FIRST CHARTER CORP /NC/
Form 10-Q
August 09, 2001

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

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

Commission File Number 0-15829

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

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

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

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

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

As of August 9, 2001 the Registrant had outstanding 31,221,374 shares of Common Stock, no par value.

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FIRST CHARTER CORPORATION

JUNE 30, 2001 FORM 10-Q

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FIRST CHARTER CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

JUNE 30, 2001

(Dollars in thousands, except share data)	(UNAUDITED)
ASSETS:	
Cash and due from banks	$ 75,696
Federal funds sold	902
Interest bearing bank deposits	4,439
Cash and cash equivalents	81,037
Securities available for sale (cost of $924,942 at June 30, 2001 and $437,684 at December 31, 2000; carrying amount of pledged collateral at June 30, 2001, $146,768)	939,993
Loans	1,969,887
Less: Unearned income	(222)
Allowance for loan losses	(28,049)
Loans, net	1,941,616
Premises and equipment, net	97,270
Other assets	79,073
TOTAL ASSETS	$3,138,989
LIABILITIES:	
Deposits, domestic:	
Noninterest bearing demand	$ 257,443
Interest bearing	1,861,584
Total deposits	2,119,027
Other borrowings	643,483
Other liabilities	52,375
TOTAL LIABILITIES	2,814,885
SHAREHOLDERS' EQUITY:	
Preferred stock - no par value; authorized 2,000,000 shares; no shares issued and outstanding	--
Common stock - no par value; authorized 100,000,000 shares; issued and outstanding 31,721,374 and 31,601,263 shares	152,869
Retained earnings	162,057
Accumulated other comprehensive income:	
Unrealized gains on securities available for sale, net	9,178
TOTAL SHAREHOLDERS' EQUITY	324,104
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,138,989

See accompanying notes to consolidated financial statements.

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FIRST CHARTER CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except share and per share data)	FOR THE THREE MONTHS ENDED JUNE 30, 2001	2000
INTEREST INCOME:		
Loans	$ 40,496	$ 45,066
Federal funds sold	15	135
Interest bearing bank deposits	81	32
Securities	14,799	8,009
Total interest income	55,391	53,242
INTEREST EXPENSE:		
Deposits	20,638	17,413
Federal funds purchased and securities sold under agreements to repurchase	1,509	1,807
Federal Home Loan Bank and other borrowings	6,896	6,979
Total interest expense	29,043	26,199
NET INTEREST INCOME	26,348	27,043
PROVISION FOR LOAN LOSSES	1,190	1,370
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,158	25,673
NONINTEREST INCOME:		
Service charges on deposit accounts	3,383	3,091
Financial management income	640	698
Gain on sale of securities	282	260
Income (loss) from equity method investees	(102)	446
Mortgage loan fees	749	101
Brokerage services income	520	366
Insurance services income	1,865	1,744
Other	1,477	1,208
Total noninterest income	8,814	7,914
NONINTEREST EXPENSE:		
Salaries and employee benefits	10,659	10,433
Occupancy and equipment	3,799	3,171
Data processing	759	864
Advertising	552	684
Postage and supplies	1,136	1,174
Professional services	1,418	732
Telephone	347	336
Restructuring charges and merger-related	--	16,250
Other	2,208	2,026
Total noninterest expense	20,878	35,670
INCOME (LOSS) BEFORE INCOME TAXES	13,094	(2,083)
INCOME TAXES	4,223	681

NET INCOME (LOSS)	$ 8,871	$ (2,764)
NET INCOME (LOSS) PER SHARE:		
Basic	$ 0.28	$ (0.09)
Diluted	$ 0.28	$ (0.09)
WEIGHTED AVERAGE SHARES:		
Basic	31,719,241	31,402,488
Diluted	31,906,705	31,584,528

See accompanying notes to consolidated financial statements.

FIRST CHARTER CORPORATION AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
(Unaudited)

	COMMON STOCK			ACCUMULATED OTHER
(Dollars in thousands, except share data)	SHARES	AMOUNT	RETAINED EARNINGS	COMPREHENSIVE INCOME (LOSS
BALANCE, DECEMBER 31, 1999	31,100,310	$ 146,438	$ 151,215	$(7,385)
Comprehensive income:				
Net income	--	--	5,805	--
Unrealized loss on securities available for sale, net	--	--	--	(1,374)
Total comprehensive income				
Cash dividends	--	--	(8,720)	--
Stock options exercised and Dividend Reinvestment Plan stock issued	189,426	737	--	--
Shares issued in connection with business acquisition	122,263	2,025	--	--
Purchase and retirement of common stock	(2,730)	(26)	--	--
BALANCE, JUNE 30, 2000	31,409,269	$ 149,174	$ 148,300	$(8,759)
BALANCE, DECEMBER 31, 2000	31,601,263	151,486	155,762	2,039
Comprehensive income:				
Net income	--	--	17,715	--
Unrealized gain on securities available for sale, net	--	--	--	7,139
Total comprehensive income				
Cash dividends	--	--	(11,420)	--
Stock options exercised and Dividend Reinvestment Plan stock issued	127,111	1,495	--	--
Purchase and retirement of common stock	(7,000)	(112)	--	--

Balance, June 30, 2001	31,721,374	$ 152,869	$ 162,057	$ 9,178

See accompanying notes to consolidated financial statements.

FIRST CHARTER CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	2
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 1
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	
Depreciation	
Premium amortization and discount accretion, net	
Net gain on securities available for sale transactions	
Net gain on sale of other real estate	
Net loss on sale of mortgage loans	
Net loss on sale of premises and equipment	
Origination of mortgage loans held for sale	(9
Proceeds from sale of mortgage loans held for sale	8
Decrease (increase) in other assets	
(Decrease) increase in other liabilities	(
Net cash provided by operating activities	1
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales of securities available for sale	6
Proceeds from maturities of securities available for sale	10
Purchase of securities available for sale	(49
Proceeds from issuer calls and maturities of securities held to maturity	
Net decrease (increase) in loans	2
Proceeds from sales of other real estate	
Net purchases of premises and equipment	(2
Net cash used in investing activities	(31
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase (decrease) in demand, money market and savings accounts	2
Net increase in certificates of deposit	9
Net increase in securities sold under repurchase agreements and other borrowings	7
Purchase and retirement of common stock	
Proceeds from issuance of common stock	

Dividends paid	(1
Net cash provided by financing activities	18
Net decrease in cash and cash equivalents	(11
Cash and cash equivalents at beginning of period	19
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 2
Cash paid for income taxes	
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:	
Transfer of loans and premises and equipment to other real estate owned	(
Unrealized gain on securities available for sale (net of tax effect of $2,784 and $(529) for the six months ended June 30, 2001 and 2000, respectively)	
Issuance of common stock for business acquisitions	
Loans securitized and retained in the available for sale portfolio	16
Transfer of loans in portfolio to held for sale	
Transfer of securities held to maturity to available for sale	

See accompanying notes to consolidated financial statements.

FIRST CHARTER CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE ONE - ACCOUNTING POLICIES

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

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

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

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

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

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

NOTE TWO - NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the periods presented. Diluted net income per share reflects the potential dilution that could occur if all of the currently outstanding stock options on the Corporation's common stock are fully exercised. The numerators of the basic net income per share computations are the same as the numerators of the diluted net

income per share computations for all periods presented. A reconciliation of the denominator of the basic net income per share computations to the denominator of the diluted net income per share computations is as follows:

	THREE MONTHS ENDED JUNE 30		SI END
	2001	2000	2001
Basic net income per share denominator:			
Weighted average number of common shares outstanding	31,719,241	31,402,488	31,708,003
Dilutive effect arising from assumed exercise of stock options	187,464	182,040	162,131
Diluted net income per share denominator	31,906,705	31,584,528	31,870,134

The Corporation paid cash dividends of $0.18 and $0.36 per share for the three and six months ended June 30, 2001, respectively, compared to $0.17 and $0.34 per share for the comparable 2000 periods.

NOTE THREE - MERGERS AND ACQUISITIONS

(a) Business Insurers of Guilford County. On September 1, 2000, Business Insurers of Guilford County ("Business Insurers") was merged into First Charter Insurance Services. As a result of this merger, approximately 283,000 shares of the Corporation's common stock were issued. This merger was accounted for as a pooling of interests, and accordingly all financial results for prior periods have been restated to include the financial results of both entities. In connection with the Business Insurers merger, the Corporation recorded pre-tax restructuring charges and merger-related expenses of approximately $575,000 ($425,000 after-tax), all of which had been incurred at June 30, 2001.

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

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

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

(Dollars in thousands)	Total Restructuring Charges and Merger-Related Expenses	Incurred through June 30, 2001	Remaining accrual at June 30, 2001
Professional costs	$ 3,907	$ 3,907	$ --
Employee related costs	5,336	4,112	1,224
Equipment writedowns	4,125	4,125	--
Conversion costs	1,114	1,114	--
Lease buyouts	909	695	214
Printing and filing fees	187	187	--
Other	672	672	--
Total	$ 16,250	$ 14,812	$ 1,438

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

NOTE FOUR - IMPAIRED LOANS

The recorded investment in impaired loans was $17.7 million (all of which was on nonaccrual status) at both June 30, 2001 and December 31, 2000. The related allowance for loan losses on impaired loans was $4.2 million and $4.7 million at June 30, 2001 and December 31, 2000, respectively. The average recorded investment in impaired loans for the six months ended June 30, 2001 and 2000 was $18.6 million and $11.7 million, respectively.

NOTE FIVE - STOCK REPURCHASE PROGRAM

On April 27, 2001, First Charter Corporation's Board of Directors authorized the repurchase of up to 1 million shares of the Corporation's common stock. Through June 30, 2001, the Corporations had repurchased 7,000 shares of its common stock at an average per-share price of $16.07, which reduced shareholder's equity by $112,490.

NOTE SIX - CONVERSION TO STATE CHARTER BANK

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

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, as restated to reflect the Corporation's various mergers.

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

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

OVERVIEW

The Corporation is a regional financial services company with assets of $3.14 billion and is the holding company for First Charter Bank ("FCB"). On June 22, 2001, First Charter's banking subsidiary completed its conversion from a national bank to First Charter Bank, a North Carolina state bank. That change was completed after a cost benefit analysis of supervisory regulatory charges and does not represent any disagreement with the Company's former regulators. The bank will continue to operate its financial center network franchise under the "First Charter" brand name. FCB operates 52 financial centers, five insurance offices and 99 ATMs located in 17 counties throughout the western half of North Carolina. FCB provides businesses and individuals with a broad range of financial services, including banking, comprehensive financial planning, funds management, investments, insurance, mortgages and a full array of employee benefit programs.

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

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

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Net income amounted to $8.9 million, or $0.28 per diluted common share, for the three months ended June 30, 2001, compared to a net loss of $2.8 million, or $0.09 net loss per diluted common share, for the three months ended June 30, 2000, representing an increase in net income of $11.7 million. The increase in net income is primarily attributable to restructuring charges and merger-related expenses of $16.3 million pre-tax ($12.3 million, or $0.39 per diluted share after-tax) which occurred during the three months ended June 30, 2000.

Net income amounted to $17.7 million, or $0.56 per diluted common share, for the six months ended June 30, 2001, compared to $5.8 million, or $0.18 per diluted common share, for the six months ended June 30, 2000, representing an increase in net income of $11.9 million. The increase in net income is primarily attributable to restructuring charges and merger-related expenses of $16.3 million pre-tax ($12.3 million, or $0.39 per diluted share after-tax) which occurred during the three months ended June 30, 2000. The items affecting net income are discussed further in the following sections.

TABLE ONE
SELECTED FINANCIAL DATA

(Dollars in thousands, except share and per share data)	FOR THE THREE MONTHS ENDED JUNE 30, 2001	2000	2
INCOME STATEMENT			
Interest income	$ 55,391	$ 53,242	$ 1
Interest expense	29,043	26,199	
Net interest income	26,348	27,043	
Provision for loan losses	1,190	1,370	
Noninterest income	8,814	7,914	
Noninterest expense	20,878	35,670	
Income (loss) before income taxes	13,094	(2,083)	
Income taxes	4,223	681	
Net income (loss)	$ 8,871	$ (2,764)	$

PER COMMON SHARE

Basic net income (loss)	$ 0.28	$ (0.09)	$
Diluted net income (loss)	0.28	(0.09)	$
Cash dividends declared (1)	0.18	0.17	
Period-end book value	10.22	9.19	
Average shares outstanding - basic	31,719,241	31,402,488	31,7
Average shares outstanding - diluted	31,906,705	31,584,528	31,8
RATIOS			
Return on average shareholders' equity (2)	11.12%	(3.67)%	
Return on average assets (2)	1.15	(0.40)	
Net interest margin (2)	3.73	4.29	
Average loans to average deposits	95.50	111.69	
Average equity to average assets	10.33	10.93	
Efficiency ratio (3)	59.05	101.37	
SELECTED PERIOD END BALANCES			
Securities available for sale	$ 939,993	$ 500,310	$ 9
Loans, net	1,941,616	2,062,674	1,9
Allowance for loan losses	28,049	26,700	
Total assets	3,138,989	2,788,426	3,1
Deposits	2,119,027	1,870,958	2,1
Borrowings	643,483	584,144	6
Total liabilities	2,814,885	2,499,711	2,8
Total shareholders' equity	324,104	288,715	3

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

NET INTEREST INCOME

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

Net interest income, the difference between total interest income and total interest expense, is the Corporation's principal source of earnings. Net interest income amounted to $26.3 million and $51.7 million for the three and six months ended June 30, 2001, respectively, a decrease of $0.7 million and $2.4 million as compared to the same periods in 2000. These decreases were the result of a variety of factors, including reduced loan demand and a compressed net interest margin resulting from the slowing economy; several large loan payoffs; and our increased selectivity in seeking new opportunities in this economic environment.

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Average interest earning assets increased approximately $299.2 million to $2.88 billion for the second quarter of 2001 and $228.8 million to $2.78 billion in the first six months of 2001, compared to the same 2000 periods. This increase is primarily due to a $234.8 million and a $116.8 million increase in the Corporation's average securities available for sale portfolio for the three and six months ended June 30, 2001, respectively, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001. The increase was primarily due to the net purchase of approximately $63.6

million and $331.6 million in securities available for sale for the three and six months ended June 30, 2001, respectively. Average interest earning assets also increased due to growth in the Corporation's average loan portfolio, which increased $66.3 million and $110.5 million for the three and six months ended June 30, 2001, respectively, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001. The decrease in average yield on interest earning assets to 7.77 percent and 8.00 percent for the three and six months ended June 30, 2001, respectively, compared to 8.37 percent and 8.34 percent for the same 2000 periods, resulted principally from the decrease in the average prime rate during 2001 to 7.34 percent and 8.01 percent for the three and six months ended June 30, 2001, respectively, from 9.25 percent and 8.95 percent for the three and six months ended June 30, 2000, respectively. The decrease in the average prime rate is attributable to the Federal Reserve's 275 basis point decrease in the fed funds rate during the first six months of 2001. The average yield earned on loans was 8.28 percent and 8.50 percent for the three and six months ended June 30, 2001, respectively, compared to 8.78 percent and 8.77 percent for the same 2000 periods.

In addition to the increase in average interest earning assets, the Corporation experienced an increase in average interest-bearing liabilities of $287.7 million to $2.48 billion in the second quarter of 2001 and an increase of $217.9 million to $2.39 billion in the first six months of 2001, due to the use of Federal Home Loan Bank ("FHLB") advances and increases in deposits to fund securities purchases. The average rate paid on interest bearing liabilities decreased to 4.69 percent for the three months ended June 30, 2001 compared to 4.80 percent in the same 2000 period, primarily due to a decline in the average rate of borrowings. The average rate paid on interest bearing liabilities increased to 4.88 percent for the six months ended June 30, 2001 compared to 4.71 percent during the same 2000 period, primarily due to a shift in the deposit mix partially offset by a decline in the average rate of borrowings. The average rate paid on interest-bearing deposits was 4.56 percent and 4.74 percent for the three and six months ended June 30, 2001, respectively, up from 4.36 percent and 4.31 percent in the same 2000 periods. The rate paid on other borrowed funds decreased to 5.03 percent and 5.27 percent for the three and six months ended June 30, 2001, respectively, compared to 6.00 percent and 5.82 percent in the same 2000 periods.

The net interest margin (tax adjusted net interest income divided by average interest-earning assets) decreased 56 basis points to 3.73 percent and 53 basis points to 3.81 percent for the three and six months ended June 30, 2001, respectively, compared to 4.29 percent and 4.34 percent in the same 2000 periods. This reflects the impact of higher levels of borrowings and competitive forces related to loan and deposit pricing. Management believes that further compression of the net interest margin will continue at least through the third quarter of 2001.

Management assesses interest rate risk based on an earnings simulation model. Based on the earnings simulation model, the Corporation's balance sheet is currently asset sensitive, meaning that in a given period there will be more assets than liabilities subject to immediate repricing as market rates change. Assuming a 300 basis point pro-rata increase in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would positively impact net interest income by approximately 2.62 percent of net interest income at June 30, 2001. Assuming a 300 basis point pro-rata decrease in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would negatively impact net interest income by approximately 1.99 percent of net interest income at June 30, 2001. Both scenarios are within Management's acceptable range. In the future, the Corporation is considering the limited use of interest rate swaps, caps, floors or other derivative products to assist in interest rate risk management.

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

TABLE TWO
AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	SECOND QUARTER 2001			
(Dollars in thousands)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/RATE PAID(5)	Averag Balanc
INTEREST EARNING ASSETS:				
Loans(1)(2)(3)	$1,968,304	$40,609	8.28%	$2,068,
Securities - taxable	816,135	13,754	6.74	410,
Securities - nontaxable	88,623	1,411	6.37	92,
Federal funds sold	1,306	15	4.74	7,
Interest bearing bank deposits	7,261	81	4.46	2,
Total earning assets(4)	2,881,629	55,870	7.77	2,582,
Cash and due from banks	64,110			73,
Other assets	152,859			119,
TOTAL ASSETS	$3,098,598			$2,775,
INTEREST BEARING LIABILITIES:				
Demand deposits	507,959	2,854	2.25	503,
Savings deposits	117,371	524	1.79	166,
Other time deposits	1,189,026	17,260	5.82	936,
Other borrowings	670,248	8,405	5.03	589,
Total interest bearing liabilities	2,484,604	29,043	4.69	2,196,
Noninterest bearing sources:				
Noninterest bearing deposits	246,641			244,
Other liabilities	47,385			30,
Shareholders' equity	319,968			303,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,098,598			$2,775,
Net interest spread			3.08	
Impact of noninterest bearing sources			0.65	
NET INTEREST INCOME AND MARGIN		$26,827	3.73%	

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

nonaccruing loans and only income actually collected on such loans.

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

(3) Includes amortization of deferred loan fees of approximately $748 and $1,104 for the second quarter of 2001 and 2000, respectively.

(4) Yields on nontaxable securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent, applicable state taxes and TEFRA disallowances for the second quarter of 2001 and 2000. The adjustments made to convert to a taxable-equivalent basis were $479 and $490 for the second quarter of 2001 and 2000, respectively.

(5) Annualized

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14

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

TABLE THREE
AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	SIX MONTHS ENDED JUN			
	2001			
(Dollars in thousands)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/RATE PAID(5)	Avera Balan
INTEREST EARNING ASSETS:				
Loans(1)(2)(3)	$2,005,554	$84,540	8.50%	$2,033
Securities - taxable	673,017	22,731	6.76	414
Securities - nontaxable	90,408	2,883	6.38	94
Federal funds sold	1,592	46	5.79	6
Interest bearing bank deposits	9,028	237	5.29	2
Total earning assets(4)	2,779,599	110,437	8.00	2,550
Cash and due from banks	65,880			71
Other assets	146,762			106
TOTAL ASSETS	$2,992,241			$2,729
INTEREST BEARING LIABILITIES:				
Demand deposits	498,522	5,977	2.42	536
Savings deposits	118,112	1,114	1.90	133
Other time deposits	1,158,446	34,676	6.04	926
Other borrowings	610,852	15,967	5.27	571
Total interest bearing liabilities	2,385,932	57,734	4.88	2,168

Noninterest bearing sources:				
Noninterest bearing deposits	242,163			239
Other liabilities	47,602			22
Shareholders' equity	316,544			298
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,992,241			$2,729
Net interest spread			3.12	
Impact of noninterest bearing sources			0.69	
NET INTEREST INCOME AND MARGIN		$52,703	3.81%	

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

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

(3) Includes amortization of deferred loan fees of approximately $1,428 and $1,982 for the six months ended June 30, 2001 and 2000, respectively.

(4) Yields on nontaxable securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent, applicable state taxes and TEFRA disallowances for the first six months of 2001 and 2000. The adjustments made to convert to a taxable-equivalent basis were $976 and $931 for the six months ended June 30, 2001 and 2000, respectively.

(5) Annualized

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

TABLE FOUR
VOLUME AND RATE VARIANCE ANALYSIS

	THREE MONTHS ENDED JUNE 30			
		INCREASE (DECREASE) DUE TO CHANGE IN(1)		
(Dollars in thousands)	2000 INCOME/ EXPENSE	RATE	VOLUME	IN EX
INTEREST INCOME:				
Loans	$ 45,176	$ (2,430)	$ (2,137)	$
Securities - taxable	6,924	(19)	6,849	
Securities - nontaxable	1,465	13	(67)	
Federal funds sold	135	(24)	(96)	

Interest bearing bank deposits	32	(7)	56	
TOTAL INTEREST INCOME	$ 53,732	$ (2,467)	$ 4,605	$
INTEREST EXPENSE:				
Demand deposits	$ 3,176	$ (346)	$ 24	$
Savings deposits	1,020	(234)	(262)	
Other time deposits	13,218	434	3,608	
Other borrowings	8,785	(1,490)	1,110	
TOTAL INTEREST EXPENSE	26,199	(1,636)	4,480	
NET INTEREST INCOME	$ 27,533	$ (831)	$ 125	$

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

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

TABLE FIVE
VOLUME AND RATE VARIANCE ANALYSIS

	SIX MONTHS ENDED JUNE 30			
		INCREASE (DECREASE) DUE TO CHANGE IN (1)		
(Dollars in thousands)	2000 INCOME/ EXPENSE	RATE	VOLUME	IN EX
INTEREST INCOME:				
Loans	$ 88,655	$ (2,920)	$ (1,195)	$
Securities - taxable	13,982	9	8,740	
Securities - nontaxable	2,880	117	(114)	
Federal funds sold	218	(23)	(149)	
Interest bearing bank deposits	76	(5)	166	
TOTAL INTEREST INCOME	$105,811	$ (2,822)	$ 7,448	$1
INTEREST EXPENSE:				
Demand deposits	$ 6,446	$ 9	$ (478)	$
Savings deposits	2,203	889	(1,978)	
Other time deposits	25,616	(2,386)	11,446	
Other borrowings	16,533	1,661	(2,227)	
TOTAL INTEREST EXPENSE	50,798	173	6,763	
NET INTEREST INCOME	$ 55,013	$ (2,995)	$ 685	$

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

PROVISION FOR LOAN LOSSES

The provision for loan losses for the three and six months ended June 30, 2001 amounted to $1.2 million and $1.9 million, respectively, compared to $1.4 million and $3.3 million for the comparable 2000 periods. The decrease in the provision for loan losses was due to lower loan growth in 2001, the effect of which was partially offset by higher net charge-offs. Gross loans decreased $20.7 million during the six months ended June 30, 2001, excluding the $167.0 million loan securitization, compared to an increase in gross loans of $121.5 million during the comparable 2000 period.

Net charge-offs were $1.2 million or 0.24 percent of average loans and $1.9 million or 0.19 percent of average loans for the three and six months ended June 30, 2001, respectively, compared to $0.5 million or 0.10 percent of average loans and $1.5 million or 0.15 percent of average loans for the comparable 2000 periods. The increase in net charge-offs was primarily due to the effects of slower economic growth on certain customers within the portfolio.

NONINTEREST INCOME

Noninterest income increased 11 percent and 13 percent to $8.8 million and $17.2 million for the three and six months ended June 30, 2001, respectively, compared to $7.9 million and $15.2 million for the comparable 2000 periods. This increase was driven primarily by a 9.4 percent and an 11.7 percent increase in service charge income on deposit accounts for the three months and six months ended June 30, 2001 compared to the same 2000 periods, which was due to re-pricing opportunities resulting from the acquisition of Carolina First. In addition, the declining rate environment has increased mortgage origination volume. This has resulted in additional loan sales to the secondary market and correspondingly greater fee income. Growth of First Charter Insurance Services and financial management income also increased noninterest income.

NONINTEREST EXPENSE

Noninterest expense decreased 42 percent and 26 percent to $20.9 million and $40.9 million for the three and six months ended June 30, 2001, respectively, compared to $35.7 million and $55.5 million for the comparable 2000 periods. These decreases were attributable to the restructuring charges and merger-related expenses of $16.3 million during the quarter ended June 30, 2000, associated with the acquisition of Carolina First, and a decrease in salaries and employee benefits expenses during 2001 due to synergies realized as part of the Carolina First acquisition. These decreases were partially offset during 2001 by the additional operating costs associated with the four financial centers acquired during the fourth quarter of 2000 and an increase in occupancy and equipment expense as a result of the move into the new First Charter Center.

INCOME TAXES

Total income tax expense for the three and six months ended June 30, 2001 was $4.2 million and $8.4 million, respectively, compared to $0.7 million and $4.6 million for the same periods in 2000. The increase was attributable to an increase in taxable income. The increase in tax expense, however, was not proportionate with the increase in income because portions of the restructuring

charges and merger-related expenses in 2000 were not deductible. This created a decrease in the effective tax rate to 32.1 percent for the six months ended June 30, 2001 from 44.3 percent for the six months ended June 30, 2000.

FINANCIAL CONDITION

SUMMARY

Total assets at June 30, 2001 amounted to $3.14 billion, compared to $2.93 billion at December 31, 2000 and $2.79 billion at June 30, 2000. Net loans at June 30, 2001 amounted to $1.94 billion, compared to $2.13 billion at December 31, 2000 and $2.06 billion at June 30, 2000. This decrease from prior periods was due to the securitization of $167.0 million of mortgage loans in February 2001. These loans were securitized because of a decrease in interest rates and the resulting impact of that condition on the Corporation's interest rate risk. The securitized mortgage loans are now classified as mortgage backed securities in our available for sale portfolio.

The securities available for sale portfolio increased to $940.0 million at June 30, 2001, compared to $441.0 million at December 31, 2000, and $500.3 million at June 30, 2000. The increase in securities available for sale was due to the $167.0 million mortgage loan securitization, as well as purchases of securities available for sale made to increase our interest earning assets. The carrying value of securities available for sale was approximately $15.1 million above their amortized cost at June 30, 2001, which represents gross unrealized gains of $16.0 million and gross unrealized losses of $0.9 million. In conjunction with the Merger, the Corporation transferred $35.3 million of Carolina First's securities classified as held to maturity to available for sale due to the significance of the impact on the Corporation's interest rate forecast as compared to corporate policy.

Total deposits at June 30, 2001 amounted to $2.12 billion, compared to $2.00 billion at December 31, 2000 and $1.87 billion at June 30, 2000. Shareholders' equity at June 30, 2001 was $324.1 million, which represented a book value per share of $10.22 and an equity-to-assets percentage of 10.33 percent. The securities available for sale portfolio's unrealized net gain has increased from $2.0 million (net of tax) at December 31, 2000 to an unrealized net gain of $9.2 million (net of tax) at June 30, 2001.

NONPERFORMING ASSETS

The total of nonperforming assets at June 30, 2001 increased to $32.1 million compared to $29.6 million and $15.8 million at December 31, 2000 and June 30, 2000, respectively. As a percentage of total assets, nonperforming assets have increased to 1.02 percent at June 30, 2001 compared to 1.01 percent and 0.57 percent at December 31, 2000 and June 30, 2000, respectively. The increase over June 30, 2000 was primarily due to the effect of slower economic growth on certain customers.

Total nonperforming assets and loans 90 days or more past due and still accruing interest at June 30, 2001 were $32.3 million or 1.62 percent of total loans and other real estate, compared to $30.0 million or 1.37 percent of total loans and other real estate at December 31, 2000. These ratios were primarily impacted by the first quarter 2001 securitization of $167.0 million of mortgage loans. In addition, total nonperforming assets and loans 90 days or more past due and still accruing have increased during the period due to an increase in nonaccrual loans of $2.0 million and a $0.5 million increase in other real estate owned. The increase in nonaccrual loans was not concentrated in any one

industry and was primarily due to several large credits secured by real estate and the effect of slower economic growth on certain customers. The components of nonperforming and loans 90 days or more past due and still accruing are presented in the table below:

TABLE SIX
NONPERFORMING AND PROBLEM ASSETS

(Dollars in thousands)	JUNE 30, 2001	December 31, 2000
Nonaccrual loans	$ 28,605	$ 26,587
Other real estate	3,454	2,989
Total nonperforming assets	32,059	29,576
Loans 90 days or more past due and still accruing interest	199	430
Total nonperforming assets and loans 90 days or more past due and still accruing interest	$ 32,258	$ 30,006

ALLOWANCE FOR LOAN LOSSES

All estimates of the loan portfolio risk, including the adequacy of the allowance for loan losses, are subject to general and local economic conditions, among other factors, which are unpredictable and beyond the Corporation's control. Since a significant portion of the loan portfolio is comprised of real estate loans and loans to area businesses, the Corporation is subject to continued risk that the real estate market and economic conditions could continue to change and could result in future losses and require increases in the provision for loan losses.

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

Management uses the information developed from the procedures described above in evaluating and grading the loan portfolio. This continual grading process is used to monitor the credit quality of the loan portfolio and to

assist management in determining the appropriate levels of the allowance for loan losses.

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

At June 30, 2001 the allowance for loan losses was $28.0 million or 1.42 percent of gross loans compared to $26.7 million or 1.28 percent at June 30, 2000. The increase in the allowance for loan losses as a percentage of gross loans is primarily attributable to the mortgage loan securitization, which removed $417,000 of allowance for loan losses when the loans were securitized and reclassified from loans into securities available for sale. Securitized loans consisted of residential mortgage loans, which generally have a lower percentage of allocated allowance for loan losses. TABLE SEVEN provides the changes in the allowance for loan losses for the three and six months ended June 30, 2001 and 2000.

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

TABLE SEVEN
ALLOWANCE FOR LOAN LOSSES

	THREE MONTHS ENDED JUNE 30,		
(Dollars in thousands)	2001	2000	
BALANCE, BEGINNING OF PERIOD	$ 28,049	$ 25,979	$
LOAN CHARGE-OFFS:			
Commercial, financial and agricultural	679	578	

Real estate - construction	--	--	
Real estate - mortgage	211	94	
Installment	475	33	
Total loans charged-off	1,365	705	
RECOVERIES OF LOANS PREVIOUSLY CHARGED-OFF:			
Commercial, financial and agricultural	71	95	
Real estate - construction	--	--	
Real estate - mortgage	7	14	
Installment	97	60	
Total recoveries of loans previously charged-off	175	169	
Net charge-offs	1,190	536	
Provision for loan losses	1,190	1,370	
Adjustment for loans sold and securitized	--	(113)	
BALANCE, JUNE 30	$ 28,049	$ 26,700	$
Average loans, net of unearned income	$ 1,968,304	$ 2,068,958	$ 2
Net charge-offs to average loans (annualized)	0.24%	0.10%	
Allowance for loan losses to gross loans at June 30	1.42	1.28	

LIQUIDITY

The Bank derives a major source of its liquidity from its core deposit base. Liquidity is further provided by loan repayments, brokered deposits, maturities in the securities available for sale portfolio, the ability to secure public deposits, the availability of federal fund lines and repurchase agreements at correspondent banks and the ability to borrow from the Federal Reserve Bank ("FRB") discount window. In addition to these sources, the Bank is a member of the Federal Home Loan Bank ("FHLB") System, which provides access to FHLB lending sources. At June 30, 2001, the Bank had a line of credit with the FHLB of $586.3 million, with $510.7 million advanced to the Bank and $75.6 million remaining available. Another source of liquidity is the securities in the available for sale portfolio, which may be sold in response to liquidity needs. The Bank's loan-to-deposit ratio at June 30, 2001 was 0.93 percent compared to 1.08 percent at December 31, 2000. Management believes the Bank's sources of liquidity are adequate to meet operating needs and deposit withdrawal requirements.

CAPITAL RESOURCES

At June 30, 2001, total shareholders' equity was $324.1 million, representing a book value of $10.22 per share, compared to $309.3 million, or a book value of $9.79 per share at December 31, 2000. The increase was primarily due to net earnings (net income less dividends) of $6.3 million combined with the recognition of $7.1 million after-tax unrealized gains on available for sale securities, the receipt of $1.5 million from the sale of approximately 127,111 shares of common stock issued for stock options and Dividend Reinvestment Plans and the payment of $112,000 for the purchase and retirement of 7,000 shares of common stock.

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

	LEVERAGE CAPITAL		RISK-BASED CAPITAL			
			TIER 1 CAPITAL		TOTAL	
(DOLLARS IN THOUSANDS)	AMOUNT	PERCENTAGE(1)	AMOUNT	PERCENTAGE(2)	AMOUNT	
Actual	$295,950	9.61%	$295,950	13.65%	$323,829	
Required	123,182	4.00	86,739	4.00	173,478	
Excess	172,768	5.61	209,211	9.65	150,351	

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

(2) Percentage of risk-weighted assets.

REGULATORY RECOMMENDATIONS

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

ACCOUNTING AND REGULATORY MATTERS

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

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 140 (SFAS No. 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities- a replacement of FASB Statement 125", which revises the criteria for accounting for securitizations and other transfers of financial assets and

collateral, and introduces new disclosures. The enhanced disclosure requirements were effective for year-end 2000. The other provisions of SFAS No. 140 apply prospectively to transfers of financial assets and extinguishments of liabilities occurring after March 31, 2001. Accordingly, the Corporation adopted SFAS No. 140 on April 1, 2001. The impact to the Corporation upon adoption was immaterial.

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

their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

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

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

As of June 30, 2001, the Corporation has unamortized goodwill in the amount of $12.3 million, and unamortized identifiable intangible assets in the amount of $6.2 million, all of which will be subject to the transition provisions of SFAS 141 and 142. Amortization expense related to goodwill was approximately $293,000 and $479,000 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS 141 and 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Corporation's financial statements at this time, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in

accounting principle.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

MATURING IN	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEA
ASSETS:					
Debt securities	$ 104,089	$112,029	$100,642	$117,190	$112,
Loans	725,268	233,979	220,651	226,534	212,
TOTAL	$ 829,357	$346,008	$321,293	$343,724	$325,
LIABILITIES:					
Savings, NOW and IMMA's	$ 620,833	$ 11,207	$ 203	$ 655	$
CD's	1,092,537	101,157	23,156	11,209	
Short-term borrowings	437,133	--	--	--	
Long-term borrowings	--	181,040	40	40	25,
TOTAL	$2,150,503	$293,404	$ 23,399	$ 11,904	$ 25,

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

	CARRYING VALUE	AVERAGE INTEREST RATE	ESTIMATED FAIR VALUE
ASSETS:			
Debt securities	$ 898,959	6.70%	$ 898,959
Loans	1,941,616	8.06	1,970,777
TOTAL	$2,840,575	7.63%	$2,869,736
LIABILITIES:			
Savings, NOW and IMMA's	$ 632,898	2.36%	$ 633,117

CDs	1,228,686	5.56	1,235,316
Short-term borrowings	437,133	4.80	434,207
Long-term borrowings	206,350	4.76	206,350
TOTAL	$2,505,067	4.55%	$2,508,990

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

(a) First Charter Corporation's Annual Meeting of Shareholders was held on May 17, 2001.

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

1. To elect five directors with terms expiring in 2004.

	For	Withheld
Harold D. Alexander	24,801,716	1,349,508
Lawrence M. Kimbrough	23,440,956	1,990,268
Samuel C. King, Jr.	25,171,600	259,624
Dr. Jerry E. McGee	25,128,106	303,118
Thomas R. Revels	24,747,649	683,575

2. To ratify the action of our Board of Directors in selecting KPMG LLP as our independent certified public accountants for 2001.

For	25,169,457
Against	193,041
Abstain	68,726

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

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

Current Report on Form 8-K dated April 17, 2001 and filed April 17, 2001, Items 5 and 7.

Current Report on Form 8-K dated April 18, 2001 and filed April 18, 2001, Items 7 and 9.

SIGNATURES

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

FIRST CHARTER CORPORATION
(Registrant)

Date: August 9, 2001 By: /s/ Robert O. Bratton

Robert O. Bratton
Executive Vice President &
Chief Financial Officer

FIRST CHARTER CORPORATION

FORM 10-Q

Index to Exhibits

Exhibit	Description
10.1	Amended and Restated Deferred Compensation Plan for Non-Employee Directors.