage and supplies	1,340	1,251	3,665	
Professional services	1,614	1,267	4,196	
Telephone	431	396	1,069	
Restructuring charges and merger-related	--	--	--	
Other	2,468	1,391	6,913	

Total noninterest expense	21,892	17,757	62,813
INCOME BEFORE INCOME TAXES	13,962	14,403	40,062
INCOME TAXES	4,502	4,464	12,887
NET INCOME	$ 9,460	$ 9,939	$ 27,175
NET INCOME PER SHARE:			
Basic	$ 0.30	$ 0.32	$ 0.86
Diluted	$ 0.30	$ 0.31	$ 0.86
WEIGHTED AVERAGE SHARES:			
Basic	31,314,550	31,503,251	31,575,452
Diluted	31,545,721	31,646,483	31,760,942

See accompanying notes to consolidated financial statements.

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FIRST CHARTER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands, except share data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	COMMON STOCK HELD IN RABBI TRUST FOR DEFERRED COMPENSATION	DEFERRED COMPENSATION	RETAIN EARNIN
BALANCE, DECEMBER 31, 1999	31,100,310	$146,438	$ --	$ --	$ 151,21
Comprehensive income:					
Net income	--	--	--	--	15,74
Unrealized loss on securities available for sale, net	--	--	--	--	-
Total comprehensive income					
Cash dividends	--	--	--	--	(14,92
Stock options exercised and Dividend Reinvestment Plan stock issued	300,794	2,250	--	--	-
Shares issued in connection with business acquisition	122,263	2,025	--	--	-
Purchase and retirement of common stock	(2,730)	(29)	--	--	-
BALANCE, SEPTEMBER 30, 2000	31,520,637	$150,684	$ --	$ --	$ 152,03
BALANCE, DECEMBER 31, 2000	31,601,263	$151,486	$ --	$ --	$ 155,76
Comprehensive income:					
Net income	--	--	--	--	27,17
Unrealized gain on securities available for sale, net	--	--	--	--	-
Total comprehensive income					

Deferred compensation	--	--	(370)	--	-
Common stock purchased by Rabbi Trust for deferred compensation	--	--	--	370	-
Cash dividends	--	--	--	--	(17,04
Stock options exercised and Dividend Reinvestment Plan stock issued	129,187	1,530	--	--	-
Purchase and retirement of common stock	(507,000)	(9,042)	--	--	-
BALANCE, SEPTEMBER 30, 2001	31,223,450	$143,974	$ (370)	$ 370	$ 165,89

See accompanying notes to consolidated financial statements.

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FIRST CHARTER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	NINE M ENDED SEPT 2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 27,175
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	3,265
Depreciation	5,636
Premium amortization and discount accretion, net	(541)
Net (gain) loss on securities available for sale transactions	(1,373)
Net (gain) loss on sale of other real estate	(9)
Net (gain) loss on sale of property	(129)
Income from equity method investees	(82)
Net loss on sale of mortgage loans	--
Net loss on sale of premises and equipment	12
Origination of mortgage loans held for sale	(148,350)
Proceeds from sale of mortgage loans held for sale	139,659
Decrease (increase) in other assets	4,383
(Decrease) increase in other liabilities	(2,235)
Net cash provided by operating activities	27,411
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales of securities available for sale	97,798
Proceeds from maturities of securities available for sale	178,145
Purchase of securities available for sale	(774,702)
Proceeds from issuer calls and maturities of securities held to maturity	--
Net decrease (increase) in loans	5,863
Proceeds from sales of other real estate	2,512
Net purchases of premises and equipment	(26,786)
Acquisition of business activities, net of cash paid	439
Net cash used in investing activities	(516,731)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase (decrease) in demand, money market and savings accounts	42,765
Net increase in certificates of deposit	122,800
Net increase (decrease) in securities sold under repurchase agreements and other borrowings	236,118
Purchase and retirement of common stock	(9,042)
Proceeds from issuance of common stock	1,530
Dividends paid	(17,041)
Net cash provided by financing activities	377,130
Net decrease in cash and cash equivalents	(112,190)
Cash and cash equivalents at beginning of period	194,672
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 82,482
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 84,889
Cash paid for income taxes	14,292
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:	
Transfer of loans and premises and equipment to other real estate owned	2,582
Unrealized gain on securities available for sale (net of tax effect of $6,109 and $1,429 for the nine months ended September 30, 2001 and 2000, respectively)	15,664
Issuance of common stock for business acquisitions	--
Loans securitized and retained in the available for sale portfolio	166,992
Transfer of loans in portfolio to held for sale	--
Transfer of securities held to maturity to available for sale	--

See accompanying notes to consolidated financial statements.

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FIRST CHARTER CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

First Charter Corporation (the "Corporation") is a bank holding company established as a North Carolina Corporation in 1983. Its principal asset is the stock of its subsidiary, First Charter Bank ("FCB" or the "Bank"). FCB is a full service bank, which operates 52 financial centers, five insurance offices and 99 ATMs (automated teller machines). These facilities are located in Ashe, Alleghany, Avery, Buncombe, Cabarrus, Cleveland, Guilford, Iredell, Jackson, Lincoln, McDowell, Mecklenburg, Rowan, Rutherford, Swain, Transylvania and Union counties of North Carolina. Through its subsidiary First Charter Brokerage Services, the Bank offers full service and discount brokerage services, insurance and annuity sales and financial planning services pursuant to a third party arrangement with UVEST Investment Services. The Bank also operates four other subsidiaries: First Charter Insurance Services, Inc., First Charter Realty Investments, Inc., FCB Real Estate, Inc., and First Charter Leasing, Inc. First Charter Insurance Services, Inc. is a North Carolina corporation formed to meet the insurance needs of businesses and individuals throughout the Charlotte metropolitan area. First Charter Realty Investments, Inc. is a Delaware corporation organized as a holding company for FCB Real Estate, Inc. a real estate investment trust organized in North Carolina. First Charter Leasing, Inc. is a North Carolina corporation, which leases commercial equipment. The Bank also has a majority ownership in Lincoln Center through the Bank's investment in

Mallard Creek, LLC. Lincoln Center is a three-story office building occupied in part by a branch of FCB.

NOTE ONE - ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, FCB. In consolidation, all intercompany accounts and transactions have been eliminated.

The information contained in the consolidated financial statements is unaudited. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The information furnished in this report reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations for interim periods. All such adjustments were of a normal recurring nature. Certain amounts reported in prior periods have been reclassified to conform with the current period presentation. Such reclassifications have no effect on net income or shareholders' equity as previously reported.

Accounting policies followed in the presentation of interim financial results are presented on pages 37 to 41 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivatives and hedging activities. It requires that all derivatives be recognized as assets or liabilities on the balance sheet and that such instruments be carried at fair value through adjustments to either other comprehensive income or current earnings or both, as appropriate. SFAS No. 133 was originally effective for financial statements issued for all fiscal quarters of fiscal years beginning after June 15, 1999. The implementation date of SFAS No. 133 was delayed by Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" to the first fiscal quarters of fiscal years beginning after June 15, 2000. Accordingly, the Corporation adopted SFAS No. 133 on January 1, 2001. The impact to the Corporation upon adoption was immaterial.

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 140 (SFAS No. 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities- a replacement of FASB Statement 125", which revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and introduces new disclosures. The enhanced disclosure requirements were effective for year-end 2000. The other provisions of SFAS No. 140 apply prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001. Accordingly, the Corporation adopted SFAS No. 140 on April 1, 2001. The impact to the Corporation upon adoption was immaterial.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), "Business Combinations", and Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria which must be met for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that identifiable intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Corporation was required to adopt the provisions of SFAS 141 as of June 30, 2001 and will adopt SFAS 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate accounting literature issued prior to SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142. Because of the extensive effort needed to comply with adopting SFAS 141 and 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Corporation's financial statements at this time, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

NOTE TWO - 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 periods presented. Diluted net income per share reflects the potential dilution that could occur if all of the currently outstanding stock options on the Corporation's common stock are fully exercised. 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 denominator of the basic net income per share computations to the denominator of the diluted net income per share computations is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		EN
	2001	2000	200
Basic net income per share denominator:			
Weighted average number of common shares outstanding	31,314,550	31,503,251	31,575
Dilutive effect arising from assumed exercise of stock options	231,171	143,232	185
Diluted net income per share denominator	31,545,721	31,646,483	31,760

The Corporation paid cash dividends of $0.18 and $0.54 per share for the

three and nine months ended September 30, 2001, respectively, compared to $0.17 and $0.51 per share for the comparable 2000 periods.

NOTE THREE - MERGERS AND ACQUISITIONS

(a) Hoffman & Young, Inc. On July 31, 2001, the Corporation completed the acquisition of Hoffman & Young, Inc., a Charlotte, North Carolina based insurance company, which was merged into First Charter Insurance Services. The purchase price consisted of $900,000 in cash and was accounted for as a purchase.

(b) Branch Purchase. On November 17, 2000, the Corporation purchased four financial centers with total loans of $9.4 million and total deposits of $88.3 million. Approximately $8.6 million of intangible assets were recorded as a result of this transaction and are being amortized on a straight-line basis over 15 years. The financial centers are located in Bryson City, Jefferson, West Jefferson and Sparta, North Carolina.

(c) Business Insurers of Guilford County. On September 1, 2000, Business Insurers of Guilford County ("Business Insurers") was merged into First Charter Insurance Services. As a result of this merger, approximately 283,000 shares of the Corporation's common stock were issued. This merger was accounted for as a pooling of interests, and accordingly all financial results for prior periods have been restated to include the financial results of both entities. In connection with the Business Insurers merger, the Corporation recorded pre-tax restructuring charges and merger-related expenses of approximately $575,000 ($425,000 after-tax), all of which had been incurred at December 31, 2001.

(d) Carolina First BancShares, Inc. On April 4, 2000, Carolina First BancShares, Inc. ("Carolina First" or "CFBI") was merged into the Corporation (the "Merger"). In accordance with the terms of the Merger Agreement, each share of the $2.50 par value common stock of Carolina First was converted into 2.267 shares of the no par value common stock of the Corporation, resulting in the net issuance of approximately 13.3 million common shares to the former Carolina First shareholders. The Merger was accounted for as a pooling of interests, and accordingly all financial results for prior periods have been restated to include the financial results of both entities. In connection with this transaction, the Corporation recorded pre-tax restructuring charges and merger-related expenses of approximately $15.7 million ($11.9 million after-tax).

Carolina First was a bank holding company operating 31 branch offices principally in the greater Charlotte, North Carolina area. At April 4, 2000, Carolina First had total consolidated assets of approximately $791.7 million, total consolidated loans of approximately $545.9 million, total consolidated deposits of approximately $674.8 million and total consolidated shareholders' equity of approximately $67.5 million.

The following table indicates the primary components of the Carolina First and Business Insurers restructuring charges and merger-related expenses, including the amounts incurred through September 30, 2001, and the amounts remaining as accrued expenses in other liabilities at September 30, 2001. All of the remaining accrual at September 30, 2001 relates to the Carolina First merger.

(Dollars in thousands)	Total Restructuring Charges and Merger-Related Expenses	Incurred through September 30, 2001	Remain accrua September
Professional costs	$ 3,907	$ 3,907	$
Employee related costs	5,336	4,331	1,0
Equipment writedowns	4,125	4,125	
Conversion costs	1,114	1,114	
Lease buyouts	909	762	1
Printing and filing fees	187	187	
Other	672	672	
Total	$ 16,250	$ 15,098	$ 1,1

The employee-related costs include accruals for payments to be made in connection with the involuntary termination of approximately 130 employees who had been notified that their positions were redundant within the combined organizations and, therefore, no longer needed. These personnel were terminated from various areas of the Corporation. Other restructuring activities included closing and consolidating 14 branch facilities that were redundant, consolidating back-office functions and converting all of Carolina First's systems to the Corporation systems. The remaining restructuring charge accrual at September 30, 2001 consists of lease contract payments on closed facilities to be paid through 2010 and contract payments to former employees to be paid through 2007. The Corporation does not currently anticipate any additional material merger-related expenses, or any material changes to the restructuring charge accrual, in 2001 related to the Merger.

NOTE FOUR - IMPAIRED LOANS

The recorded investment in impaired loans was $17.4 million (all of which was on nonaccrual status) and $17.7 million (all of which was on nonaccrual status) at September 30, 2001 and December 31, 2000, respectively. The related allowance for loan losses on impaired loans was $3.9 million and $4.7 million at September 30, 2001 and December 31, 2000, respectively. The average recorded investment in impaired loans for the nine months ended September 30, 2001 and 2000 was $18.7 million and $13.3 million, respectively.

NOTE FIVE - STOCK REPURCHASE PROGRAM

On April 27, 2001, First Charter Corporation's Board of Directors authorized the repurchase of up to 1 million shares of the Corporation's common stock. Through September 30, 2001, the Corporation had repurchased 507,000 shares of its common stock at an average per-share price of $17.84, which reduced shareholders' equity by $9.0 million.

NOTE SIX - CONVERSION TO STATE CHARTER BANK

On June 22, 2001, First Charter's banking subsidiary completed its conversion from a national bank to First Charter Bank, a North Carolina state bank. The change was completed after a cost benefit analysis of supervisory regulatory charges and does not represent any disagreement with the Corporation's or the Bank's former regulators. The Bank will continue to operate its financial center network franchise under the "First Charter" brand name.

NOTE SEVEN - DEFERRED COMPENSATION

Effective May 1, 2001, the Corporation amended and restated the First Charter Corporation 1994 Deferred Compensation Plan for Non-Employee Directors. Under the Deferred Compensation Plan, eligible directors may elect to defer all or part of their director's fees for a calendar year. The amount deferred, if any, shall be in multiples of 25% of their total director's fees. Each participant is fully vested in his account balance under the plan. The plan generally provides for fixed or a lump sum payment, or a combination of both, 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 (the "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 on behalf 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 per share.

NOTE EIGHT - TRADING ACTIVITY

The Corporation engaged in writing covered call options during the nine months ended September 30, 2001. Under these agreements the Corporation agrees to sell, upon election by the optionholder, a fixed income security at a fixed price. The Corporation receives a premium from the optionholder in exchange for writing the option contract. During the three and nine months ended September 30, 2001, the Corporation recognized income of $0.8 million and $1.1 million, respectively, from writing covered call options. There were no written covered call options outstanding at September 30, 2001, and there were no such contracts written during 2000.

In addition, the Corporation had other trading losses of $24,000 related to assets held in a trading account which totaled approximately $147,000 at September 30, 2001.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDTION 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, as restated to reflect the Corporation's various mergers.

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 include, among others, the following possibilities: (1) projected business increases in connection with the implementation of our business plan are lower than expected; (2) competitive pressure among financial services companies increases significantly; (3) costs or difficulties related to the integration of acquisitions or expenses in general are greater than expected; (4) general economic conditions, in the markets in which the company does business, are less favorable than expected; (5) changes in the interest rate environment reduce interest margins and affect funding sources; (6) changes in market rates and prices may adversely affect the value of financial products; (7) any inability to generate liquidity necessary to meet loan demand or other cash needs; (8) any inability to accurately predict the adequacy of the loan loss allowance needs; (9) legislation or regulatory requirements or changes adversely affect the businesses in which the company is engaged; and (10) decisions to change the business mix of the company.

OVERVIEW

The Corporation is a regional financial services company with assets of $3.35 billion and is the holding company for First Charter Bank ("FCB" or the "Bank"). On June 22, 2001, First Charter's banking subsidiary completed its conversion from a national bank to First Charter Bank, a North Carolina state bank. That change was completed after a cost benefit analysis of supervisory regulatory charges and does not represent any disagreement with the Corporation's or the Bank's former regulators. The Bank will continue to operate its financial center network franchise under the "First Charter" brand name. FCB operates 52 financial centers, five insurance offices and 99 ATMs located in 17 counties throughout the western half of North Carolina. FCB provides businesses and individuals with a broad range of financial services, including banking, comprehensive financial planning, funds management, investments, insurance, mortgages and a full array of employee benefit programs.

The Corporation's results of operations and financial position are described in the following sections.

Refer to TABLE ONE for quarterly and nine month selected financial data.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Net income amounted to $9.5 million, or $0.30 per diluted common share, for the three months ended September 30, 2001, compared to $9.9 million, or $0.31 per diluted common share, for the three months ended September 30, 2000, representing a decrease in net income of $0.4 million or 4.8 percent.

Net income amounted to $27.2 million, or $0.86 per diluted common share, for the nine months ended September 30, 2001, compared to $15.7 million, or $0.50 per diluted common share, for the nine months ended September 30, 2000, representing an increase in net income of $11.5 million or 72.6 percent. The increase in net income is primarily attributable to restructuring charges and merger-related expenses of $16.3 million pre-tax ($12.3 million, or $0.39 per

diluted share after-tax) which occurred during the three months ended June 30, 2000. The items affecting net income are discussed further in the following sections.

TABLE ONE
SELECTED FINANCIAL DATA

(Dollars in thousands, except share and per share amounts)	FOR THE THREE MONTHS ENDED SEPTEMBER 30 2001	2000
INCOME STATEMENT		
Interest income	$ 54,649	$ 54,739
Interest expense	27,826	28,065
Net interest income	26,823	26,674
Provision for loan losses	1,325	2,200
Noninterest income	10,356	7,686
Noninterest expense	21,892	17,757
Income before income taxes	13,962	14,403
Income taxes	4,502	4,464
Net income	$ 9,460	$ 9,939
PER COMMON SHARE		
Basic net income	$ 0.30	$ 0.32
Diluted net income	0.30	0.31
Cash dividends declared (1)	0.18	0.18
Period-end book value	10.49	9.49
Average shares outstanding - basic	31,314,550	31,503,251
Average shares outstanding - diluted	31,545,721	31,646,483
RATIOS		
Return on average shareholders' equity (2)	11.72 %	13.31 %
Return on average assets (2)	1.18	1.43
Net interest margin (2)	3.68	4.19
Average loans to average deposits	92.38	112.18
Average equity to average assets	10.06	10.72
Efficiency ratio (3)	59.45	46.41
SELECTED PERIOD END BALANCES		
Securities available for sale	$ 1,134,374	$ 474,077
Loans, net	1,958,949	2,083,283
Allowance for loan losses	28,221	27,861
Total assets	3,348,870	2,787,955
Deposits	2,163,799	1,922,440
Borrowings	806,141	519,762
Total liabilities	3,021,297	2,488,905
Total shareholders' equity	327,573	299,050

(1) First Charter Corporation historical cash dividends declared.
(2) Annualized
(3) Noninterest expense divided by the sum of taxable equivalent net interest income plus noninterest income less gain on sale of securities.

NET INTEREST INCOME

An analysis of the Corporation's net interest income on a taxable-equivalent basis and average balance sheets for the three and nine months ended September 30, 2001 and 2000 are presented in TABLES TWO and THREE, respectively. The changes in net interest income for the three and nine months ended September 30, 2001 and 2000 are analyzed in TABLES FOUR and FIVE, respectively.

Net interest income, the difference between total interest income and total interest expense, is the Corporation's principal source of earnings. Net interest income amounted to $26.8 million and $78.6 million for the three and nine months ended September 30, 2001, respectively, an increase of $0.1 million for the three months ended September 30, 2001 and a decrease of $2.2 million for the nine months ended September 30, 2001, as compared to the same periods in 2000. The decrease for the nine months ended September 30, 2001 was the result of the declining interest rate environment resulting from the slowing economy which has had a negative impact on the net interest margin as variable rate assets reprice faster than variable rate liabilities. Reduced loan demand, several large loan payoffs and our increased selectivity in seeking new opportunities in this economic environment have also had a negative impact on the net interest margin.

Average interest earning assets increased approximately $379.1 million to $2.96 billion for the third quarter of 2001 and $279.5 million to $2.84 billion in the first nine months of 2001, compared to the same 2000 periods. This increase is primarily due to a $334.5 million and a $179.7 million increase in the Corporation's average securities available for sale portfolio for the three and nine months ended September 30, 2001, respectively, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001, which was primarily due to the net purchase of approximately $160.8 million and $493.4 million in securities available for sale during the three and nine months ended September 30, 2001, respectively. Average interest earning assets also increased due to the purchase of four financial centers in November 2000, as well as growth in the Corporation's average loan portfolio, which increased $40.7 million and $98.0 million for the three and nine months ended September 30, 2001, respectively, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001. The decrease in average yield on interest earning assets to 7.41 percent and 7.79 percent for the three and nine months ended September 30, 2001, respectively, compared to 8.52 percent and 8.40 percent for the same 2000 periods, resulted principally from the decrease in the average prime rate during 2001 to 6.57 percent and 7.52 percent for the three and nine months ended September 30, 2001, respectively, from 9.50 percent and 9.14 percent for the three and nine months ended September 30, 2000, respectively. The decrease in the average prime rate is attributable to the Federal Reserve's 350 basis point decrease in the fed funds rate during the first nine months of 2001. The average yield earned on loans was 7.87 percent and 8.29 percent for the three and nine

months ended September 30, 2001, respectively, compared to 8.93 percent and 8.82 percent for the same 2000 periods.

In addition to the increase in average interest earning assets, the Corporation experienced an increase in average interest-bearing liabilities of $81.1 million to $2.57 billion in the third quarter of 2001 and an increase of $286.5 million to $2.45 billion in the first nine months of 2001, due to the use of Federal Home Loan Bank ("FHLB") advances and increases in deposits to fund securities purchases. The average rate paid on interest bearing liabilities decreased to 4.30 percent and 4.68 percent for the three and nine months ended September 30, 2001, respectively, compared to 5.09 percent and 4.88 in the same 2000 periods, primarily due to a decline in the average rate of borrowings. The average rate paid on interest-bearing deposits was 4.15 percent for the three months ended September 30, 2001, down from 4.75 percent in the same 2000 period. The average rate paid on interest-bearing deposits was 4.54 percent for the nine months ended September 30, 2001, up from 4.47 percent in the same 2000 period. The rate paid on other borrowed funds decreased to 4.72 percent and 5.07 percent for the three and nine months ended September 30, 2001, respectively, compared to 6.08 percent for both the three and nine months ended September 30, 2000.

The net interest margin (tax adjusted net interest income divided by average interest-earning assets) decreased 51 basis points to 3.68 percent and 53 basis points to 3.76 percent for the three and nine months ended September 30, 2001, respectively, compared to 4.19 percent and 4.29 percent in the same 2000 periods. This reflects the impact of higher levels of borrowings and competitive forces related to loan and deposit pricing. Management believes that further compression of the net interest margin will continue at least through the fourth quarter of 2001.

Management assesses interest rate risk based on an earnings simulation model. Based on the earnings simulation model, the Corporation's balance sheet is currently asset sensitive, meaning that in a given period there will be more assets than liabilities subject to immediate repricing as market rates change. Assuming a 300 basis point pro-rata increase in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would positively impact net interest income by approximately 4.68 percent of net interest income at September 30, 2001. Assuming a 150 basis point pro-rata decrease in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would negatively impact net interest income by approximately 1.39 percent of net interest income at September 30, 2001. Both scenarios are within Management's acceptable range. In the future, the Corporation is considering the limited use of interest rate swaps, caps, floors or other derivative products to assist in interest rate risk management.

The following table includes for the three months ended September 30, 2001 and 2000 interest income on interest earning assets and related average yields, as well as interest expense on interest bearing liabilities and related average rates paid. In addition, the table includes the net interest margin. Average balances were calculated based on daily averages.

TABLE TWO
AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)	THIRD QUARTER 2001 AVERAGE BALANCE	THIRD QUARTER 2001 INTEREST INCOME/ EXPENSE	THIRD QUARTER 2001 AVERAGE YIELD/RATE PAID (5)	Third Qu Average Balance
INTEREST EARNING ASSETS:				
Loans (1) (2) (3)	$ 1,973,373	$ 39,155	7.87%	$ 2,099,692
Securities - taxable	890,556	14,525	6.52	383,694
Securities - nontaxable	86,620	1,373	6.34	91,936
Federal funds sold	1,228	11	3.54	1,083
Interest bearing bank deposits	5,663	51	3.54	1,969
Total earning assets (4)	2,957,440	55,115	7.41	2,578,374
Cash and due from banks	65,884			69,037
Other assets	161,464			125,448
TOTAL ASSETS	$ 3,184,788			$ 2,772,859
INTEREST BEARING LIABILITIES:				
Demand deposits	523,543	2,452	1.86	462,583
Savings deposits	114,192	485	1.68	138,813
Other time deposits	1,245,511	16,767	5.34	1,027,832
Other borrowings	682,498	8,122	4.72	563,377
Total interest bearing liabilities	2,565,744	27,826	4.30	2,192,605
Noninterest bearing sources:				
Noninterest bearing deposits	252,971			242,477
Other liabilities	45,831			40,655
Shareholders' equity	320,242			297,122
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,184,788			$ 2,772,859
Net interest spread			3.11	
Impact of noninterest bearing sources			0.57	
NET INTEREST INCOME/ YIELD ON EARNINGS ASSETS		$ 27,289	3.68 %	

(1) The preceding analysis takes into consideration the principal amount of nonaccruing loans and only income actually collected on such loans.
(2) Average loan balances are shown net of unearned income.
(3) Includes amortization of deferred loan fees of approximately $961 and $784 for the third quarter of 2001 and 2000, respectively.
(4) Yields on nontaxable securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent, applicable state taxes and TEFRA disallowances for the third quarter of 2001 and 2000. The adjustments made to convert to a taxable-equivalent basis were $466 and $476 for the third quarter of 2001 and 2000, respectively.
(5) Annualized

The following table includes for the nine months ended September 30, 2001 and 2000 interest income on interest earning assets and related average yields, as well as interest expense on interest bearing liabilities and related average rates paid. In addition, the table includes the net interest margin. Average balances were calculated based on daily averages.

TABLE THREE
AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	NINE MONTHS ENDED SEPTEMB			
	2001			
(Dollars in thousands)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/RATE PAID (5)	Avera Balan
Interest earning assets:				
Loans (1) (2) (3)	$ 1,994,709	$ 123,694	8.29 %	$ 2,055,
Securities - taxable	746,326	37,255	6.66	403,
Securities - nontaxable	89,132	4,258	6.37	93,
Federal funds sold	1,470	57	5.16	5,
Interest bearing bank deposits	7,894	288	4.87	2,
Total earning assets (4)	2,839,531	165,552	7.79	2,560,
Cash and due from banks	65,881			70,
Other assets	151,717			112,
TOTAL ASSETS	$ 3,057,129			$ 2,742,
INTEREST BEARING LIABILITIES:				
Demand deposits	506,954	8,428	2.22	488,
Savings deposits	116,791	1,599	1.83	158,
Other time deposits	1,187,787	51,444	5.79	960,
Other borrowings	634,996	24,089	5.07	552,
Total interest bearing liabilities	2,446,528	85,560	4.68	2,160,
Noninterest bearing sources:				
Noninterest bearing deposits	245,805			242,
Other liabilities	47,006			42,
Shareholders' equity	317,790			298,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,057,129			$ 2,742,
Net interest spread			3.11	
Impact of noninterest bearing sources			0.65	
NET INTEREST INCOME/ YIELD ON EARNINGS ASSETS		$ 79,992	3.76 %	

(1) The preceding analysis takes into consideration the principal amount of

nonaccruing loans and only income actually collected on such loans.
(2) Average loan balances are shown net of unearned income.
(3) Includes amortization of deferred loan fees of approximately $2,389 and $2,766 for the nine months ended September 30, 2001 and 2000, respectively.
(4) Yields on nontaxable securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent, applicable state taxes and TEFRA disallowances for the first six months of 2001 and 2000. The adjustments made to convert to a taxable-equivalent basis were $1,442 and $1,407 for the nine months ended September 30, 2001 and 2000, respectively.
(5) Annualized

The following tables presents the changes in net interest income from the three months ended September 30, 2000 to September 30, 2001:

TABLE FOUR
VOLUME AND RATE VARIANCE ANALYSIS

	THREE MONTHS ENDED SEPTEMBER		
	INCREASE (DECREASE) IN NET INTERES DUE TO CHANGE IN (1)		
(DOLLARS IN THOUSANDS)	2000 INCOME/ EXPENSE	RATE	VOLUME
INTEREST INCOME:			
Loans	$ 47,113	$ (5,287)	$ (2,671)
Securities - taxable	6,535	(461)	8,451
Securities - nontaxable	1,501	(42)	(86)
Federal funds sold	17	(8)	2
Interest bearing bank deposits	49	(61)	63
TOTAL INTEREST INCOME	$ 55,215	$ (5,859)	$ 5,759
INTEREST EXPENSE:			
Demand deposits	$ 2,949	$ (834)	$ 337
Savings deposits	834	(223)	(126)
Other time deposits	15,678	(2,037)	3,126
Other borrowings	8,604	(2,100)	1,618
TOTAL INTEREST EXPENSE	28,065	(5,194)	4,955
NET INTEREST INCOME	$ 27,150	$ (665)	$ 804

(1) The changes for each category of income and expense are divided between the portion of change attributable to the variance in rate or volume for that category. The amount of change that cannot be separated is allocated to each variance proportionately.

The following tables presents the changes in net interest income from the nine months ended September 30, 2000 to September 30, 2001:

TABLE FIVE
VOLUME AND RATE VARIANCE ANALYSIS

	NINE MONTHS ENDED SEPTEMBER 30		
	INCREASE (DECREASE) IN NET INTEREST DUE TO CHANGE IN (1)		
(Dollars in thousands)	2000 INCOME/ EXPENSE	RATE	VOLUME
Interest income:			
Loans	$135,767	$ (8,171)	$ (3,902)
Securities - taxable	20,517	(540)	17,278
Securities - nontaxable	4,382	75	(199)
Federal funds sold	235	(25)	(153)
Interest bearing bank deposits	125	(69)	232
TOTAL INTEREST INCOME	$161,026	$ (8,730)	$ 13,256
Interest expense:			
Demand deposits	$ 9,394	$ 1,299	$(2,265)
Savings deposits	3,037	747	(2,185)
Other time deposits	41,295	(343)	10,492
Other borrowings	25,137	4,502	(5,550)
TOTAL INTEREST EXPENSE	78,863	6,205	492
NET INTEREST INCOME	$ 82,163	$(14,935)	$ 12,764

(1) The changes for each category of income and expense are divided between the portion of change attributable to the variance in rate or volume for that category. The amount of change that cannot be separated is allocated to each variance proportionately.

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PROVISION FOR LOAN LOSSES

The provision for loan losses for the three and nine months ended September 30, 2001 amounted to $1.3 million and $3.3 million, respectively, compared to $2.2 million and $5.5 million for the comparable 2000 periods. The decrease in the provision for loan losses was due to lower loan volume in 2001 and a significant increase in nonaccrual loans in 2000, which did not recur in 2001. Partially offsetting these factors in 2001 was the effect of higher net charge-offs. Gross loans decreased $3.3 million during the nine months ended September 30, 2001, excluding the $167.0 million loan securitization, compared

to an increase in gross loans of $188.7 million during the comparable 2000 period, excluding the effect of a $45.3 million loan sale during May of 2000. The May 2000 loan sale removed $45.3 million in lower-yielding mortgage loans from the loan portfolio.

Nonaccrual loans increased $12.7 million during the three months ended September 30, 2000, compared to a decrease of $2.1 million during the three months ended September 30, 2001. During the three months ended September 30, 2000, management noted the significant change in nonaccrual loans and concluded that additional provisions for loan losses were necessary because of changes in the portfolio's perceived risk profile and the effects of higher interest rates and slower economic growth on some customers.

Net charge-offs were $1.2 million or 0.23 percent of average loans and $3.1 million or 0.21 percent of average loans for the three and nine months ended September 30, 2001, respectively, compared to $1.0 million or 0.20 percent of average loans and $2.6 million or 0.17 percent of average loans for the comparable 2000 periods. The increase in net charge-offs was primarily due to the effects of slower economic growth on certain customers within the portfolio. Due to the current economic environment Management believes net charge-offs for the three months ended December 31, 2001 could be higher than the net charge-offs for the three months ended September 30, 2001.

NONINTEREST INCOME

Noninterest income increased 35 percent and 21 percent to $10.4 million and $27.6 million for the three and nine months ended September 30, 2001, respectively, compared to $7.7 million and $22.8 million for the comparable 2000 periods. This increase was driven primarily by a 27.9 percent and a 16.9 percent increase in service charge income on deposit accounts for the three months and nine months ended September 30, 2001 compared to the same 2000 periods, which was due to re-pricing opportunities resulting from the acquisition of Carolina First. In addition, the declining rate environment has increased mortgage origination volume. This has resulted in additional loan sales to the secondary market and correspondingly greater fee income. Continued growth of First Charter Insurance Services, higher brokerage revenue and trading gains also increased noninterest income. Premiums earned on written covered call options on fixed income securities accounts for a majority of our trading gains.

NONINTEREST EXPENSE

Noninterest expense increased $4.1 million to $21.9 for the three months ended September 30, 2001 from $17.8 million in the comparable 2000 period. The increase was mainly attributable to an increase in occupancy and equipment expense as a result of the move into the new First Charter Center and investments in people and technology to position First Charter for growth. Noninterest expense decreased 14 percent to $62.8 million for the nine months ended September 30, 2001, compared to $73.3 million for the comparable 2000 period. The decrease was attributable to the restructuring charges and merger-related expenses of $16.3 million during the quarter ended June 30, 2000, associated with the acquisition of Carolina First. This decrease was partially offset during 2001 by the additional operating costs associated with the four financial centers acquired during the fourth quarter of 2000, an increase in occupancy and equipment expense as a result of the move into the new First Charter Center and investments in people and technology to position the Corporation for growth.

INCOME TAXES

Total income tax expense for the three and nine months ended September 30, 2001 was $4.5 million and $12.9 million, respectively, compared to $4.5 million and $9.1 million for the same periods in 2000. The increase in the tax expense for the nine months ended September 30, 2001, was attributable to an increase in taxable income. The increase in tax expense, however, was not proportionate with the increase in income because portions of the restructuring charges and merger-related expenses in 2000 were not deductible. This created a decrease in the effective tax rate to 32.2 percent for the nine months ended September 30, 2001 from 36.6 percent for the nine months ended September 30, 2000.

FINANCIAL CONDITION

SUMMARY

Total assets at September 30, 2001 amounted to $3.35 billion, compared to $2.93 billion at December 31, 2000 and $2.79 billion at September 30, 2000. Net loans at September 30, 2001 amounted to $1.96 billion, compared to $2.13 billion at December 31, 2000 and $2.08 billion at September 30, 2000. This decrease from prior periods was due to the securitization of $167.0 million of mortgage loans in February 2001. These loans were securitized because of a decrease in interest rates and the resulting impact of that condition on the Corporation's interest rate risk. The securitized mortgage loans are now classified as mortgage backed securities in our available for sale portfolio.

The securities available for sale portfolio increased to $1.13 billion at September 30, 2001, compared to $441.0 million at December 31, 2000, and $474.1 million at September 30, 2000. The increase in securities available for sale was due to the securitization of $167.0 million of mortgage loans in February 2001, as well as the net purchase of $493.4 million in securities available for sale made to increase our interest earning assets. The carrying value of securities available for sale was approximately $29.0 million above their amortized cost at September 30, 2001, which represents gross unrealized gains of $29.1 million and gross unrealized losses of $0.1 million. In conjunction with the Merger, the Corporation transferred $35.3 million of Carolina First's securities classified as held to maturity to available for sale due to the significance of the impact on the Corporation's interest rate forecast as compared to corporate policy.

Total deposits at September 30, 2001 amounted to $2.16 billion, compared to $2.00 billion at December 31, 2000 and $1.92 billion at September 30, 2000. Shareholders' equity at September 30, 2001 was $327.6 million, which represented a book value per share of $10.49 and an equity-to-assets percentage of 9.78 percent. The securities available for sale portfolio's unrealized net gain has increased from $2.0 million (net of tax) at December 31, 2000 to an unrealized net gain of $17.7 million (net of tax) at September 30, 2001.

Other borrowings increased to $806.1 million at September 30, 2001, compared to $570.0 million at December 31, 2000, and $519.8 million at September 30, 2000. The increase was primarily due to increases in Federal Home Loan Bank advances principally used to fund security purchases.

NONPERFORMING ASSETS

The total of nonperforming assets remained relatively constant at $29.6 million at both September 30, 2001 and December 31, 2000 and increased $1.4 million compared to September 30, 2000. As a percentage of total assets, nonperforming assets have decreased to 0.88 percent at September 30, 2001 compared to 1.01 percent at both December 31, 2000 and September 30, 2000, respectively. The decrease in the percentage of nonperforming assets to total

assets from September 30, 2000 was primarily due to the increase in securities available for sale described above.

Total nonperforming assets and loans 90 days or more past due and still accruing interest at September 30, 2001 were $29.7 million or 1.49 percent of total loans and other real estate, compared to $30.0 million or 1.37 percent of total loans and other real estate at December 31, 2000. These ratios were primarily impacted by the first quarter 2001 securitization of $167.0 million of mortgage loans. Nonaccrual loans at September 30, 2001 remained relatively constant at $29.5 million, compared to $29.6 at December 31, 2000. Nonaccrual loans at September 30, 2001 were not concentrated in any one industry and primarily consisted of several large credits secured by real estate. The components of nonperforming assets and loans 90 days or more past due and still accruing are presented in the table below:

TABLE SIX
NONPERFORMING AND PROBLEM ASSETS

(Dollars in thousands)	SEPTEMBER 30 2001	December 2000
Nonaccrual loans	$ 26,502	$ 26,58
Other real estate	3,067	2,98
Total nonperforming assets	29,569	29,57
Loans 90 days or more past due and still accruing interest	114	43
Total nonperforming assets and loans 90 days or more past due and still accruing interest	$ 29,683	$ 30,00

ALLOWANCE FOR LOAN LOSSES

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 could continue to change and could result in future losses and require increases in the provision for loan losses.

Management currently uses several measures to assess and control the loan portfolio risk. For example, all loans over a certain dollar amount must receive an in-depth review by an analyst in the Bank's Credit Department. Any issues regarding risk assessments of those credits are addressed by the Bank's Senior Risk Managers and factored into management's decision to originate or renew the loan. Furthermore, large commitments are reviewed by both a Board of Directors Loan Committee and an Executive Loan Committee comprised of executive management, the chief credit officer and senior lending officers of the Bank. The Corporation also continues to employ an independent third party risk

assessment group to review the underwriting, documentation and risk grading analysis. This third party group reviews all loan relationships above a certain dollar amount and a sampling of all other credits. The third party's evaluation and report is shared with Executive Management, the Loan and Audit Committee of the Bank and, ultimately, is reported to the Board of Directors of the Bank and the Corporation.

Management uses the information developed from the procedures described above in evaluating and grading the loan portfolio. This continual grading process is used to monitor the credit quality of the loan portfolio and to assist management in determining the appropriate levels of the allowance for loan losses.

As part of the continual grading process, individual commercial loans are assigned a credit risk grade based on their credit quality, which is subject to change as conditions warrant. Any changes in those risk assessments as determined by the outside risk assessment group, regulatory examiners or the Corporation's Risk Management Division are also considered in the allowance for loan losses analysis. Management considers certain commercial loans on nonaccrual status to be individually impaired and measures such impairment and the related allowance for loan loss based upon the value of the collateral. An estimate of an allowance is made for all other graded loans in the portfolio based on their assigned credit risk grade, type of loan and other matters related to credit risk. In the allowance for loan loss analysis process, the Bank also aggregates non-graded loans into pools of similar credits and reviews the historical loss experience associated with these pools as additional criteria to allocate the allowance to each category. The Bank also considers the impact of the area, local, regional and national economies in making estimates of the allowance for loan losses.

At September 30, 2001 the allowance for loan losses was $28.2 million or 1.42 percent of gross loans compared to $27.9 million or 1.32 percent at September 30, 2000. The increase in the allowance for loan losses as a percentage of gross loans is primarily attributable to the mortgage loan securitization, which removed $417,000 of allowance for loan losses when the loans were securitized and reclassified from loans into securities available for sale. Securitized loans consisted of residential mortgage loans, which generally have a lower percentage of allocated allowance for loan losses. TABLE SEVEN provides the changes in the allowance for loan losses for the three and nine months ended September 30, 2001 and 2000.

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

TABLE SEVEN
ALLOWANCE FOR LOAN LOSSES

	THREE MONTHS ENDED SEPTEMBER 30		
(Dollars in thousands)	2001	2000	
BALANCE, BEGINNING OF PERIOD	$ 28,049	$ 26,700	$
LOAN CHARGE-OFFS:			
Commercial, financial and agricultural	226	533	
Real estate - construction	50	-	
Real estate - mortgage	296	95	
Installment	800	812	
Total loans charged-off	1,372	1,440	
RECOVERIES OF LOANS PREVIOUSLY CHARGED-OFF:			
Commercial, financial and agricultural	38	305	
Real estate - construction	2	-	
Real estate - mortgage	108	10	
Installment	71	86	
Total recoveries of loans previously charged-off	219	401	
Net charge-offs	1,153	1,039	
Provision for loan losses	1,325	2,200	
Adjustment for loans sold and securitized	-	-	
BALANCE, SEPTEMBER 30	$ 28,221	$ 27,861	$
Average loans, net of unearned income	$ 1,973,373	$ 2,099,692	$ 1,
Net charge-offs to average loans (annualized)	0.23 %	0.20 %	
Allowance for loan losses to gross loans at September 30	1.42	1.32	

LIQUIDITY

The Bank derives a major source of its liquidity from its core deposit base. Liquidity is further provided by loan repayments, brokered deposits, maturities in the securities available for sale portfolio, the ability to secure public deposits, the availability of federal fund lines and repurchase agreements at correspondent banks and the ability to borrow from the Federal Reserve Bank ("FRB") discount window. In addition to these sources, the Bank is a member of the Federal Home Loan Bank ("FHLB") System, which provides access to FHLB lending sources. At September 30, 2001, the Bank had a line of credit with the FHLB of $735.1 million, with $665.4 million advanced to the Bank and $69.7 million remaining available. Another source of liquidity is the securities in the available for sale portfolio, which may be sold in response to liquidity needs. The Bank's loan-to-deposit ratio at September 30, 2001 was 0.92 percent compared to 1.08 percent at December 31, 2000. Management believes the Bank's sources of liquidity are adequate to meet operating needs and deposit withdrawal requirements.

CAPITAL RESOURCES

At September 30, 2001, total shareholders' equity was $327.6 million, representing a book value of $10.49 per share, compared to $309.3 million, or a book value of $9.79 per share at December 31, 2000. The increase was primarily due to net earnings (net income less dividends) of $10.1 million combined with the recognition of an additional $15.7 million after-tax unrealized gains on available for sale securities, the receipt of $1.5 million from the sale of approximately 129,187 shares of common stock issued for stock options and Dividend Reinvestment Plans and the payment of $9.0 million for the purchase and retirement of 507,000 shares of common stock.

At September 30, 2001, the Corporation and the Bank were in compliance with all existing capital requirements. The most recent notifications from the Corporation's and the Bank's various regulators categorized the Corporation and the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no events or conditions since those notifications that management believes have changed either of the entities' categories. The Corporation's capital requirements are summarized in the table below:

			RISK-BASED CAPITAL			
	LEVERAGE CAPITAL		TIER 1 CAPITAL		TOTAL CAPI	
(DOLLARS IN THOUSANDS)	AMOUNT	PERCENTAGE (1)	AMOUNT	PERCENTAGE (2)	AMOUNT	PER
Actual	$ 291,282	9.20 %	$ 291,282	13.18 %	$319,670	
Required	126,645	4.00	88,423	4.00	176,846	
Excess	164,637	5.20	202,859	9.18	142,824	

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

REGULATORY RECOMMENDATIONS

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

ACCOUNTING AND REGULATORY MATTERS

Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," establishes accounting and reporting standards for derivatives and hedging activities. It requires that all derivatives be recognized as assets or liabilities on the balance sheet and that such instruments be carried at fair value through adjustments to either other comprehensive income or current earnings or both, as appropriate. SFAS No. 133 was originally effective for financial statements issued for all fiscal quarters of fiscal years beginning after June 15, 1999. The implementation date of SFAS No. 133 was delayed by Statement of Financial

Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" to the first fiscal quarters of fiscal years beginning after June 15, 2000. Accordingly, the Corporation adopted SFAS No. 133 on January 1, 2001. The impact to the Corporation upon adoption was immaterial.

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 140 (SFAS No. 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities- a replacement of FASB Statement 125", which revises the criteria for accounting for securitizations and other transfers of financial assets and collateral, and introduces new disclosures. The enhanced disclosure requirements were effective for year-end 2000. The other provisions of SFAS No. 140 apply prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001. Accordingly, the Corporation adopted SFAS No. 140 on April 1, 2001. The impact to the Corporation upon adoption was immaterial.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), "Business Combinations", and Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business

combinations initiated after June 30, 2001. SFAS 141 also specifies criteria which must be met for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that identifiable intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Corporation was required to adopt the provisions of SFAS 141 as of June 30, 2001 and will adopt SFAS 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate accounting literature issued prior to SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

SFAS 141 requires, upon adoption of SFAS 142, that the Corporation evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Corporation will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Corporation will be required to test the intangible asset for impairment in accordance with the provisions of SFAS 142 within the first

interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of September 30, 2001, the Corporation has unamortized goodwill in the amount of $12.2 million, and unamortized identifiable intangible assets in the amount of $7.1 million, all of which will be subject to the transition provisions of SFAS 141 and 142. Amortization expense related to goodwill was approximately $293,000 and $552,000 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS 141 and 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Corporation's financial statements at this time, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement cost. This standard requires the Corporation to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result for the acquisition, construction, development and or normal use of the assets. The Corporation also is to record a corresponding increase to the carrying amount of the related long-lived asset and to depreciate that cost over the life of the asset. The liability is changed at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement. This statement is effective for fiscal years beginning after June 15, 2002. At this time, the Corporation is assessing the impact of SFAS No. 143 on its financial condition and results of operations.

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard provides guidance on differentiating between long-lived assets to be held and used, long-lived assets to be disposed of other than by sale and long-lived assets to be disposed of by sale. SFAS No. 144 supersedes FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 also supersedes Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement is effective for fiscal years beginning after December 15, 2001. At this time, the Corporation is assessing the impact of SFAS No. 144 on its financial condition and results of operations.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table presents the scheduled maturity of market risk sensitive instruments at September 30, 2001:

MATURING IN	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
ASSETS:					
Debt securities	$ 276,264	$ 252,916	$ 148,805	$ 133,008	$ 111,699
Loans	763,039	220,939	226,503	229,705	215,988
TOTAL	$ 1,039,303	$ 473,855	$ 375,308	$ 362,713	$ 327,687
LIABILITIES:					
Savings, NOW and IMMA's	$ 632,925	$ 11,065	$ 168	$ 658	$ --
CD's	1,070,527	126,164	45,068	8,714	5,803
Short-term borrowings	341,801	--	--	--	--
Long-term borrowings	--	30,040	31,040	40	40,040
TOTAL	$ 2,045,253	$ 167,269	$ 76,276	$ 9,412	$ 45,843

The following table presents the average interest rate and estimated fair value of market risk sensitive instruments at September 30, 2001:

	Carrying Value	Average Interest Rate
ASSETS:		
Debt securities	$ 1,086,377	6.55 %
Loans	1,958,949	7.78
TOTAL	$ 3,045,326	7.34 %
LIABILITIES:		
Savings, NOW and IMMA's	$ 644,816	1.68 %
CDs	1,256,652	4.95
Short-term borrowings	341,801	3.45
Long-term borrowings	464,340	5.12
TOTAL	$ 2,707,609	4.01 %

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Corporation and the Bank are defendants in certain claims and legal actions arising in the ordinary course of business. In the opinion of

management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated operations, liquidity or financial position of the Corporation or the Bank.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No. (per Exhibit Table in item 601 of Regulation S-K)	Description of Exhibits
3.1	Amended and Restated Articles of Incorporation of the Corporation, incorporated herein by reference to Exhibit 3.1 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (Commission File No. 0-15829).
3.2	By-laws of the Corporation, as amended, incorporated herein by reference to Exhibit 3.2 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 0-15829).

(b) Reports on Form 8-K

The following reports on Form 8-K were filed by the Corporation during the quarter ended September 30, 2001:

Current Report on Form 8-K dated July 10, 2001 and filed July 10, 2001, Items 5 and 7.

Current Report on Form 8-K dated July 11, 2001 and filed July 11, 2001, Items 7 and 9.

SIGNATURES

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

FIRST CHARTER CORPORATION
(Registrant)

Date: November 1, 2001

By: /s/ Robert O. Bratton

Robert O. Bratton
Executive Vice President &
Chief Financial Officer