FIRST CHARTER CORP /NC/
Form 10-Q
May 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 0-15829
FIRST CHARTER CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

North Carolina	**56-1355866**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
10200 David Taylor Drive, Charlotte, NC	**28262-2373**
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

As of May 1, 2008, the registrant had outstanding 35,082,601 shares of common stock, no par value.

FIRST CHARTER CORPORATION
FORM 10-Q
For the Quarter ended March 31, 2008

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

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PART 1. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

First Charter Corporation

Consolidated Balance Sheets
(Unaudited)

(Dollars in thousands, except share data)	**March 31 2008**	December 31 2007
Assets		
Cash and due from banks	**$ 74,763**	$ 85,562
Federal funds sold	**8,653**	10,926
Interest-bearing bank deposits	**13,335**	5,710
Cash and cash equivalents	**96,751**	102,198
Securities available for sale (cost of $831,036 and $863,049 at March 31, 2008 and December 31, 2007, respectively)	**821,518**	860,671
Federal Home Loan Bank and Federal Reserve Bank stock	**52,123**	48,990
Loans held for sale	**17,544**	14,145
Portfolio loans:		
Commercial and construction	**2,219,719**	2,254,354
Mortgage	**587,240**	582,398
Consumer	**670,829**	666,255
Total portfolio loans	**3,477,788**	3,503,007
Allowance for loan losses	**(45,022)**	(42,414)
Portfolio loans, net	**3,432,766**	3,460,593
Premises and equipment, net	**110,283**	110,763
Goodwill and other intangible assets	**82,599**	82,871
Other assets	**182,277**	182,186
Total Assets	**$4,795,861**	$4,862,417
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 446,623**	$ 438,313
Demand	**510,604**	478,186
Money market	**532,864**	564,053
Savings	**104,615**	101,234
Certificates of deposit	**1,346,172**	1,313,482
Brokered certificates of deposit	**278,461**	326,351
Total deposits	**3,219,339**	3,221,619
Federal funds purchased and securities sold under agreements to repurchase	**208,816**	268,232
Commercial paper and other short-term borrowings	**248,827**	284,180
Long-term debt	**617,712**	567,729

Accrued expenses and other liabilities	**37,641**	52,313
Total Liabilities	**4,332,335**	4,394,073
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 35,003,721 and 34,978,847 shares at March 31, 2008 and December 31, 2007, respectively	**235,480**	233,974
Common stock held in Rabbi Trust for deferred compensation	**(1,720)**	(1,687)
Deferred compensation payable in common stock	**1,720**	1,687
Retained earnings	**233,809**	235,812
Accumulated other comprehensive loss, net of tax	**(5,763)**	(1,442)
Total Shareholders Equity	**463,526**	468,344
Total Liabilities and Shareholders Equity	**$4,795,861**	$4,862,417

See notes to consolidated financial statements.

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First Charter Corporation

Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share amounts)	**Three Months Ended March 31** **2008**	2007
Interest income		
Loans	**$57,109**	$66,118
Securities	**11,394**	10,918
Federal funds sold	**55**	128
Interest-bearing bank deposits	**26**	50
Total interest income	**68,584**	77,214
Interest expense		
Deposits	**24,751**	26,540
Borrowings	**11,082**	13,939
Total interest expense	**35,833**	40,479
Net interest income	**32,751**	36,735
Provision for loan losses	**4,707**	1,366
Net interest income after provision for loan losses	**28,044**	35,369
Noninterest income		
Service charges on deposits	**7,365**	7,390
ATM, debit, and merchant fees	**2,631**	2,444
Wealth management	**779**	716
Equity method investments gains, net	**627**	1,127
Mortgage services	**1,012**	901
Gain on sale of Small Business Administration loans	**98**	377
Brokerage services	**733**	1,081
Insurance services	**4,150**	3,634
Bank owned life insurance	**1,165**	1,139
Property sale gains, net	**59**	63
Securities gains (losses), net	**1,229**	(11)
Other	**570**	705
Total noninterest income	**20,418**	19,566
Noninterest expense		
Salaries and employee benefits	**18,498**	19,587
Occupancy and equipment	**4,725**	4,612
Data processing	**1,515**	1,790
Marketing	**454**	1,351
Postage and supplies	**1,096**	1,172
Legal and professional services	**2,700**	3,586

Telecommunications	**625**	671
Amortization of intangibles	**159**	223
Foreclosed properties	**(128)**	153
Other	**4,219**	2,775
Total noninterest expense	**33,863**	35,920
Income before income tax expense	**14,599**	19,015
Income tax expense	**9,057**	6,659
Net Income	**$ 5,542**	$ 12,356
Net income per common share		
Basic	**$ 0.16**	$ 0.36
Diluted	**0.16**	0.35
Average common shares outstanding		
Basic	**34,739**	34,770
Diluted	**35,121**	35,085
Dividends declared per common share	**$ 0.195**	$ 0.195

See notes to consolidated financial statements.

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First Charter Corporation
Consolidated Statements of Shareholders Equity
(Unaudited)

ollars in thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Common Stock in Rabbi Trust for Deferred Compensation	Deferred Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
alance, December 31, 2007	**34,978,847**	**$233,974**	**$(1,687)**	**$1,687**	**$235,812**	**$(1,442)**	**$468,34**
omprehensive income:							
et income					**5,542**		**5,54**
hange in unrealized gains and losses on securities, net of classification adjustment for net losses included in net come, net of income tax						**(4,321)**	**(4,32**
otal comprehensive income							**1,22**
djustment to initially apply EITF 06-4					**(680)**		**(68**
ommon stock purchased by Rabbi Trust for deferred mpensation			**(33)**				**(3**
eferred compensation payable in common stock				**33**			**3**
ash dividends declared, $0.195 per share					**(6,865)**		**(6,86**
suance of shares under stock-based compensation plans, cluding related tax effects	**24,874**	**1,506**					**1,50**
alance, March 31, 2008	**35,003,721**	**$235,480**	**$(1,720)**	**$1,720**	**$233,809**	**$(5,763)**	**$463,52**

See notes to consolidated financial statements.

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First Charter Corporation
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended March 31 **2008**	2007
Operating activities		
Net income	**$ 5,542**	$ 12,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**4,707**	1,366
Depreciation	**1,959**	1,814
Amortization of intangibles	**159**	223
Amortization of servicing rights	**79**	81
Stock-based compensation expense	**787**	786
Tax benefits from stock-based compensation plans	**(212)**	(116)
Premium amortization and discount accretion, net	**84**	89
Securities (gains) losses, net	**(1,229)**	11
Net gains on sales of other real estate owned	**(80)**	(51)
Write-downs on other real estate owned	**15**	74
Equity method investment gains, net	**(627)**	(1,127)
Gains on sales of loans held for sale	**(691)**	(701)
Gains on sale of Small Business Administration loans	**(98)**	(377)
Property sale gains, net	**(59)**	(63)
Origination of loans held for sale	**(96,990)**	(67,080)
Proceeds from sale of loans held for sale	**94,282**	66,382
Change in cash surrender value of life insurance	**(1,154)**	(1,158)
Change in other assets	**4,130**	7,591
Change in other liabilities	**(15,184)**	1,055
Net cash provided by (used in) operating activities	**(4,580)**	21,155
Investing activities		
Proceeds from sales of securities available for sale		17,367
Proceeds from sales of FHLB and Federal Reserve Bank stock	**676**	7,813
Proceeds from maturities, calls and paydowns of securities available for sale	**115,059**	62,347
Purchases of securities available for sale	**(82,752)**	(71,138)
Purchases of FHLB and Federal Reserve Bank stock	**(3,809)**	(6,863)
Net change in loans	**22,512**	(45,667)
Proceeds from sales of other real estate owned	**1,248**	498
Net purchases of premises and equipment	**(1,420)**	(2,371)
Net cash provided by (used in) investing activities	**51,514**	(38,014)
Financing activities		
Net change in deposits	**(2,280)**	73,238

Net change in federal funds purchased and securities sold under repurchase agreements	**(59,416)**	(23,923)
Net change in commercial paper and other short-term borrowings	**(35,353)**	(70,530)
Proceeds from issuance of long-term debt and trust preferred securities	**50,000**	150,000
Retirement of long-term debt	**(17)**	(110,016)
Proceeds from issuance of common stock	**1,294**	2,813
Tax benefits from stock-based compensation plans	**212**	116
Cash dividends paid	**(6,821)**	(6,811)
Net cash provided by (used in) financing activities	**(52,381)**	14,887
Net decrease in cash and cash equivalents	**(5,447)**	(1,972)
Cash and cash equivalents at beginning of period	**102,198**	102,827
Cash and cash equivalents at end of period	**$ 96,751**	$ 100,855
Supplemental information for continuing operations		
Cash paid for:		
Interest	**$ 40,894**	$ 40,561
Income taxes	**14,770**	3,200
Non-cash items:		
Transfer of loans to other real estate owned	**608**	373
Unrealized gains (losses) on securities available for sale (net of tax expense (benefit) of $(2,819), and $378, respectively)	**(4,321)**	578

See notes to consolidated financial statements.

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First Charter Corporation
Notes to Consolidated Financial Statements
(Unaudited)

First Charter Corporation (First Charter or the Corporation), headquartered in Charlotte, North Carolina, is a regional financial services company with assets of $4.8 billion and is the holding company for First Charter Bank (the Bank). As of March 31, 2008, First Charter operated 60 financial centers, four insurance offices, and 136 ATMs throughout North Carolina and Georgia. First Charter also operates loan origination offices in Asheville, North Carolina and Reston, Virginia. First Charter provides businesses and individuals with a broad range of financial services, including banking, financial planning, wealth management, investments, insurance, and mortgages. The results of operations of the Bank constitute the substantial majority of the consolidated net income, revenue, and assets of the Corporation.

1. Accounting Policies

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

The information contained in these interim consolidated financial statements, excluding the consolidated balance sheet as of December 31, 2007, is unaudited. The information furnished has been prepared pursuant to United States Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X and does not include all the information and note disclosures required to be included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America.

The accompanying unaudited consolidated financial statements should be read in conjunction with the Corporation s audited financial statements and accompanying notes in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 29, 2008.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. The information furnished in this report reflects all adjustments, which are, in the opinion of management, necessary to present a fair statement of the financial condition and the results of operations for interim periods. All such adjustments are of a normal and recurring nature.

The significant accounting policies followed by the Corporation are presented in **Note 1** of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007. With the exception of the Corporation s adoption of certain of the accounting pronouncements discussed in **Note 2**, these policies have not materially changed from the disclosure in that report.

2. Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standard (SFAS) No. 161, *Disclosures About Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*. This standard requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that the company is intending to manage. SFAS 161 retains the same scope as SFAS 133 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Corporation will adopt SFAS 161 beginning January 1, 2009 and is currently evaluating the impact, if any, SFAS 161 will have on the Corporation s consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. FSP 140-3 addresses the issue of whether or

not these transactions should be viewed as two separate transactions or as one linked transaction. The FSP includes a rebuttable presumption that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria. FSP 140-3 is effective for fiscal years beginning after November 15, 2008. The Corporation will adopt this FSP beginning January 1, 2009 and is currently evaluating the impact, if any, FSP 140-3 will have on the Corporation s consolidated financial statements.

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 SFAS 159 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 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, and reduced retained earnings by $0.7 million through a cumulative-effect adjustment.

In November 2007, the SEC 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.

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. First Charter s shareholders have approved the Merger Agreement and the merger has been approved by all necessary state and federal regulatory agencies. The Merger Agreement is subject to customary closing conditions. The merger is currently anticipated to close on Friday, June 6, 2008.

In connection with the proposed merger with Fifth Third, the Corporation has incurred expenses of approximately $0.6 million of merger-related costs, principally legal and professional services, for the three months ended March 31, 2008.

4. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares of the Corporation s common stock outstanding for the three months ended March 31, 2008 and 2007, respectively. Diluted net income per share reflects the potential dilution that could occur if the Corporation s potential common stock equivalents and contingently issuable shares, which consist of dilutive stock options, restricted stock, and performance shares, were issued.

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

	Three Months Ended March 31	
	2008	2007
Basic weighted-average number of common shares outstanding	**34,739,407**	34,770,106
Dilutive effect arising from potential common stock issuances	**381,660**	314,534
Diluted weighted-average number of common shares outstanding	**35,121,067**	35,084,640

The effects of outstanding anti-dilutive stock options are excluded from the computation of diluted net income per share. These amounts were 500 and 424,024 shares for the three months ended March 31, 2008 and 2007, respectively.

The Corporation declared dividends of $0.195 per share for the three months ended March 31, 2008 and 2007.

5. 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:

	March 31, 2008			December 31, 2007		
(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**	**$ 968**	**$ 2,592**	$ 3,560	$ 808	$ 2,752
Noncompete agreements	**90**	**90**		90	90	
Customer lists	**2,615**	**1,752**	**863**	2,615	1,640	975
Total amortized intangible assets	**6,265**	**2,810**	**3,455**	6,265	2,538	3,727

Goodwill	**79,144**	**N/A**	**79,144**	79,144	N/A	79,144
Total goodwill and amortized intangible assets	**$85,409**	**$ 2,810**	**$82,599**	$85,409	$2,538	$82,871

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Amortization expense for the three months ended March 31, 2008 and 2007 was $0.3 million and $0.2 million, respectively.
As of March 31, 2008, expected future amortization expense for intangible assets follows:

(In thousands)	**Core Deposits**	**Customer Lists**	**Total**
April - December 2008	$ 449	$279	$ 728
2009	531	263	794
2010	453	142	595
2011	375	83	458
2012	297	48	345
2013 and after	487	48	535
Total expected future intangible asset amortization	**$2,592**	**$863**	**$3,455**

6. Comprehensive Income
Comprehensive income is defined as the change in equity from all transactions other than those with shareholders, 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:

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Comprehensive income		
Net income	**$ 5,542**	$12,356
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities, net	**(5,911)**	945
Reclassification adjustment for gains (losses) included in net income	**1,229**	(11)
Income tax effect, net	**2,819**	(378)
Other comprehensive income (loss)	**(4,321)**	578
Total comprehensive income	**$ 1,221**	$12,934

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7. Securities Available for Sale

Securities available for sale are summarized as follows:

		March 31, 2008		
(In thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agency obligations	**$ 97,257**	**$ 560**	**$ 5**	**$ 97,812**
Mortgage-backed securities	**583,797**	**4,325**	**7,881**	**580,241**
State, county, and municipal obligations	**90,959**	**1,024**	**2**	**91,981**
Asset-backed securities	**57,661**		**7,613**	**50,048**
Equity securities	**1,362**	**129**	**55**	**1,436**
Total securities	**$831,036**	**$6,038**	**$15,556**	**$821,518**

		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

The contractual maturity distribution and yields (computed on a taxable-equivalent basis) of the Corporation s securities portfolio at March 31, 2008, 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 or less		**Due after 1 through 5 years**		**Due after 5 through 10 years**		**Due after 10 years**		**Total**	
(Dollars in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Fair value of securities available for sale										
U.S. government agency obligations	$ 96,772	3.71%	$	%	$ 1,040	5.20%	$	%	$ 97,812	3.72%
Mortgage-backed securities [(1)]	8,952	5.65	274,670	4.82	244,123	5.46	52,496	5.67	580,241	5.18
	32,826	6.76	20,399	5.01	4,110	5.99	34,646	2.62	91,981	4.78

State and municipal obligations (2)										
Asset-backed securities			13,136	6.99	17,520	5.03	19,392	5.46	50,048	5.70
Equity securities (3)							1,436	6.10	1,436	6.10
Total	$138,550	4.56%	$308,205	4.93%	$266,793	5.43%	$107,970	4.65%	$821,518	4.99%
Amortized cost of securities available for sale	$137,446		$309,100		$271,953		$112,537		$831,036	

(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 6.10% yield represents the expected dividend yield to be earned on equity securities.*

Securities with an aggregate carrying value of $671.4 million and $655.0 million at March 31, 2008 and December 31, 2007, respectively, were pledged to secure public deposits, trust account deposits, securities sold under agreements to repurchase, and Federal Home Loan Bank (FHLB) borrowings.

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

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Gross gains	**$1,229**	$ 94
Gross losses		(105)
Securities gains (losses), net	**$1,229**	$ (11)

In March 2008, the Corporation received 51,457 Class B common shares in connection with Visa Inc. s (Visa) initial public offering (IPO), of which 19,894 shares were redeemed as part of Visa s mandatory redemption of its Class B stock. The Corporation recognized a gain of $0.9 million related to this redemption. The Corporation did not recognize any gain on the remaining 31,563 unredeemed Visa Class B common shares. The unredeemed Visa Class B common shares are not reflected on the Corporation s consolidated balance sheet at March 31, 2008 as the Corporation has no historical basis in these shares.

As of March 31, 2008, 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 March 31, 2008, shown in the following table, resulted primarily from an increase in interest rate spreads among the various types of bond investments, market illiquidity and macro-economic recession fears.

	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	$ 29,963	$ 5	$	$	$ 29,963	$ 5
Mortgage-backed securities	156,880	4,433	107,428	3,448	264,308	7,881
Total AAA/AA-rated securities	186,843	4,438	107,428	3,448	294,271	7,886
A/BBB-RATED SECURITIES						
Asset-backed securities	41,833	5,826	8,215	1,787	50,048	7,613
State, county, and municipal obligations	1,168	2			1,168	2
Total A/BBB-rated securities	43,001	5,828	8,215	1,787	51,216	7,615
UNRATED SECURITIES						

Equity securities	397	55			397	55
Total unrated securities	397	55			397	55
Total temporarily impaired securities	$230,241	$10,321	$115,643	$5,235	$345,884	$15,556

At March 31, 2008, investments in a gross unrealized loss position included one U.S. agency security, 38 mortgage-backed securities, one municipal obligation, 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 March 31, 2008, the Corporation had the ability and the intent to hold these investments to the 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 of approximately 12.2 percent as of March 31, 2008.

8. 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 metropolitan regions of Charlotte and Raleigh, North Carolina, and Atlanta, Georgia. At March 31, 2008, the majority of the total loan portfolio was to borrowers within these regions. 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:

	March 31, 2008		December 31, 2007	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Commercial real estate	**$1,058,197**	**30.4%**	$1,073,983	30.7%
Commercial non real estate	**299,555**	**8.6**	308,792	8.8
Construction	**861,967**	**24.8**	871,579	24.9
Mortgage	**587,240**	**16.9**	582,398	16.6
Home equity	**430,781**	**12.4**	413,873	11.8
Consumer	**240,048**	**6.9**	252,382	7.2
Total portfolio loans	**$3,477,788**	**100.0%**	$3,503,007	100.0%

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

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Balance, beginning of period	**$42,414**	$34,966
Charge-offs	**(2,458)**	(786)
Recoveries	**359**	308
Net charge-offs	**(2,099)**	(478)
Provision for loan losses	**4,707**	1,366
Balance, March 31	**$45,022**	$35,854

The table below summarizes the Corporation s nonperforming assets.

(In thousands)	**March 31 2008**	December 31 2007
Nonaccrual loans	**$62,058**	$28,695
Loans 90 days or more past due and accruing interest		

Total nonperforming loans	**62,058**	28,695
Other real estate	**9,481**	10,056
Total nonperforming assets	**$71,539**	$38,751

At March 31, 2008 and December 31, 2007, impaired loans amounted to $55.8 million and $23.2 million, respectively. Included in the allowance for loan losses was $7.6 million and $4.4 million related to the impaired loans at March 31, 2008 and December 31, 2007, respectively.

9. Servicing Rights

As of March 31, 2008, the Corporation serviced $171.3 million of mortgage loans for other parties. The carrying value and aggregate estimated fair value of mortgage servicing rights (MSR) at March 31, 2008 were $0.6 million and $1.5 million, respectively, compared to a carrying value and estimated fair value of $0.6 million and $1.8 million, respectively, at December 31, 2007.

As of March 31, 2008, the Corporation serviced $34.0 million of Small Business Administration (SBA) loans that were originated by and sold by the Bank. The carrying value and aggregate estimated fair value of the SBA loan servicing rights (SSR) at March 31, 2008 were $0.8 million, compared to the carrying value and estimated fair value of $0.8 million and $0.9 million, respectively, at December 31, 2007.

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 following is an analysis of capitalized servicing rights included in other assets in the consolidated balance sheets for the three months ending March 31, 2008 and 2007:

	2008		2007	
(In thousands)	**MSR**	**SSR**	MSR	SSR
Balance, beginning of period	**$591**	**$792**	$756	$1,137
Servicing rights capitalized or acquired		**10**		13
Amortization expense	**(34)**	**(48)**	(41)	(40)
Purchase accounting adjustment				(238)
Valuation allowance				
Balance, March 31	**$557**	**$754**	$715	$ 872

Assumptions used to value the MSR included an average conditional prepayment rate (CPR) of 15.4 percent, an average discount rate of 12.2 percent, and a weighted-average life of 3.3 years. An increase in the prepayment rates of 10 percent and 20 percent may result in a decline in fair value of $57,000 and $110,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $38,000 and $74,000, 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 13.0 percent, a discount rate of 10.3 percent, and a weighted-average life of 4.1 years. An increase in the prepayment rates of 10 percent and 20 percent may result in a decline in fair value of $38,000 and $73,000, respectively. An increase in the discount rate of 10 percent and 20 percent may result in a decline in fair value of $20,000 and $40,000, respectively.

The MSR and SSR are expected to be amortized against other noninterest income over a weighted-average period of 3.0 years and 2.9 years, respectively. Expected future amortization expense for these capitalized servicing rights follows:

(In thousands)	MSR	SSR	Total
April 1 - December 31, 2008	$101	$132	$ 233
2009	111	152	263
2010	92	126	218
2011	74	104	178
2012	61	85	146
2013 and after	118	155	273
Total amortization	$557	$754	$1,311

For the three months ended March 31, 2008 and 2007, contractual servicing fee revenue was $0.3 million and $0.4 million, respectively, and was included in the mortgage services line item of other noninterest income.

10. Other Borrowings

The following is a schedule of other borrowings:

	March 31, 2008		December 31, 2007	
(Dollars in thousands)	**Balance**	**Weighted-Average Contractual Rate**	Balance	Weighted-Average Contractual Rate
Federal funds purchased and securities sold under agreements to repurchase	**$ 208,816**	**3.18%**	$ 268,232	4.59%
Commercial paper	**28,827**	**2.94**	64,180	2.91
Other short-term borrowings	**220,000**	**3.65**	220,000	5.27
Long-term debt	**617,712**	**4.77**	567,729	5.26
Total other borrowings	**$1,075,355**	**4.18%**	$1,120,141	4.97%

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 $114.1 million and $124.8 million at March 31, 2008 and December 31, 2007, respectively, were pledged to secure securities sold under agreements to repurchase.

Federal funds purchased represent unsecured overnight borrowings from other financial institutions. At March 31, 2008, the Bank had available federal funds lines of credit totaling $648.0 million, with $168.0 million outstanding, compared to similar lines of credit totaling $648.0 million, with $233.0 million outstanding at December 31, 2007.

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 March 31, 2008 was $28.8 million, compared to $64.2 million at December 31, 2007.

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 March 31, 2008 and December 31, 2007, the Bank had $220.0 million of short-term FHLB borrowings.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities. At March 31, 2008, the Bank had $555.8 million of long-term FHLB borrowings, compared to $505.8 million at December 31, 2007. In addition, the Corporation had $61.9 million of subordinated outstanding debentures at March 31, 2008 and December 31, 2007.

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 March 31, 2008.

(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				

11. Income Tax

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 as follows:

	Three Months Ended March 31			
(Dollars in thousands)	**2008**		2007	
Tax at statutory federal rate	**$5,110**	**35.0%**	$6,655	35.0%
Change in income taxes resulting from:				
Tax-exempt income	**(307)**	**(2.1)**	(372)	(2.0)
Bank-owned life insurance	**(407)**	**(2.8)**	(399)	(2.1)
State income tax, net of federal	**524**	**3.6**	293	1.5
Settlement with North Carolina DOR	**4,938**	**33.8**		
Addition to or (release of) tax reserve	**(843)**	**(5.8)**	226	1.2
Other, net	**42**	**0.3**	256	1.3

Income tax expense	**$9,057**	**62.0%**	$6,659	34.9%

The Corporation utilizes 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.

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As a result of various tax strategies of the Corporation, the amount of unrecognized tax benefits as of March 31, 2008 was $5.1 million, all of which would impact the Corporation s effective tax rate, if recognized. The Corporation believes its current tax reserves are adequate. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the three months ended March 31, 2008 follows:

(In thousands)	
Balance, beginning of period	$10,833
Expiration of statute	(731)
Reductions for tax positions of prior periods	(4,981)
Balance, March 31, 2008	**$ 5,121**

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 March 31, 2008, the Corporation had accrued approximately $0.1 million for the payment of interest and penalties.

The Corporation completed an examination by the North Carolina Department of Revenue (the DOR) for tax years 1999 through 2005. On March 31, 2008, the Corporation entered into a closing agreement with the DOR for years 1999 through and including 2006. As a result of this settlement, the Corporation paid $15.4 million in franchise and income taxes, interest and penalties. The closing agreement resulted in a reduction of unrecognized tax benefits of $4.2 million. The Corporation remains subject to examination by the DOR for tax years 2007 forward.

The Corporation was also under examination by the Internal Revenue Service for the 2004 and 2005 tax years. The examination was effectively concluded by March 31, 2008. The Corporation recognized $0.8 million of additional income tax expense in connection with the effective settlement of this examination.

12. Share-Based Payments

The Corporation has various stock-based compensation plans under which awards, including stock options and restricted stock, may be granted to employees and non-employee directors. These plans and the related accounting are described in **Note 18** of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

Stock-based compensation costs totaled $0.8 million for the three months ended March 31, 2008, which consisted of $43,000 related to stock options, $573,000 related to service-based nonvested shares, and $172,000 related to performance-based nonvested shares. Stock-based compensation costs totaled $0.8 million for the three months ended March 31, 2007, which consisted of $50,000 related to stock options, $523,000 related to service-based nonvested shares, and $213,000 related to performance-based nonvested shares.

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

	Three Months Ended March 31	
	2008	2007
Expected volatility	**N/A**	22.4%
Expected dividend yield	**N/A**	3.2
Risk-free interest rate	**N/A**	4.8
Expected term (in years)	**N/A**	8.0

Stock option activity for the three months ended March 31, 2008, follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, beginning of period	882,853	$19.98		
Exercised	(26,688)	20.14		$ 187,093
Outstanding, March 31, 2008	**856,165**	**$19.98**	**4.8**	**$5,765,413**
Exercisable, March 31, 2008	**782,505**	**$19.58**	**4.5**	**$5,577,166**

Nonvested share activity for the three months ended March 31, 2008 follows:

	Service-Based		**Performance-Based**	
	Shares	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Outstanding, beginning of period	263,168	$24.01	90,167	$22.31
Exercised	(5,196)	23.68	(5,967)	22.13
Forfeited	(1,000)	20.04		
Outstanding, March 31, 2008	**256,972**	**$24.03**	**84,200**	**$22.32**

As of March 31, 2008, there was approximately $4.4 million of total unrecognized compensation cost related to service-based nonvested share-based compensation arrangements granted under the 2000 Omnibus Stock Option and Award Plan (Omnibus Plan) and the Restricted Stock Award Program. This cost is expected to be recognized over a

remaining weighted-average period of 1.6 years. No share-based awards vested during the three months ended March 31, 2008.

As of March 31, 2008, there was $0.7 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 1.3 years.

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13. Financial Instruments Measured at Fair Value

As discussed in **Note 2**, the Corporation adopted SFAS 157 as of January 1, 2008. The following table presents the allocation of the Corporation s assets recorded at fair value within the SFAS 157 fair value hierarchy as of March 31, 2008:

(In thousands)		**Fair Value Measurements Using**		
Description	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Securities at fair value	$821,518	$1,436	$ 770,034	$50,048
Loans recorded at collateral value	48,246			48,246

The majority of the Corporation s available-for-sale securities portfolio falls into Level 2 of the fair value hierarchy. The securities are generally priced through independent providers. In obtaining such valuation information, the Corporation has evaluated the valuation methodologies used to develop the fair values.

The Corporation has valued its asset-backed securities, which are trust preferred securities, using third-party dealer determined pricing models. Significant inputs to these dealer pricing models are not readily observable, thus the valuations of these securities are classified as Level 3 within the fair value hierarchy. The need to use unobservable inputs generally results from the lack of market liquidity of these securities, which has resulted in diminished observability of actual trades and observable market assumptions that would otherwise be used to value these instruments.

Impaired loans are recorded at the fair value of the underlying collateral. The fair value of the loan s collateral is generally determined by third-party appraisals.

The following table shows a reconciliation for the three months ending March 31, 2008 of financial instruments measured using significant unobservable inputs and classified as Level 3 within the fair value hierarchy:

(In thousands)	**Fair Value of Level 3 Securities**	**Fair Value of Level 3 Loans**
Balance, beginning of period	$ 54,229	$ 18,787
Losses included in earnings		(3,169)
Losses included in other comprehensive income	(4,161)	
Net transfers	(20)	32,628
Balance, March 31, 2008	**$ 50,048**	**$ 48,246**

14. 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 of $83.6 million to cover customer deposit account overdrafts should they occur. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated

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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 March 31, 2008 of standby letters of credit issued or modified during 2008 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 March 31, 2008, 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	$570,313	$113,946	$16,922	$ 95,381	$	$ 796,562
Lines of credit	28,597	1,202	4,957	455,497		490,253
Standby letters of credit	23,016	2,849	4			25,869
Anticipated tax settlements					5,172	5,172
Total commitments	$621,926	$117,997	$21,883	$550,878	$ 5,172	$1,317,856

Contingencies. 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.
During October 2007, Visa completed a restructuring and issued shares of Visa common stock to its financial institution members in contemplation of its IPO which occurred in March 2008. After the restructuring, member financial institutions became guarantors of certain Visa litigation liabilities based on the members proportionate share of the membership base. On November 7, 2007, Visa announced that it had reached a settlement in the amount of $2.065 billion to resolve certain restraint of trade litigation brought by American Express. The Corporation, as a member of the Visa network and a guarantor of its proportionate share of these liabilities, recognized a litigation liability of $0.6 million related to the American Express settlement and the remaining unsettled Discover, Interchange and Attridge litigation. Of this $0.6 million, $0.3 million is the Corporation s proportionate share of the American Express Settlement and $0.3 million is the Corporation s estimate of the fair value of the potential losses related to the remaining unsettled litigation. Charges related to these litigation matters is included in Legal and professional services on the Corporation s consolidated statements of income.
The Corporation filed its Form 10-Q for the three months ended September 30, 2007 on November 9, 2007. As such, the Corporation should have recorded its $0.3 million proportionate share of Visa s settlement with American Express in the third quarter of 2007. Additionally, the $0.3 million reserve related to the Discover, Interchange and Attridge litigation should have been recorded in the fourth quarter of 2007. The Corporation evaluated the impact of these errors, considering both qualitative and quantitative factors, and concluded the errors were immaterial to all periods affected. As such, the Corporation corrected the errors by recording the $0.6 million litigation reserve in the first quarter of 2008.
Visa funded an escrow account with a portion of the proceeds from the IPO. The escrow account will be used to pay settlements of Visa s restraint of trade litigation. The Corporation s proportionate share of this escrow account was $0.4 million and the Corporation recognized the benefit from the escrow account as a partial recapture of expenses incurred to establish the Visa litigation reserve liability. See **Note 7** for further discussion of the Visa IPO transaction.

15. 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

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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 March 31, 2008, 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 March 31, 2008, 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 March 31, 2008, 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:

			For Capital Adequacy Purposes		**To Be Well Capitalized**	
(Dollars in thousands)	**Actual Amount**	**Ratio**	**Amount**	**Minimum Ratio**	**Amount**	**Minimum Ratio**
At March 31, 2008:						
Leverage						
First Charter Corporation	**$446,672**	**9.44%**	**$189,249**	**4.00%**	**None**	**None**
First Charter Bank	**424,710**	**8.99**	**189,030**	**4.00**	**$236,288**	**5.00%**
Tier I Capital						
First Charter Corporation	**$446,672**	**11.25%**	**$158,878**	**4.00%**	**None**	**None**
First Charter Bank	**424,710**	**10.71**	**158,620**	**4.00**	**$237,930**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$491,728**	**12.38%**	**$317,757**	**8.00%**	**None**	**None**
First Charter Bank	**469,732**	**11.85**	**317,240**	**8.00**	**$396,550**	**10.00%**
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%	$189,985	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 (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.

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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 March 31, 2008.
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 March 31, 2008, 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 March 31, 2008, the Corporation and the Bank were in compliance with these limitations.

16. 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.

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

	Three Months Ended March 31, 2008			
(In thousands)	**The Bank**	**Other**	**Eliminations**	**Consolidated Total**
Interest income	**$ 68,564**	**$ 20**	**$**	**$ 68,584**
Interest expense	**34,600**	**1,233**		**35,833**
Net interest income (expense)	**33,964**	**(1,213)**		**32,751**
Provision for loan losses	**4,707**			**4,707**
Noninterest income	**19,873**	**545**		**20,418**
Noninterest expense	**33,545**	**318**		**33,863**
Income (loss) before income tax expense	**15,585**	**(986)**		**14,599**
Income tax expense (benefit)	**9,402**	**(345)**		**9,057**
Net income (loss)	**$ 6,183**	**$ (641)**	**$**	**$ 5,542**
Average portfolio loans	**$3,491,712**	**$**	**$**	**$3,491,712**
Average assets	**4,805,733**	**571,071**	**(561,507)**	**4,815,297**
Total assets, March 31, 2008	**4,787,498**	**557,725**	**(549,362)**	**4,795,861**

	Three Months Ended March 31, 2007			
(In thousands)	The Bank	Other	Eliminations	Consolidated Total
Interest income	$ 77,132	$ 82	$	$ 77,214
Interest expense	39,222	1,257		40,479
Net interest income (expense)	37,910	(1,175)		36,735
Provision for loan losses	1,366			1,366
Noninterest income	19,458	108		19,566
Noninterest expense	35,710	210		35,920
Income (loss) before income tax expense	20,292	(1,277)		19,015
Income tax expense (benefit)	7,106	(447)		6,659
Net income (loss)	$ 13,186	$ (830)	$	$ 12,356
Average portfolio loans	$3,510,437	$	$	$3,510,437
Average assets	4,856,050	540,699	(525,666)	4,871,083
Total assets, March 31, 2007	4,866,281	540,302	(522,088)	4,884,495

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Item 2. ***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.

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; (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 $4.8 billion and is the holding company for First Charter Bank (Bank). As of March 31, 2008, First Charter operated 60 financial centers, four insurance offices, and 136 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.

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

Noninterest expense is the primary component of expense for the Corporation. Noninterest expense is primarily composed of corporate operating expenses, including salaries and benefits, occupancy and equipment, professional fees, and other operating expense. The 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. First Charter s shareholders approved the Merger Agreement and the Merger has been approved by all necessary state and federal regulatory agencies. The Merger Agreement is subject to customary closing conditions. The merger is currently anticipated to close on Friday, June 6, 2008.

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.

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 s 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 state and Fifth Third has stated that the impact of the final disposition cannot be assessed at this time. First Charter and its legal counsel have carefully reviewed the complaint, are monitoring developments, and intend to take such action as is appropriate and necessary to protect First Charter s interests in the Merger Agreement with Fifth Third.

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In connection with the proposed merger with Fifth Third, the Corporation has incurred expenses of approximately $0.6 million of merger-related costs, principally legal and professional services, for the three months ended March 31, 2008.

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.

Financial Summary

Net interest income, the difference between total interest income and total interest expense, is the Corporation s principal source of earnings. For the three months ended March 31, 2008, net interest income was $32.8 million, a decrease of $3.9 million, or 10.8 percent, from net interest income of $36.7 million for the three months ended March 31, 2007.

Income tax expense for the three months ended March 31, 2008, was $9.1 million, for an effective tax rate of 62.0 percent, compared with $6.7 million, for an effective tax rate of 35.0 percent in the first quarter of 2007. The effective tax rate increased for the three months ended March 31, 2008 primarily as a result of the closing agreement with the North Carolina Department of Revenue (DOR).

The Corporation s first quarter 2008 net income was $5.5 million, or $0.16 per diluted share, a $6.9 million decrease from net income of $12.4 million in first quarter 2007. Return on average assets and return on average equity was 0.46 percent and 4.70 percent for the three months ended March 31, 2008, respectively, compared to 1.03 percent and 11.09 percent for the first quarter 2007, respectively.

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The table below presents the Corporation s selected financial data by quarter:

Table One

Selected Financial Data

	Three Months Ended				
(Dollars in thousands, except share and per share amounts)	**March 31 2008**	December 31 2007	September 30 2007	June 30 2007	March 31 2007
Income statement					
Interest income	**$ 68,584**	$ 75,660	$ 78,727	$ 78,291	$ 77,214
Interest expense	**35,833**	40,284	41,496	40,747	40,479
Net interest income	**32,751**	35,376	37,231	37,544	36,735
Provision for loan losses	**4,707**	6,144	3,311	9,124	1,366
Noninterest income	**20,418**	20,120	18,427	20,141	19,566
Noninterest expense	**33,863**	35,845	35,556	35,207	35,920
Income before income tax expense	**14,599**	13,507	16,791	13,354	19,015
Income tax expense	**9,057**	4,576	5,724	4,404	6,659
Net income	**$ 5,542**	**$ 8,931**	$ 11,067	$ 8,950	$ 12,356
Per common share					
Net income per common share					
Basic	**$ 0.16**	$ 0.25	$ 0.32	$ 0.26	$ 0.36
Diluted	**0.16**	0.25	0.32	0.26	0.35
Average shares					
Basic	**34,739**	34,562	34,423	34,698	34,770
Diluted	**35,121**	35,053	34,796	34,987	35,086
Cash dividends declared	**$ 0.195**	$ 0.195	$ 0.195	$ 0.195	$ 0.195
Period-end book value	**13.24**	13.39	13.16	12.85	12.97
Ratios					
Return on average equity	**4.70%**	7.67%	9.72%	7.86%	11.09%
Return on average assets	**0.46**	0.74	0.91	0.74	1.03
Net yield on earning assets	**3.03**	3.25	3.39	3.42	3.38
Average portfolio loans to average deposits	**108.41**	108.72	109.37	109.50	107.98
Average equity to average assets	**9.85**	9.59	9.33	9.37	9.28
Efficiency ratio (1)	**60.9**	64.2	63.2	60.4	63.1
Selected period-end balances					
Portfolio loans, net	**$3,432,766**	$3,460,593	$3,434,389	$3,509,047	$3,494,015
Loans held for sale	**17,544**	14,145	10,362	11,471	13,691
Allowance for loan losses	**45,022**	42,414	43,017	44,790	35,854
Investment in securities (2)	**873,641**	909,661	907,608	898,528	897,762
Assets	**4,795,861**	4,862,417	4,839,693	4,916,721	4,884,495
Deposits	**3,219,339**	3,221,619	3,208,026	3,230,346	3,321,366
Other borrowings	**1,075,355**	1,120,141	1,113,332	1,176,758	1,044,229

Total liabilities	**4,332,335**	4,394,073	4,382,205	4,470,893	4,429,123
Shareholders equity	**463,526**	468,344	457,488	445,828	455,372
Selected average balances					
Portfolio loans	**$3,491,712**	$3,488,598	$3,514,699	$3,532,713	$3,510,437
Loans held for sale	**13,373**	10,028	9,345	11,127	11,431
Investment in securities (2)	**905,045**	901,068	914,569	914,606	926,970
Earning assets	**4,419,298**	4,412,038	4,445,923	4,467,031	4,463,161
Assets	**4,815,297**	4,819,264	4,846,399	4,874,742	4,871,083
Deposits	**3,220,862**	3,208,859	3,213,507	3,226,308	3,251,137
Other borrowings	**1,079,188**	1,103,585	1,124,021	1,131,599	1,113,191
Shareholders equity	**474,114**	461,972	451,946	456,634	451,835

(1) *Noninterest expense less debt extinguishment expense, Visa litigation expense, tax settlement 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.*

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

Critical Accounting Estimates and Policies

The Corporation s significant accounting policies are described in **Note 1** of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007. These policies are essential in understanding management s discussion and analysis of financial condition and results of operations. Some of the Corporation s accounting policies require significant judgment to estimate values of either assets or liabilities. In addition, certain accounting principles require significant judgment with respect to their application to complicated transactions to determine the most appropriate treatment.

The Corporation has identified four accounting policies as being critical in terms of judgments and the extent to which estimates are used: allowance for loan losses, income taxes, marketable securities valuation and identified intangible assets and goodwill. In many cases, there are numerous alternative judgments that could be used in the process of estimating values of assets or liabilities. Where alternatives exist, the Corporation has used the factors it believes represent the most reasonable value in

developing the inputs for the valuation. Actual performance that differs from the Corporation s estimates of the key variables could affect net income. A summary of these four accounting policies follows:

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 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.

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.

Marketable Securities Valuation

The Corporation holds fixed income and equity securities and substantially all of these assets are reflected at fair value on the Corporation s consolidated balance sheets. SFAS 157, *Fair Value Measurements*, defines fair value and specifies a hierarchy of valuation techniques based on whether those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation s market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted market prices for *identical* instruments in active markets.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

When available, the Corporation uses quoted market prices to determine fair value and classifies such items within Level 1 of the fair value hierarchy. If quoted market prices are not available, fair value is generally determined by using quoted prices for similar instruments or valuations using observable market inputs. If fair values can not be determined using active market data, a matrix pricing model is used. The matrix pricing model, which is classified as Level 2 within the fair value hierarchy, is populated using yield curve and other market data.

The recent credit crisis has caused some markets to be illiquid, thus reducing the availability of certain market data. As a result, the Corporation has valued its trust preferred securities using dealer determined prices. Significant inputs to these dealer pricing models are not readily observable, thus the valuations of these securities are classified as Level 3 within the fair value hierarchy. When or if the liquidity returns to these markets, the valuations of these securities will revert to using the related observable market inputs in determining fair value.

At the end of each reporting period, the Corporation reviews its securities portfolio for impairment. 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.

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. 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

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 three months ended March 31, 2008 and 2007 is presented in **Table Two**. Net interest income on a taxable-equivalent basis is a non-GAAP (Generally Accepted Accounting Principles) performance measure used by management in operating the business which management believes provides investors with a more accurate picture of the interest margin for comparative purposes. The changes in net interest income, on a taxable-equivalent basis, for the three months ended March 31, 2008 and 2007 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 the three months ended March 31, 2008, net interest income was $32.8 million, a decrease of $3.9 million, or 10.8 percent, from net interest income of $36.7 million for the three months ended March 31, 2007. The net interest margin (taxable-equivalent net interest income divided by average earning assets) for the first quarter of 2008 decreased 35 basis points to 3.03 percent compared to 3.38 percent for the first quarter of 2007.

Compared to first quarter 2007, earning-asset yields decreased 76 basis points to 6.29 percent. Loan yields decreased 105 basis points to 6.57 percent. This decrease is primarily the result of a reduction in the prime lending rate that followed the Federal Reserve lowering the federal funds rate by 300 basis points from September 2007 through March 2008. Loan yields were also negatively impacted by an increase in non accrual loans. The decrease in loan yields was partially offset by an increase in yields on the securities portfolio. Securities yields increased 28 basis points to 5.23 percent as maturities from lower yielding securities were reinvested in similar duration securities at higher yields. In addition, the percentage of investment security average balances (which, on average, have lower yields than loans) to total earning asset average balances fell from 20.8 percent to 20.4 percent over the past year. Earning-asset average balances decreased to $4.4 billion at March 31, 2008, compared to $4.5 billion at March 31, 2007.

On the liability side of the balance sheet, the cost of interest-bearing liabilities decreased 48 basis points, compared to March 31, 2007. This decrease was comprised of a 28 basis point decrease in interest-bearing deposit costs to 3.55 percent, while other borrowing costs decreased 95 basis points to 4.13 percent. While the Federal Reserve lowered the federal funds rate by 300 basis points from September 2007 through March 2008, the decline in rates on interest bearing liabilities trailed loan yields due to the short term fixed rate nature of CDs and external market liquidity concerns which kept deposit rates comparatively high.

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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

	Three Months Ended March 31					
	2008			2007		
(Dollars in thousands)	**Daily Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid [6]**	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid [6]
Assets						
Earning assets						
Loans and loans held for sale [1] [2] [3] [4]	**$3,505,085**	**$57,298**	**6.57%**	$3,521,868	$66,239	7.62%
Investment securities taxable [4] [5]	**811,973**	**10,631**	**5.27**	826,337	9,949	4.83
Investment securities tax-exempt	**91,610**	**1,174**	**5.13**	100,633	1,491	5.92
Federal funds sold	**7,056**	**55**	**3.19**	9,073	128	5.70
Interest-bearing bank deposits	**3,574**	**26**	**2.93**	5,250	50	3.90
Total earning assets	**4,419,298**	**$69,184**	**6.29%**	4,463,161	$77,857	7.05%
Cash and due from banks	**70,406**			79,360		
Other assets	**325,593**			328,562		
Total assets	**$4,815,297**			$4,871,083		
Liabilities and shareholders equity						
Interest-bearing liabilities						
Demand deposits	**$ 477,360**	**$ 1,468**	**1.24%**	$ 399,557	$ 1,058	1.07%
Money market accounts	**541,779**	**3,456**	**2.57**	642,383	5,551	3.50
Savings deposits	**101,894**	**53**	**0.21**	112,988	67	0.24
Certificates of deposit	**1,679,341**	**19,774**	**4.74**	1,649,408	19,865	4.88
Retail other borrowings	**76,270**	**500**	**2.64**	92,090	662	2.92
Wholesale other borrowings	**1,002,918**	**10,582**	**4.24**	1,021,101	13,276	5.27
Total interest-bearing liabilities	**3,879,562**	**35,833**	**3.71%**	3,917,527	40,479	4.19%
Noninterest-bearing deposits	**420,488**			446,801		
Other liabilities	**41,133**			54,920		
Shareholders equity	**474,114**			451,835		
Total liabilities and shareholders equity	**$4,815,297**			$4,871,083		
Net interest spread			**2.58%**			2.86%
Contribution of noninterest bearing sources			**0.45**			0.52

Net interest income/ yield on earning assets	**$33,351**	**3.03%**	$37,378	3.38%

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

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

(3) *Includes amortization of deferred loan fees of $960, and $829 for the three months ended March 2008 and 2007, 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 2008 and 2007. The adjustments made to convert to a taxable-equivalent basis were $600 and $643 for the three months ended March 31, 2008 and 2007, respectively.*

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

(6) *Annualized.*

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.

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Table Three
Volume and Rate Variance Analysis

	Three Months Ended March 31 2008 vs 2007		
	Due to Change in		Net
(In thousands)	Volume	Rate	Change
Increase (decrease) in tax-equivalent interest income			
Loans and loans held for sale [1]	**$(297)**	**$(8,644)**	**$(8,941)**
Investment securities taxable [1] [2]	**(181)**	**863**	**682**
Investment securities tax-exempt	**(127)**	**(190)**	**(317)**
Federal funds sold	**(24)**	**(49)**	**(73)**
Interest-bearing bank deposits	**(14)**	**(10)**	**(24)**
Total	**$(643)**	**$(8,030)**	**$(8,673)**
Increase (decrease) in interest expense			
Deposits:			
Demand	**$ 227**	**$ 183**	**$ 410**
Money market	**(769)**	**(1,326)**	**(2,095)**
Savings	**(6)**	**(8)**	**(14)**
Certificates of deposit	**413**	**(504)**	**(91)**
Retail other borrowings	**(103)**	**(59)**	**(162)**
Wholesale other borrowings	**(223)**	**(2,471)**	**(2,694)**
Total	**$(463)**	**$(4,183)**	**$(4,646)**
Increase in tax-equivalent net interest income			**$(4,027)**

(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.

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Details of noninterest income follow:

Table Four

Noninterest Income

	Three Months Ended March 31		Increase / (Decrease)	
(In thousands)	**2008**	2007	Amount	Percent
Service charges on deposits	**$ 7,365**	$ 7,390	$ (25)	(0.3)%
ATM, debit, and merchant fees	**2,631**	2,444	187	7.7
Wealth management	**779**	716	63	8.8
Equity method investment gains, net	**627**	1,127	(500)	(44.4)
Mortgage services	**1,012**	901	111	12.3
Gain on sale of Small Business Administration loans	**98**	377	(279)	(74.0)
Brokerage services	**733**	1,081	(348)	(32.2)
Insurance services	**4,150**	3,634	516	14.2
Bank owned life insurance	**1,165**	1,139	26	2.3
Property sale gains, net	**59**	63	(4)	(6.3)
Securities gains (losses), net	**1,229**	(11)	1,240	
Other	**570**	705	(135)	(19.1)
Total noninterest income	**$20,418**	$19,566	$ 852	4.4%

Selected items included in noninterest income follow:

Table Five

Selected Items Included in Noninterest Income

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Equity method investment gains, net	**$ 627**	$1,127
Securities gains (losses), net	**1,229**	(11)

Noninterest income for the three months ended March 31, 2008 was $20.4 million, an increase of $0.8 million, or 4.4 percent, from $19.6 million for the three months ended March 31, 2007.

The largest increase in noninterest income for the three months ended March 31, 2008 was from the gain recognized related to the redemption of Visa Inc. (Visa) common stock. In March 2008, the Corporation received 51,457 Visa Class B common shares in connection with Visa s initial public offering (IPO), of which 19,894 shares were redeemed as part of Visa s mandatory redemption of its Class B stock. The Corporation recognized a gain of $0.9 million related to this redemption. The Corporation did not recognize any gain on the remaining 31,563 unredeemed Visa Class B common shares.

Other factors for the increase in noninterest income included were:

Insurance service revenue increased $0.5 million due to greater contingency revenue recognized in the first quarter of 2008 compared with the first quarter of 2007.

ATM, debit and merchant card services revenue was $0.2 million higher, reflecting increased transactions.

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These increases were partially offset by the following items:

Equity method investment gains were $0.5 million lower for the three months ended March 31, 2008 as compared with the same period of 2007. The returns on the equity method investments vary from period to period and income is recorded when earned.

Brokerage revenue decreased $0.3 million from first quarter 2007 due to fewer brokers compared to prior year, in addition the recent uncertainty in the U.S. equity markets resulted in lower transaction volume.

Gains on SBA loan sales were $0.3 million lower for the three months ended March 31, 2008 compared to the same period in 2007 due to lower production and decreased spreads.

Noninterest Expense

Details of noninterest expense follow:

Table Six

Noninterest Expense

	Three Months Ended March 31		Increase / (Decrease)	
(Dollars in thousands)	**2008**	2007	Amount	Percent
Salaries and employee benefits	**$18,498**	$19,587	$(1,089)	(5.6)%
Occupancy and equipment	**4,725**	4,612	113	2.5
Data processing	**1,515**	1,790	(275)	(15.4)
Marketing	**454**	1,351	(897)	(66.4)
Postage and supplies	**1,096**	1,172	(76)	(6.5)
Legal and professional services	**2,700**	3,586	(886)	(24.7)
Telecommunications	**625**	671	(46)	(6.9)
Amortization of intangibles	**159**	223	(64)	(28.7)
Foreclosed properties	**(128)**	153	(281)	(183.7)
Other	**4,219**	2,775	1,444	52.0
Total noninterest expense	**$33,863**	$35,920	$(2,057)	(5.7)%
Full-time equivalent employees	**1,035**	1,105	(70)	(6.3)%
Efficiency ratio [(1)]	**60.9%**	63.1%	(2.2)%	(3.5)%

(1) *Noninterest expense, less Visa litigation and tax settlements, divided by the sum of taxable-equivalent net interest income plus noninterest income less securities gains (losses), net.*

Selected items included in noninterest expense follow:

Table Seven

Selected Items Included in Noninterest Expense

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Separation agreements	**$**	$ 58
Merger-related costs	**607**	200
Visa litigation costs	**239**	
Tax settlement costs	**1,604**	

Noninterest expense for the first quarter of 2008 was $33.9 million, a $2.0 million, or 5.7 percent decrease from $35.9 million for the first quarter of 2007.

During October 2007, Visa completed a restructuring and issued shares of Visa common stock to its financial institution members in contemplation of its IPO which occurred in March 2008. After the

restructuring, member financial institutions became guarantors of certain Visa s litigation liabilities based on the members proportionate share of the membership base. On November 7, 2007, Visa announced that it had reached a settlement in the amount of $2.065 billion to resolve certain restraint of trade litigation brought by American Express. The Corporation recognized a litigation liability of $0.6 million related to the American Express settlement and the remaining unsettled Discover, Interchange and Attridge litigation. Of this $0.6 million, $0.3 million is the Corporation s proportionate share of the American Express Settlement and $0.3 million is the Corporation s estimate of the fair value of the potential losses related to the remaining unsettled litigation. Charges related to these litigation matters is included in Legal and professional services on the Corporation s consolidated statements of income. Additionally, Visa funded an escrow account with a portion of the proceeds from the IPO. The escrow account will be used to pay settlements of Visa s restraint of trade litigation. The Corporation s proportionate share of this escrow account was $0.4 million and the Corporation recognized the benefit from the escrow account as a partial recapture of expenses incurred to establish the Visa litigation reserve liability.

For the three months ended March 31, 2008, other noninterest expense increased $1.4 million. Other noninterest expense includes $1.6 million of expenses related to the payment of franchise taxes resulting from the North Carolina tax settlement.

The above increases were offset by the following decreases in expenses:

Salaries and employee benefits expense for the three months ended March 31, 2008 was $18.5 million, a $1.1 million decrease compared to the same period of 2007. The decrease in salaries and benefits expense was primarily due to a lower number of full-time equivalent employees.

Legal and professional services expense decreased $0.9 million compared to the same period of 2007. The first quarter of 2007 included the additional costs related to the delayed filing of the Corporation s 2006 Form 10-K. The results for the three months ended March 31, 2008 included $0.6 million of legal costs related to the pending Fifth Third merger, compared to $0.2 million of legal costs related to the Gwinnett Banking Company (GBC) merger for the same period in 2007. As discussed above, legal and professional services include $0.2 million of net legal expense related to the establishment of the Visa reserves in 2008.

Data processing expense decreased $0.3 million as a result of improved vendor pricing.

Marketing expense decreased $0.9 million due to decreased spending in the first quarter of 2008.

The efficiency ratio, equal to noninterest expense as a percentage of tax-equivalent net interest income and total noninterest income, was 60.9 percent for the three months ended March 31, 2008, compared to 63.1 percent for the three months ended March 31, 2007. The calculation of the efficiency ratio excludes the impact of Visa transactions, North Carolina tax settlement expense and securities gains (losses).

Income Tax Expense

Income tax expense for the three months ended March 31, 2008, was $9.1 million, for an effective tax rate of 62.0 percent, compared with $6.7 million, for an effective tax rate of 35.0 percent in the first quarter of 2007. The effective tax rate increased for the three months ended March 31, 2008 primarily as a result of the closing agreement with the DOR. This closing agreement is discussed below and in **Note 11** of the consolidated financial statements.

The Corporation, through its subsidiaries, participates in two entities classified as captive REITs from which the Corporation has historically received dividends eligible for certain tax benefits within the Corporation s tax returns and consolidated financial statements. These entities were the primary focus of the examination of the Corporation by the DOR for tax years 1999 through and including 2005. On March 31, 2008,

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the Corporation entered into a closing agreement with the DOR for tax years 1999 through 2006. The Corporation remains subject to examination by the DOR for tax years 2007 forward.

The Corporation effectively settled the Internal Revenue Service examination of the 2004 and 2005 tax years during the quarter ended March 31, 2008. The Corporation s tax years 2006 forward continue to be subject to examination by the Internal Revenue Service. For additional information regarding these examinations refer to **Note 11** of the consolidated financial statements.

A reconciliation for the three months ending March 3, 2008 of the beginning and ending amount of unrecognized tax benefits is as follows:

Table Eight

Unrecognized Tax Benefits

(In thousands)	
Balance, beginning of period	$10,833
Expiration of statute	(731)
Addition for tax positions of prior periods	
Reductions for tax positions of prior periods	(4,981)
Balance, March 31, 2008	**$ 5,121**

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, quoted market prices for similar securities, or valuation models.

At March 31, 2008, securities available for sale were $821.5 million, compared to $860.7 million at December 31, 2007. Pretax unrealized net losses on securities available for sale were $9.5 million at March 31, 2008, compared to pretax unrealized net losses of $2.4 million at December 31, 2007. The increase in unrealized losses resulted primarily from an increase in credit spreads among the various types of bond investments, market illiquidity and recession fears. During the first quarter of 2008, proceeds from the maturities, paydowns, and calls of $115.1 million of securities were used to purchase $82.8 million of securities, principally mortgage-backed and U.S. government agency securities.

In March 2008, the Corporation received 51,457 Class B common shares in connection with the Visa IPO, of which 19,894 shares were redeemed as part of Visa s mandatory redemption of its Class B stock. The Corporation recognized a gain of approximately $0.9 million related to this redemption. The Corporation did not recognize any gain on the remaining 31,563 unredeemed Visa Class B common shares and the unconverted Visa Class B common shares are not reflected on the Corporation s consolidated balance sheet at March 31, 2008 as the Corporation has no historical basis in these shares.

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The following table shows the carrying value of (i) U.S. government agency obligations, (ii) mortgage-backed securities, (iii) state, county, and municipal obligations, (iv) asset-backed securities, and (v) equity securities.

Table Nine

Investment Portfolio

(In thousands)	**March 31 2008**	December 31 2007
U.S. government agency obligations	**$ 97,812**	$146,554
Mortgage-backed securities	**580,241**	565,434
State, county, and municipal obligations	**91,981**	92,938
Asset-backed securities	**50,048**	54,229
Equity securities	**1,436**	1,516
Total Securities Available for Sale	**$821,518**	$860,671

The following is a summary of the credit ratings of the Corporation s mortgage-backed securities as of March 31, 2008:

Table Ten

Mortgage-backed Securities

(In thousands)	**Amortized Cost**	**AAA+ to AAA-**	**AA or below**
Government agency mortgages	$437,040	100.0%	%
Prime mortgages	92,339	100.0	
Alt-A mortgages	54,418	100.0	
Subprime mortgages			
Total Mortgage Backed Securities	$583,797	100.0%	%

The following is a summary of the Corporation s state, county and municipal bond credit ratings, considering the effects with and without bond insurance as of March 31, 2008:

Table Eleven

Municipal Bond Obligations

(In thousands)	**With Bond Insurance**		**Without Bond Insurance**	
AAA	$56,510	62.1%	$37,451	41.2%
AA	11,977	13.2	18,899	20.8
A	20,435	22.5	28,104	30.9
BBB	1,715	1.9	2,834	3.1
Below	322	0.3	3,671	4.0
Total Municipal Bond Obligations	$90,959	100.0%	$90,959	100.0%

Industry exposure of the Corporation s asset-backed securities is comprised of 63.9 percent bank, 35.0 percent insurance, and 1.1 percent REIT trust preferred securities. The following is a summary of the components and credit ratings of the Corporation s asset-backed securities as of March 31, 2008:

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Table Twelve
Asset-backed Securities Ratings

(In thousands)	Amortized Cost	A Rated	BBB Rated
Bank only trust preferred securities	$ 5,000	%	100.0%
Insurance only trust preferred securities	10,002	100.0	
REIT only trust preferred securities			
Bank and insurance trust preferred securities	23,744	42.1	57.9
Bank, insurance and REIT trust preferred securities	18,915	52.9	47.1
Total Asset Backed Securities	$57,661	52.0%	48.0%

Loan Portfolio
The Corporation s loan portfolio at March 31, 2008, consisted of six major categories: Commercial Real Estate, Commercial Non Real Estate, Construction, Mortgage, Consumer, and Home Equity. 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 March 31, 2008, the Corporation s total loan portfolio included $232.3 million of loans originated through the strategic partners program and correspondent relationships.
A summary of the loan portfolio follows:
Table Thirteen
Loan Portfolio Composition

(In thousands)	**March 31 2008**	**Percent of Total Loans**	December 31 2007	Percent of Total Loans
Commercial real estate	**$1,058,197**	**30.4%**	$1,073,983	30.7%
Commercial non real estate	**299,555**	**8.6**	308,792	8.8
Construction	**861,967**	**24.8**	871,579	24.9
Mortgage	**587,240**	**16.9**	582,398	16.6
Home equity	**430,781**	**12.4**	413,873	11.8
Consumer	**240,048**	**6.9**	252,382	7.2
Total portfolio loans	**3,477,788**	**100.0%**	3,503,007	100.0%
Allowance for loan losses	**(45,022)**		(42,414)	
Portfolio loans, net	**$3,432,766**		$3,460,593	

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Deposits
A summary of deposits follows:
Table Fourteen
Deposits

(In thousands)	**March 31 2008**	December 31 2007
Noninterest bearing demand	**$ 446,623**	$ 438,313
Interest bearing demand	**510,604**	478,186
Money market accounts	**532,864**	564,053
Savings deposits	**104,615**	101,234
Certificates of deposit	**1,346,172**	1,313,482
Brokered certificates of deposit	**278,461**	326,351
Total deposits	**$3,219,339**	$3,221,619

Deposits totaled $3.2 billion at March 31, 2008 and December 31, 2007. Compared to March 31, 2007, deposits decreased $102.0 million from $3.3 billion, primarily as a result of a decline in money market balances and brokered certificates of deposits, partially offset by an increase in interest bearing demand accounts, certificates of deposit, and savings deposits.

For first quarter 2008, average core deposit balances (demand, money market and savings) decreased $67.5 million, or 4.2 percent, from the fourth quarter 2007. Growth in interest bearing checking of $37.0 million, or 8.4 percent was offset with a seasonal decline in noninterest bearing demand of $32.5 million, or 7.2 percent, driven by businesses holding fewer balances in these accounts. Average money market balances fell $70.5 million, or 11.5 percent, as customer preferences continued to migrate to certificates of deposits from money market deposits. This change in customer preferences is associated with the continued decline in interest rates during the first quarter of 2008. Average certificates of deposit increased $131.8 million, or 10.7 percent while average brokered certificates of deposits decreased $52.3 million, or 14.1 percent. Brokered certificates of deposits were lower due to unfavorable pricing of these deposits relative to other available funding sources.

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 March 31, 2008, the Bank had federal funds back-up lines of credit totaling $648.0 million with $168.0 million outstanding, compared to similar lines of credit totaling $648.0 million with $233.0 million outstanding at December 31, 2007.

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 $114.1 million and $124.8 million at March 31, 2008 and December 31, 2007, 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-term 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 March 31, 2008 was $28.8 million, compared to $64.2 million at December 31, 2007.

Other short-term borrowings consist of the Federal Home Loan Bank (FHLB) borrowings with an original maturity of one year or less. FHLB borrowings are collateralized by securities from the Corporation s investment portfolio and a blanket lien on certain qualifying commercial and single-family loans held in the Corporation s loan portfolio. In addition, the Bank had $220.0 million of short-term FHLB borrowings at March 31, 2008 and December 31, 2007.

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 March 31, 2008, the Bank had $555.8 million of long-term FHLB borrowings, compared to $505.8 million at December 31, 2007. In addition, the Corporation had $61.9 million of subordinated debentures at March 31, 2008 and December 31, 2007.

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.

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 March 31, 2008, the Corporation had a legal lending limit of $70.5 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.

At March 31, 2008, the substantial majority of the total loan portfolio, including the commercial and real estate portfolio, represented loans to borrowers within the Charlotte and Raleigh, North Carolina and Atlanta, Georgia metropolitan regions. 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.

As disclosed in the Corporation s 2007 Form 10-K, 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 March 31, 2008, the Corporation s balance of HomeBanc originated loans was $64.1 million. As of March 31, 2008, seven loans, approximating $2.9 million, were in dispute as a result of the HomeBanc bankruptcy.

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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

The Corporation enters into interest rate swap agreements or other derivative transactions as business conditions warrant. As of March 31, 2008 and December 31, 2007, the Corporation had no interest rate swap agreements or other derivative transactions outstanding.

Nonperforming Assets

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

In management s opinion, for any loan greater than 90 days past due, collection of all principal and interest is not probable. As such, these loans greater than 90 days past due 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 March 31, 2008, no loans were 90 days or more past due and still accruing interest.

A summary of nonperforming assets follows:

Table Fifteen

Nonperforming Assets

(In thousands)	**March 31 2008**	December 31 2007	September 30 2007	June 30 2007	March 31 2007
Nonaccrual loans	**$62,058**	$28,695	$22,712	$17,387	$10,943
Loans 90 days or more past due accruing interest					
Total nonperforming loans	**62,058**	28,695	22,712	17,387	10,943
Other real estate	**9,481**	10,056	9,134	2,726	6,330
Nonperforming assets	**$71,539**	$38,751	$31,846	$20,113	$17,273
Nonaccrual loans as a percentage of total portfolio loans	**1.78%**	0.82%	0.65%	0.49%	0.31%
Nonperforming assets as a percentage of:					
Total assets	**1.49**	0.80	0.66	0.41	0.35
Total portfolio loans and other real estate owned	**2.05**	1.10	0.91	0.57	0.49
Net charge-offs to average portfolio loans	**0.24**	0.36	0.57	0.02	0.06
Allowance for loan losses to portfolio loans	**1.29**	1.21	1.24	1.26	1.02
Allowance for loan losses to net charge-offs	**5.33 x**	3.39 x	2.13 x	59.40 x	18.50 x
	0.73	1.48	1.89	2.58	3.28

Allowance for loan losses to
nonperforming loans

Nonaccrual loans totaled $62.1 million, or 1.78 percent of total portfolio loans, at March 31, 2008. This represents a $33.4 million increase from $28.7 million, or 0.82 percent of total portfolio loans at December 31, 2007, and a $51.2 million increase from $10.9 million, or 0.31 percent, of total portfolio loans at March 31, 2007. Nonperforming assets as a percentage of total loans and other real estate owned increased to 2.05 percent at March 31, 2008, compared to 1.10 percent at December 31, 2007 and 0.49 percent at March 31, 2007.

The linked-quarter increase in nonaccrual loans was primarily driven by four residential condominium loans totaling $24.8 million, three of which were disclosed in the Corporation s 2007 Form 10-K as potential problem loans. These loans are part of the Corporation s strategic partner portfolio which buys and sells portions of loans (primarily originated in the Southeastern region of the United States) from key strategic partner financial institutions and are included in the Corporation s

construction loan portfolio. The remainder of the increase came from loans secured by residential real estate in the Raleigh, Charlotte, and Atlanta markets.
A summary of nonaccrual loans by loan group as of March 31, 2008 follows:
Table Sixteen
Nonaccrual Loans by Group

(In thousands)	Portfolio Loans	Nonaccrual Loans	Nonaccrual Loans/ Portfolio Loans	Nonaccrual Loans/ Total Nonaccruals
Commercial non real estate	$ 299,555	$ 2,498	0.8%	4.0%
Commercial real estate	1,058,197	2,572	0.2	4.1
Construction	861,967	46,314	5.4	74.6
Mortgage	587,240	5,398	0.9	8.7
Home equity	430,781	890	0.2	1.4
Consumer	240,048	4,386	1.8	7.1
Total	**$3,477,788**	**$62,058**	**1.8%**	**100.0%**

There were no other significant geographic or market segment 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 and prospective economic conditions into consideration when estimating the allowance for loans losses. See **Allowance for Loan Losses** for a more detailed discussion.
Allowance for Loan Losses
The Corporation s allowance for loan losses consists of three components: (i) valuation allowances computed on impaired loans in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan an Amendment to FASB Statements No. 5 and No. 15*; (ii) valuation allowances determined by applying historical loss rates to those loans not specifically identified as impaired; and (iii) valuation allowances for factors which management believes are not reflected in the historical loss rates or that otherwise need to be considered when estimating the allowance for loan losses. These three components are estimated at least 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.
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 quarter ended March 31, 2008.

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

The Corporation also monitors the amount of operational risk that exists in the portfolio. This would include the front-end underwriting, documentation and closing processes associated with the lending decision. During the quarter ended March 31, 2008, the Corporation increased its allocation for operational risk factors due to increased portfolio risks associated with areas exposed to residential real estate development and heightened potential employee attrition risks associated with the proposed merger with Fifth Third.

Changes in the allowance for loan losses follow:

Table Seventeen

Allowance For Loan Losses

	Three Months Ended March 31	
(In thousands)	**2008**	2007
Balance at beginning of period	**$ 42,414**	$ 34,966
Charge-offs		
Commercial non real estate	**39**	246
Commercial real estate	**11**	12
Construction	**55**	
Mortgage	**109**	33
Home equity	**142**	130
Consumer	**2,102**	365
Total charge-offs	**2,458**	786
Recoveries		
Commercial non real estate	**47**	88
Commercial real estate	**52**	
Construction	**2**	
Mortgage	**3**	25
Consumer	**255**	195
Total recoveries	**359**	308
Net charge-offs	**2,099**	478
Provision for loan losses	**4,707**	1,366
Balance at end of period	**$ 45,022**	$ 35,854
Average portfolio loans	**$3,491,712**	$3,510,437
Net charge-offs to average portfolio loans (annualized)	**0.24%**	0.06%
Allowance for loan losses to portfolio loans	**1.29**	1.02

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 $45.0 million, or 1.29 percent of portfolio loans, at March 31, 2008, compared to $42.4 million, or 1.21 percent of portfolio loans, at December 31, 2007. The Corporation s credit migration trends and an increase in economic and operational risk factors led to the higher allowance for loan loss ratio in 2008. 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, operational risks, and model risk. 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 $0.6 million for the three months ended March 31, 2008. The net change in the 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 the three months ended March 31, 2008, the provision for loan losses was $4.7 million, while net charge-offs were $2.1 million, or 0.24 percent of average portfolio loans. For the three months ended March 31, 2007, the provision for loan losses was $1.4 million and net charge-offs were $0.5 million, or 0.06 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 March 31, 2008 and December 31, 2007.

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 March 31, 2008, the estimated EAR to a 200 basis point increase in rates was plus 3.3 percent while the estimated EAR to a 200 basis point decrease in rates was minus 4.6 percent. This compares with plus 2.1 percent and minus 4.7 percent, respectively, at December 31, 2007.

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 March 31, 2008, the estimated change in EVE to a 200 basis point increase in rates was minus 6.7 percent, while the estimated change in EVE to a 200 basis point decrease in rates was minus 3.6 percent. This compares with minus 10.9 percent and plus 0.3 percent, respectively at December 31, 2007. The variation in EVE risk from December 31, 2007 to March 31, 2008 is primarily attributable to the sharp decline in rates.

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

Table Eighteen summarizes, as of March 31, 2008, 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 Eighteen** 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 March 31, 2008. These expected maturities, weighted-average effective yields, and fair values would change if interest rates change. Expected maturities for indeterminate demand, money market and savings deposits are estimated based on historical average lives.

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Table Eighteen
Market Risk

(Dollars in thousands)	Total	1 Year	2 Years	Expected Maturity 3 Years	4 Years	5 Years	Thereafter
Assets							
Debt securities							
Fixed rate							
Cost	$ 526,565	$ 241,927	$108,189	$ 73,876	$ 45,457	$28,080	$ 29,036
Weighted-average effective yield	4.77%						
Fair value	$ 523,477						
Variable rate							
Cost	$ 304,471	55,779	45,509	35,904	26,239	20,538	120,502
Weighted-average effective yield	4.91%						
Fair value	$ 298,041						
Loans and loans held for sale							
Fixed rate							
Book value	$1,025,009	343,149	228,139	170,370	98,408	93,006	91,937
Weighted-average effective yield	6.79%						
Fair value	$1,062,895						
Variable rate							
Book value	$2,425,301	1,286,405	276,252	187,282	101,463	76,327	497,572
Weighted-average effective yield	5.83%						
Fair value	$2,458,280						
Liabilities							
Deposits							
Fixed rate							
Book value	$1,624,633	1,557,179	42,616	14,098	3,963	5,330	1,447
Weighted-average effective yield	4.36%						
Fair value	$1,638,937						
Variable rate							
Book value	$1,148,083	277,025	276,774	276,496	136,268	84,919	96,601
Weighted-average effective yield	1.71%						
Fair value	$1,110,896						
Long-term borrowings							
Fixed rate							
Book value	$ 195,855	70,054	75,057	50,070	21	22	631
Weighted-average effective yield	4.79%						

Fair value	$ 199,075						
Variable rate							
Book value	$ 421,857	120,000	165,000	75,000			61,857
Weighted-average effective yield	4.18%						
Fair value	$ 429,609						

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 $83.6 million to cover customer deposit account overdrafts should they occur. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Standby letters of credit are recorded as a liability by the Corporation at the fair value of the obligation undertaken in issuing the guarantee. Commitments to extend credit are not recorded as an asset or liability by the Corporation until the instrument is exercised. Refer to **Note 14** 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 10** of the consolidated financial statements.

The following table presents aggregated information and expected maturities of commitments as of March 31, 2008.
Table Nineteen
Commitments

(In thousands)	Less than 1 year	1-3 Years	4-5 Years	Over 5 Years	Timing not determinable	Total
Loan commitments	$570,313	$113,946	$16,922	$ 95,381	$	$ 796,562
Lines of credit	28,597	1,202	4,957	455,497		490,253
Standby letters of credit	23,016	2,849	4			25,869
Anticipated tax settlements					5,172	5,172
Total commitments	$621,926	$117,997	$21,883	$550,878	$ 5,172	$1,317,856

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 $28.8 million at March 31, 2008. 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 March 31, 2008, the Bank had an available line of credit with the FHLB totaling $1.5 billion, with $775.9 million outstanding. At March 31, 2008, the Bank also had $648.0 million of federal funds lines of credit, with $168.0 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.

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Capital Management

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

	March 31 2008		December 31 2007	
(Dollars in thousands)	**Amount**	**Ratio**	Amount	Ratio
Total equity/total assets				
First Charter Corporation	**$463,526**	**9.66%**	$468,344	9.63%
First Charter Bank	**501,540**	**10.48**	499,322	10.30
Tangible equity/tangible assets [1]				
First Charter Corporation	**$380,927**	**8.08%**	$385,473	8.07%
First Charter Bank	**418,941**	**8.90**	416,450	8.74

[1] *The tangible equity ratio excludes goodwill and other intangible assets from both the numerator and the denominator.*
Shareholders equity at March 31, 2008 decreased to $463.5 million, representing 9.7 percent of period-end total assets, compared to $468.3 million, or 9.6 percent, of period-end total assets at December 31, 2007. This decrease in shareholders equity resulted from a $0.7 million adjustment to initially apply EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements,* and cash dividends of $0.195 per common share, which resulted in cash dividend declarations of $6.9 million for the three months ended March 31, 2008. Additionally, accumulated other comprehensive loss (after-tax unrealized losses on available-for-sale securities) decreased $4.4 million to $5.8 million at March 31, 2008, compared to $1.4 million at December 31, 2007. This was partially offset with net income of $5.5 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 March 31, 2008 the Corporation and the Bank were classified as well capitalized under these regulatory frameworks.

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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 15** 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.

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 15** of notes to consolidated financial statements for additional discussion of these requirements.

At March 31, 2008, 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 March 31, 2008, 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 March 31, 2008:

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	**$446,672**	**9.44%**	**$189,249**	**4.00%**	**None**	**None**
First Charter Bank	**424,710**	**8.99**	**189,030**	**4.00**	**$236,288**	**5.00%**
Tier I Capital						
First Charter Corporation	**$446,672**	**11.25%**	**$158,878**	**4.00%**	**None**	**None**
First Charter Bank	**424,710**	**10.71**	**158,620**	**4.00**	**$237,930**	**6.00%**
Total Risk-Based Capital						
First Charter Corporation	**$491,728**	**12.38%**	**$317,757**	**8.00%**	**None**	**None**
First Charter Bank	**469,732**	**11.85**	**317,240**	**8.00**	**$396,550**	**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

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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.

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

Note 2 to the consolidated financial statements discusses new accounting pronouncements adopted by the Corporation during 2008 and other recently issued pronouncements that have not yet been adopted by the Corporation. To the extent the adoption of new accounting pronouncements materially affects financial condition, results of operations, or liquidity, the effects are discussed in the applicable section of **Management s Discussion and Analysis of Financial Condition and Results of Operations** and **Notes to Consolidated Financial Statements.**

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See **Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk Management Asset-Liability Management and Interest Rate Risk** sections of this Report on Form 10-Q for Quantitative and Qualitative Disclosures about Market Risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of March 31, 2008, the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation of the effectiveness of the Registrant s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was performed under the supervision and with the participation of the Registrant s management, including the Chief Executive Officer and principal financial officer. Based on that evaluation, the

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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.

Changes in Internal Control Over Financial Reporting

During the Registrant s first fiscal quarter, there has been no change in the Registrant s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. 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 1A. Risk Factors

There have been no material changes from those risk factors previously disclosed in **Item 1A Risk Factors** of Part I of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

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

(c) Issuer Repurchases of Equity Securities

The following table summarizes the Corporation s repurchases of its common stock during the quarter ended March 31, 2008.

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
January 1, 2008 - January 31, 2008				1,125,400
February 1, 2008 - February 29, 2008				1,125,400
March 1, 2008 - March 31, 2008				1,125,400
Total				**1,125,400**

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 March 31, 2008, the Corporation had repurchased 374,600 shares under this authorization.

There were no shares of the Corporation s common stock repurchased during the three months ended March 31, 2008. The maximum number of shares that may yet be repurchased under the plans or programs was 1,125,400 at March 31, 2008. The 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.

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Item 3. Defaults Upon Senior Securities

Not applicable.

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

(a) First Charter Corporation s Special Meeting of Shareholders was held on January 18, 2008.

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

1. To approve the merger of First Charter with and into Fifth Third Financial Corporation, substantially on the terms set forth in the Amended and Restated Agreement and Plan of Merger dated as of September 14, 2007 by and among First Charter, Fifth Third Bancorp and Fifth Third Financial Corporation.

	Votes
For	**29,519,980**
Against	**202,324**
Abstain	**68,223**
Total	**29,790,527**

2. To approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.

	Votes
For	**29,117,289**
Against	**542,115**
Abstain	**131,123**
Total	**29,790,527**

Item 5. Other Information

As discussed within this Form 10-Q, on August 15, 2007 the Corporation and Fifth Third entered into the Merger Agreement by and among the Corporation, Fifth Third, and Fifth Third Financial. Under the terms of the Merger Agreement, the Corporation will be merged with and into Fifth Third Financial. The Merger Agreement has been approved by the Board of Directors of the Corporation, Fifth Third, and Fifth Third Financial. The Corporation s shareholders approved the Merger Agreement and the merger has been approved by all necessary state and federal regulatory agencies. The merger remains subject to customary closing conditions. The merger is currently anticipated to close on Friday, June 6, 2008. Pursuant to this plan, the Corporation does not intend to hold a 2008 annual meeting of shareholders. If First Charter were to schedule an annual meeting of shareholders, First Charter will provide notice of the date fixed for the annual meeting, as well as the deadline for submitting proposals for such meeting and have shareholder proposals included in the Corporation s proxy statement.

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Item 6. Exhibits

Exhibit No.	Description of Exhibits
12.1	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of 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.

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SIGNATURE

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

FIRST CHARTER CORPORATION
(Registrant)

Date: May 6, 2008

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