FIRST CHARTER CORP /NC/
Form 10-Q
May 10, 2006

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, 2006

OR

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

Commission File Number 0-15829

FIRST CHARTER CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filero

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

As of May 9, 2006 the Registrant had outstanding 31,083,364 shares of Common Stock, no par value.

First Charter Corporation
Form 10-Q for the Quarterly Period Ended March 31, 2006
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PART 1. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

First Charter Corporation and Subsidiaries
Consolidated Balance Sheets

(Dollars in thousands, except share data)	**March 31, 2006 (Unaudited)**	December 31, 2005
Assets:		
Cash and due from banks	**$ 95,382**	$ 119,080
Federal funds sold	**2,706**	2,474
Interest bearing bank deposits	**3,745**	3,998
Cash and cash equivalents	**101,833**	125,552
Securities available for sale (cost of **$920,496** and $917,710; carrying amount of pledged collateral **$588,258** and $557,132)	**900,424**	899,111
Loans held for sale	**8,719**	6,447
Loans	**3,011,088**	2,945,918
Less: Unearned income	**(125)**	(173)
Allowance for loan losses	**(29,505)**	(28,725)
Loans, net	**2,981,458**	2,917,020
Premises and equipment, net	**107,298**	106,773
Goodwill and other intangible assets	**21,746**	21,897
Other assets	**161,878**	155,620
Total assets	**$4,283,356**	$4,232,420
Liabilities:		
Deposits, domestic:		
Noninterest bearing demand	**$ 422,184**	$ 429,758
Interest bearing	**2,378,162**	2,369,721
Total deposits	**2,800,346**	2,799,479
Federal funds purchased and securities sold under agreements to repurchase	**261,599**	312,283
Commercial paper and other short-term borrowings	**199,342**	198,432
Long-term debt	**642,843**	557,859
Other liabilities	**45,599**	40,772
Total liabilities	**3,949,729**	3,908,825
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 30,974,393 and 30,736,936 shares	**138,363**	133,408
Common stock held in Rabbi Trust for deferred compensation	**(974)**	(893)
Deferred compensation payable in common stock	**974**	893
Retained earnings	**207,409**	201,442
Accumulated other comprehensive loss:		
Unrealized loss on securities available for sale, net	**(12,145)**	(11,255)
Total shareholders equity	**333,627**	323,595
Total liabilities and shareholders equity	**$4,283,356**	$4,232,420

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 March 31** **2006**	2005
Interest income:		
Loans	**$ 50,260**	$ 36,446
Securities	**9,311**	14,784
Federal funds sold and interest bearing bank deposits	**75**	52
Total interest income	**59,646**	51,282
Interest expense:		
Deposits	**16,562**	10,514
Federal funds purchased and securities sold under agreements to repurchase	**2,807**	1,327
Federal Home Loan Bank and other borrowings	**8,187**	8,867
Total interest expense	**27,556**	20,708
Net interest income	**32,090**	30,574
Provision for loan losses	**1,519**	1,900
Net interest income after provision for loan losses	**30,571**	28,674
Noninterest income:		
Service charges on deposit accounts	**6,698**	6,236
Wealth management income	**1,664**	1,580
Loss on sale of securities		(49)
Gain (loss) from equity method investments	**545**	(58)
Mortgage services income	**808**	394
Brokerage services income	**711**	802
Insurance services income	**4,290**	3,512
Bank owned life insurance	**827**	827
Gain on sale of properties	**81**	529
ATM & debit card income	**1,898**	1,450
Other	**719**	591
Total noninterest income	**18,241**	15,814
Noninterest expense:		
Salaries and employee benefits	**17,693**	15,569
Occupancy and equipment	**4,770**	4,381
Data processing	**1,453**	1,321
Marketing	**1,288**	1,080
Postage and supplies	**1,231**	1,208

Professional services		**1,950**		1,913
Telephone		**579**		528
Amortization of intangibles		**150**		131
Other		**2,398**		2,738
Total noninterest expense		**31,512**		28,869
Income before income taxes		**17,300**		15,619
Income tax expense		**5,856**		5,310
Net income	**$**	**11,444**	$	10,309
Net income per share:				
Basic	**$**	**0.37**	$	0.34
Diluted	**$**	**0.37**	$	0.34
Weighted average shares:				
Basic		**30,859,461**		30,234,683
Diluted		**31,153,338**		30,630,601

See accompanying notes to consolidated financial statements.

First Charter Corporation and Subsidiaries
Consolidated Statements of Shareholders Equity
(Unaudited)

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Common Stock held in Rabbi Trust for Deferred Compensation	Deferred Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2005	**30,736,936**	**$133,408**	**$(893)**	**$893**	**$201,442**	**$(11,255)**	**$323,595**
Comprehensive loss:							
Net income					**11,444**		**11,444**
Unrealized loss on securities available for sale, net						**(890)**	**(890)**
Total comprehensive loss							**10,554**
Common stock purchased by Rabbi Trust for deferred compensation			**(81)**				**(81)**
Deferred compensation payable in common stock				**81**			**81**
Cash dividends declared					**(5,477)**		**(5,477)**
Stock options exercised and Dividend Reinvestment Plan stock issued	**148,803**	**2,307**					**2,307**
Restricted stock issued	**88,654**	**2,118**					**2,118**
Tax benefit from employees stock option and restricted stock plans		**144**					**144**
Stock-based compensation		**386**					**386**
Balance, March 31, 2006	**30,974,393**	**$138,363**	**$(974)**	**$974**	**$207,409**	**$(12,145)**	**$333,627**

See accompanying notes to consolidated financial statements.

First Charter Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	**Three Months Ended March 31** **2006**	2005
Cash flows from operating activities:		
Net income	**$ 11,444**	$ 10,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,519**	1,900
Depreciation	**2,344**	2,352
Amortization of intangibles	**150**	131
Stock-based compensation expense	**513**	42
Premium amortization and discount accretion, net	**284**	591
Net loss on securities available for sale transactions		49
Net (gain) loss on sale of foreclosed assets	**(18)**	123
Write-downs on foreclosed assets		117
Net gain on sale of equipment		(21)
(Gain) loss from equity method investments	**(545)**	58
Net gain on sale property	**(81)**	(529)
Origination of mortgage loans held for sale	**(38,833)**	(27,666)
Proceeds from sale of mortgage loans held for sale	**36,561**	26,987
Change in cash surrender value of bank owned life insurance	**(827)**	(827)
Change in other assets	**(1,283)**	4,640
Change in other liabilities	**4,771**	(11,044)
Net cash provided by operating activities	**15,999**	7,212
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	**10,037**	157,897
Proceeds from maturities of securities available for sale	**21,578**	42,935
Purchase of securities available for sale	**(34,684)**	(7,228)
Net change in loans	**(67,432)**	(270,565)
Proceeds from sales of other real estate	**546**	443
Net purchases of premises and equipment	**(2,869)**	(3,382)
Net cash used in investing activities	**(72,824)**	(79,900)
Cash flows from financing activities:		
Net change in demand, money market and savings accounts	**32,354**	6,521
Net change in certificates of deposit	**(31,486)**	86,342
Net change in federal funds purchased and securities sold under repurchase agreements	**(50,684)**	29,647
Net change in commerical paper and other short-term borrowings	**910**	87,478
Proceeds from issuance of long-term debt	**84,984**	(115,105)
Proceeds from issuance of common stock	**1,932**	2,881

Tax benefit from employees stock option and restricted stock plans	**144**	
Dividends paid	**(5,048)**	(4,884)
Net cash provided by financing activities	**33,106**	92,880
Net change in cash and cash equivalents	**(23,719)**	20,192
Cash and cash equivalents at beginning of period	**125,552**	98,011
Cash and cash equivalents at end of period	**$101,833**	$ 118,203
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 25,051**	$ 20,113
Income taxes	**295**	10,104
Supplemental disclosure of non-cash transactions:		
Transfer of loans to other real estate	**1,475**	4,487
Unrealized loss on securities available for sale (net of tax effect of ($583) and ($7,144), respectively)	**(890)**	(10,850)

See accompanying notes to consolidated financial statements.

First Charter Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements (Unaudited)
For the Three Months Ended March 31, 2006 and 2005

First Charter Corporation (the Corporation) is a regional financial services company with assets of $4.3 billion and is the holding company for First Charter Bank. As of March 31, 2006, First Charter operated 58 financial centers, four insurance offices and 139 ATMs located throughout North Carolina. 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, mortgages and a broad array of employee benefit programs. The results of operations of the Bank constitute a substantial majority of the consolidated net income, revenues and assets of the Corporation.

Note One Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, the Bank, and variable interest entities (VIEs) where the Corporation is the primary beneficiary. In consolidation, all intercompany accounts and transactions have been eliminated.

The information contained in the interim consolidated financial statements, excluding information as of the fiscal year ended December 31, 2005, is unaudited. The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles, which require 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 are of a normal and recurring nature. Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. Such reclassifications have no effect on net income or shareholders equity as previously reported.

The significant accounting policies followed by the Corporation are presented on pages 59 to 67 of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005. With the exception of the Corporation s policy regarding stock-based compensation adopted January 1, 2006, these policies have not materially changed from the disclosure in that report.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123(R) (SFAS No. 123(R)), Share-Based Payment , which is a revision of FASB Statement No. 123 Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25 (APB Opinion No. 25), Accounting for Stock Issued to Employees . The Corporation adopted SFAS No. 123(R) on January 1, 2006, with no material effect on its consolidated financial statements. Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. If the vesting terms are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. The Corporation previously accounted for stock-based compensation under the provisions of APB No. 25. As permitted under SFAS No. 123(R), the Corporation adopted the modified prospective method on January 1, 2006. In accordance with the modified prospective method, compensation cost is recognized as a component of salary and employee benefits expense in the accompanying Consolidated Financial Statements beginning on January 1, 2006 (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after January 1, 2006 and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to January 1, 2006 that remained unvested as of that date.

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 three months ended March 31, 2006 and 2005, respectively. Diluted net income per share reflects the potential dilution that could occur if the Corporation s potential common stock and contingently issuable shares, which consist of dilutive stock options and restricted stock, were issued.

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

	Three Months Ended March 31	
	2006	2005
Basic weighted average number of common shares outstanding	**30,859,461**	30,234,683
Dilutive effect arising from potential common stock issuances	**293,877**	395,918
Diluted weighted average number of common shares outstanding	**31,153,338**	30,630,601

The effects of outstanding antidilutive stock options are excluded from the computation of diluted net income per share. These amounts were 259,000 and 992,000 shares for the three months ended March 31, 2006 and 2005, respectively.

Dividends declared by the Corporation were $0.19 per share for both the three months ended March 31, 2006 and 2005.

Note Three Business Segment Information

The Corporation operates one reportable segment, the Bank, the Corporation s primary banking subsidiary. The Bank provides businesses and individuals with commercial, consumer and mortgage loans, deposit banking services, brokerage services, insurance products, and comprehensive financial planning solutions to individual and commercial clients. The results of the Bank s operations constitute a substantial majority of the consolidated net income, revenues and assets of the Corporation. Intercompany transactions and the parent company s revenues, 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.

The Corporation continuously assesses its assumptions, methodologies and reporting classifications to better reflect the true economics of the Corporation s business segments. Based on these continuous assessments, during the second quarter of 2005, the Corporation changed the composition of its reportable segments to collapse insurance, brokerage, mortgage and financial planning services into the Bank. Accordingly, the Corporation restated its business segment disclosure for prior periods.

Information regarding the reportable segment s separate results of operations and segment assets for the three months ended March 31, 2006 and 2005, is provided in the following tables:

Three Months Ended March 31, 2006				
(Dollars in thousands)	**The Bank**	**Other**	**Eliminations**	**Totals**
Total interest income	**$ 59,628**	**$ 18**	**$**	**$ 59,646**
Total interest expense	**26,476**	**1,080**		**27,556**
Net interest income (loss)	**33,152**	**(1,062)**		**32,090**
Provision for loan losses	**1,519**			**1,519**
Total noninterest income	**18,153**	**88**		**18,241**
Total noninterest expense	**31,449**	**63**		**31,512**
Net income (loss) before income taxes	**18,337**	**(1,037)**		**17,300**
Income taxes expense (benefit)	**6,207**	**(351)**		**5,856**
Net income (loss)	**$ 12,130**	**$ (686)**	**$**	**$ 11,444**
Total loans held for sale and loans, net	**$2,990,177**	**$**	**$**	**$2,990,177**
Total assets	**4,264,850**	**421,395**	**(402,889)**	**4,283,356**

Three Months Ended March 31, 2005				
(Dollars in thousands)	The Bank	Other	Eliminations	Totals
Total interest income	$ 51,265	$ 17	$	$ 51,282
Total interest expense	20,466	242		20,708
Net interest income (loss)	30,799	(225)		30,574
Provision for loan losses	1,900			1,900
Total noninterest income	15,831	(17)		15,814
Total noninterest expense	28,819	50		28,869
Net income (loss) before income taxes	15,911	(292)		15,619
Income taxes expense (benefit)	5,409	(99)		5,310
Net income (loss)	$ 10,502	$ (193)	$	$ 10,309
Total loans held for sale and loans, net	$2,682,713	$	$	$2,682,713
Total assets	4,495,572	380,744	(363,262)	4,513,053

Note Four 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 as of March 31, 2006 and December 31, 2005:

March 31, 2006	December 31, 2005
Accumulated	Accumulated

(Dollars in thousands)	**Gross Carrying Amount**	**Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Amortization	Net Carrying Amount
Amortized intangible assets:						
Noncompete agreements	**$ 1,037**	**$ 987**	**$ 50**	$ 1,037	$ 979	$ 58
Customer lists	**2,676**	**1,125**	**1,551**	2,676	998	1,678
Other intangibles [(1)]	**379**	**144**	**235**	379	128	251
Total	**$ 4,092**	**$ 2,256**	**$ 1,836**	$ 4,092	$ 2,105	$ 1,987
Unamortized intangible assets:						
Goodwill	**$ 19,910**	**$**	**$ 19,910**	$ 19,910	$	$ 19,910

(1) Other intangibles include trade name and proprietary software.

Amortization expense totaled $150 thousand and $131 thousand for the three months ended March 31, 2006 and 2005, respectively.

The following table presents the estimated amortization expense for intangible assets:

(Dollars in thousands)	**Noncompete Agreements**	**Customer Lists**	**Other Intangibles**	**Total**
April December 2006	$ 22	$ 347	$ 45	$ 414
2007	28	386	54	468
2008		298	46	344
2009		210	36	246
2010		125	27	152
2011 and after		185	27	212
Total	$ 50	$1,551	$ 235	$1,836

Note Five Comprehensive Income

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

The following table presents the components of Comprehensive Income (Loss):

	For the Three Months Ended March 31,					
		2006			2005	
(Dollars in thousands)	**Pre-Tax Amount**	**Tax Effect**	**After Tax Amount**	Pre-Tax Amount	Tax Effect	After Tax Amount
Comprehensive income:						
Net income	**$17,300**	**$5,856**	**$11,444**	$ 15,619	$ 5,310	$ 10,309
Other comprehensive loss:						
Unrealized losses on securities:						
Unrealized losses arising during period	**(1,473)**	**(583)**	**(890)**	(18,043)	(7,163)	(10,880)
Less: Reclassification for realized (losses) gains				(49)	(19)	(30)
Unrealized losses, net of reclassification	**$ (1,473)**	**$ (583)**	**$ (890)**	$(17,994)	$(7,144)	$(10,850)
Total comprehensive income (loss)	**$15,827**	**$5,273**	**$10,554**	$ (2,375)	$(1,834)	$ (541)

Note Six Securities Available-for-Sale

Securities available-for-sale are summarized as follows:

	March 31, 2006			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
US government obligations	**$ 14,931**	**$**	**$ 51**	**$ 14,880**
US government agency obligations	**327,429**		**7,250**	**320,179**
Mortgage-backed securities	**419,886**	**266**	**13,871**	**406,281**
State, county, and municipal obligations	**104,180**	**953**	**445**	**104,688**
Equity securities	**49,070**	**337**		**49,407**
Other	**5,000**		**11**	**4,989**
Total	**$920,496**	**$1,556**	**$21,628**	**$900,424**

	December 31, 2005			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US government obligations	$ 14,905	$	$ 27	$ 14,878
US government agency obligations	327,418	21	7,032	320,407
Mortgage-backed securities	417,891	335	12,776	405,450
State, county, and municipal obligations	108,298	1,125	427	108,996
Equity securities	44,198	188		44,386
Other	5,000		6	4,994
Total	$917,710	$1,669	$20,268	$899,111

Equity securities include Bank-owned stock in the Federal Home Loan Bank of Atlanta (FHLB) and Federal Reserve Bank. The cost basis (par value) in FHLB stock was $42.5 million and $37.5 million at March 31, 2006 and December 31, 2005, respectively, and the cost basis of Federal Reserve Bank stock was $5.6 million at both March 31, 2006 and December 31, 2005.

For the Corporation s securities designated as temporarily impaired on March 31, 2006 the following table reflects the fair values and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

As of March 31, 2006

	Less than 12 months		**12 months or longer**		**Total**	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
US government obligations	$ 14,880	$ (51)	$	$	$ 14,880	$ (51)
	15,999	(10)	304,180	(7,241)	320,179	(7,251)

US government agency obligations						
Mortgage-backed securities	114,626	(2,220)	269,698	(11,650)	384,324	(13,870)
State, county and muncipal obligations	8,358	(99)	11,075	(346)	19,433	(445)
Other	4,989	(11)			4,989	(11)
Total temporarily impaired securities	$158,852	$ (2,391)	$584,953	$ (19,237)	$743,805	$ (21,628)

The unrealized losses associated with these securities were not considered to be other-than-temporary, because they were related to changes in interest rates and did not affect the expected cash flows of the underlying collateral or the issuer. In addition, of the $280.8 million of mortgage-backed securities and municipal investments that have been in an unrealized loss position for longer than one year, $277.8 million have an external credit rating of AAA by Standard & Poors and $3.0 million have a credit rating of AA. The remaining investments that have been in an unrealized loss position for longer than one year are US government obligations issued by the U.S. Treasury. At March 31, 2006, the Corporation had the ability and the intent to hold these investments to recovery of fair market value.

Note Seven Loans and Allowance for Loan Losses

Loans are categorized as follows:

	March 31, 2006		December 31, 2005	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Commercial real estate	**$ 820,318**	**27.2%**	$ 780,597	26.5%
Commercial non real estate	**213,338**	**7.1**	233,409	7.9
Construction	**583,288**	**19.4**	517,392	17.6
Mortgage	**565,166**	**18.8**	573,007	19.4
Consumer	**355,636**	**11.8**	358,592	12.2
Home equity	**473,342**	**15.7**	482,921	16.4
Total loans	**$3,011,088**	**100.0%**	$2,945,918	100.0%

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

	Three Months Ended March 31,	
(Dollars in thousands)	**2006**	2005
Balance, January 1	**$28,725**	$26,872
Provision for loan losses	**1,519**	1,900
Charge-offs	**(1,229)**	(1,918)
Recoveries	**490**	629
Net charge-offs	**(739)**	(1,289)
Balance, March 31	**$29,505**	$27,483

The table below summarizes the Corporation s nonperforming assets and loans 90 days or more past due and still accruing interest at the dates indicated.

(Dollars in thousands)	**March 31 2006**	December 31 2005
Nonaccrual loans	**$ 9,211**	$10,811
Other real estate owned	**6,072**	5,124
Total nonperforming assets	**15,283**	15,935
Loans 90 days or more past due and still accruing		
Total nonperforming assets and loans 90 days or more past due and still accruing	**$15,283**	$15,935

At March 31, 2006, the recorded investment in individually impaired loans was $2.1 million, all of which were on nonaccrual status. The related allowance for loan losses on these loans was $0.5 million. At December 31, 2005, the

recorded investment in individually impaired loans was $8.2 million, of which $4.3 million were on nonaccrual status and had specific reserves of $0.6 million and $3.9 million were accruing and had specific reserves of $0.7 million.

The average recorded investment in individually impaired loans for the three months ended March 31, 2006 and 2005 was $2.4 million and $12.0 million, respectively.

Note Eight Stock-Based Compensation

First Charter Comprehensive Stock Option Plan. Under the terms of the First Charter Corporation Comprehensive Stock Option Plan (the Comprehensive Stock Option Plan), stock options (which can be incentive stock options or non-qualified stock options) may be periodically granted to key employees of the Corporation or its subsidiaries. The terms and vesting schedules of options granted under the Comprehensive Plan generally are determined by the Compensation Committee of the Board of Directors of the Corporation (the Compensation Committee). However, no options may be exercisable prior to six months following the grant date, and certain additional restrictions, including the term and exercise price, apply with respect to any incentive stock options. Under the Comprehensive Stock Option Plan, 480,000 shares of common stock are reserved for issuance. During the three months ended March 31, 2006, no shares were issued under this plan.

First Charter Corporation Stock Option Plan for Non-Employee Directors. In April 1997, the shareholders approved the First Charter Corporation Stock Option Plan for Non-Employee Directors (the Director Plan). Under the Director Plan, non-statutory stock options may be granted to non-employee Directors of the Corporation and its subsidiaries. The terms and vesting schedules of any options granted under the Director Plan generally are determined by the Compensation Committee. The exercise price for each option granted, however, is the fair value of the common stock as of the date of grant. A maximum of 180,000 shares are reserved for issuance under the Director Plan. During the three months ended March 31, 2006, no shares were issued under this plan.

2000 Omnibus Stock Option and Award Plan. In June 2000, the shareholders approved the First Charter Corporation 2000 Omnibus Stock Option and Award Plan (the 2000 Omnibus Plan). Under the 2000 Omnibus Plan, 2,000,000 shares of common stock were originally reserved for issuance. In April of 2005, the shareholders approved an amendment to the 2000 Omnibus Plan, authorizing an additional 1,500,000 shares for issuance, for a total of 3,500,000 shares. The 2000 Omnibus Plan permits the granting of stock options and nonvested shares to Directors and key employees. Stock options are granted with an exercise price equal to the market price of the Corporation s common stock at the date of grant; those stock option awards generally vest ratably over five years and have a 10-year contractual term. Nonvested shares are generally granted at a value equal to the market price of the Corporation s common stock at the date of grant and vesting is based on either service or performance conditions. Service-based nonvested shares generally vest over three years. Performance-based nonvested shares are earned over three years upon meeting various performance goals as approved by the Compensation Committee, including cash return on equity and targeted charge-off levels and earnings per share growth as measured against a group of selected peer companies. During the three months ended March 31, 2006, 69,250 stock options, 15,000 service-based nonvested shares and 58,500 performance-based nonvested shares were issued under this plan.

Restricted Stock Award Program. In April 1995, the shareholders approved the First Charter Corporation Restricted Stock Award Program (the Restricted Stock Plan). Awards of restricted stock (nonvested shares) may be made under the Restricted Stock Plan at the discretion of the Compensation Committee to key employees. Nonvested shares are granted at a value equal to the market price of the Corporation s common stock at the date of grant and vest based on either three or five years of service. A maximum of 360,000 shares of common stock are reserved for issuance under the Restricted Stock Plan. During the three months ended March 31, 2006, 74,549 service-based nonvested shares were issued under this plan.

Stock-based compensation costs totaled $513,000 for the three months ended March 31, 2006, which consisted of $279,000 related to stock options, $107,000 related to performance-based nonvested shares and $127,000 related to service-based nonvested shares.

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

	Three Months Ended March 31,	
	2006	2005
Dividend yield	**3.21%**	3.16%
Risk free interest rate	**4.72%**	3.87%
Expected lives	**8 years**	7 years
Volatility	**25%**	26%

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

Pro forma net income as if the fair value based method had been applied to all awards is as follows:

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	**2006**	2005
Net income, as reported	**$ 11,444**	$ 10,309
Total stock-based employee compensation expense included in the determination of reported net income	**446**	26
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effect of $67 and $43, respectively	**(446)**	(621)
Pro forma net income	**$ 11,444**	$ 9,714
Net income per share:		
Basic-as reported	**$ 0.37**	$ 0.34
Basic-pro forma	**$ 0.37**	$ 0.32
Diluted-as reported	**$ 0.37**	$ 0.34
Diluted-pro forma	**$ 0.37**	$ 0.32

The following is a summary of stock option activity under the Comprehensive Plan, the Director Plan and the 2000 Omnibus Plan during the period:

	2006			
	Shares	Weighted Average Exercise (Option) Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1	**2,638,058**	**$21.09**		

Granted	**69,250**	**23.68**		
Exercised	**(115,250)**	**16.52**		**883,380**
Forfeited	**(23,567)**	**21.56**		
Expired	**(7,400)**	**24.66**		
Outstanding at March 31	**2,561,091**	**21.35**	**4.54**	**6,699,388**
Options exercisable at March 31	**1,945,326**	**21.11**	**3.34**	**5,724,719**
Weighted-average Black-Scholes fair value of options granted during the year		**$ 5.85**		

The weighted-average Black-Scholes fair value of options granted during the three months ended March 31, 2005 was $5.53 and the aggregate intrinsic value of options exercised was $1.4 million.

The following table presents the status and changes of nonvested shares in the Restricted Stock Plan and the Omnibus Plan:

	Service-Based		Performance-Based	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding at December 31, 2005	**32,647**	**$ 22.9724**		**$**
Granted	**89,549**	**23.6600**	**58,500**	**23.6600**
Vested				
Forfeited	**(895)**	**22.3400**		
Outstanding at March 31, 2006	**121,301**	**$ 23.4847**	**58,500**	**$ 23.6600**

As of March 31, 2006, there were $2.4 million of total unrecognized compensation costs related to service-based nonvested share-based compensation arrangements granted under the Restricted Stock Plan and the Omnibus Plan and is expected to be recognized over a weighted-average period of 2.5 years.

As of March 31, 2006, there were $1.2 million of total unrecognized compensation costs related to performance-based nonvested share-based compensation arrangements granted under the Omnibus Plan and is expected to be recognized over a weighted-average period of 2.8 years.

Note Nine 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. Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions. Standby letters of credit are recorded as a liability by the Corporation at the fair value of the obligation undertaken in issuing the guarantee. The fair value and carrying value at March 31, 2006 of standby letters of credit issued or modified during the three months ended March 31, 2006 was immaterial. Commitments to extend credit are not recorded as an asset or liability by the Corporation until the instrument is exercised. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for instruments reflected in the consolidated financial statements. The creditworthiness of each customer is evaluated on a case-by-case basis.

The Corporation s exposure to credit risk was as follows:

(Dollars in thousands)	**March 31, 2006**	December 31, 2005
Lines of Credit	**$ 458,556**	$ 441,855
Standby Letters of Credit	**16,030**	15,600
Loan Commitments	**679,218**	668,356
Total Commitments	**$1,153,804**	$1,125,811

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.

The Corporation is currently under examination by the North Carolina Department of Revenue for 1999 and 2000 and is subject to examination for subsequent tax years. The Corporation received a proposed assessment for tax and interest of $3.6 million that the Corporation is appealing. The Corporation s maximum exposure for tax and interest related to this assessment in excess of the current reserve is approximately $1.5 million, net of tax. The ultimate tax implications for 1999 and 2000 may impact tax years beyond 2000. Management believes there will be no material impact on the consolidated results of operations as a result of this examination.

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

Factors that May Affect Future Results

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

Factors that may cause actual results to differ materially from those contemplated by such forward- looking statements, and which may be beyond the Corporation s control, include, among others, the following possibilities: (1) projected results in connection with management s implementation of, or changes in, the Corporation s business plan and strategic initiatives, including the recent balance sheet initiatives, are lower than expected; (2) competitive pressure among financial services companies increases significantly; (3) 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; (4) general economic conditions, in the markets in which the Corporation does business, are less favorable than expected; (5) risks inherent in making loans, including repayment risks and risks associated with collateral values, are greater than expected; (6) 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; (7) changes in market rates and prices may adversely affect the value of financial products; (8) legislation or regulatory requirements or changes thereto, including changes in accounting standards, may adversely affect the businesses in which the Corporation is engaged; (9) regulatory compliance cost increases are greater than expected; (10) the passage of future tax legislation, or any negative regulatory, administrative or judicial position, may adversely impact the Corporation; (11) 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 it operates; and (12) changes in the securities markets, including changes in interest rates, may adversely affect the Corporation s ability to raise capital from time to time.

Overview

First Charter Corporation is a regional financial services company with assets of $4.3 billion and is the holding company for First Charter Bank. As of March 31, 2006, First Charter operated 58 financial centers, four insurance offices and 139 ATMs located throughout North Carolina. 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, mortgages and a broad array of employee benefit programs.

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 long- and short-term debt.

Another source of earnings for the Corporation is noninterest income. Noninterest income is derived largely from service charges on deposit accounts and other fee or commission based services and

products including mortgage, financial management, brokerage and insurance. Other sources of noninterest income include securities gains or losses, 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 expenses.

First Quarter 2006 Highlights

The Corporation s first quarter 2006 net income was $11.4 million, an increase of 11 percent from a year ago. Earnings per share increased to $0.37 from $0.34 per fully diluted share a year ago. Total revenues increased 9 percent to $50.3 million, compared to $46.4 million a year ago. The increase was driven by two factors. First, net interest income on a taxable-equivalent basis increased $1.5 million to $32.7 million as the net interest margin improved 34 basis points. The improvement in net interest income and the margin was largely attributable to First Charter s balance sheet repositioning initiatives executed in the fourth quarter of 2005. Second, noninterest income increased $2.4 million or 15 percent due to higher insurance, mortgage and deposit revenues. Loan growth was strong as average balances increased $394.0 million or 15 percent compared to a year ago. Loan growth includes $73.3 million in average balances attributable to first quarter 2005 mortgage loan purchases. Credit quality continues to be very strong with net charge-offs only 0.10 percent of average total loans in the first quarter of 2006. The Corporation also continued with its growth strategy by opening three additional full-service financial centers and three ATMs in the Raleigh area.

The Community Banking Model

First Charter follows a community banking model. The community banking model is focused on delivering our clients with a broad array of financial products and solutions, delivered 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 both larger competitors that may have less flexibility, as well as local competition that may not have the array of products and services that First Charter can offer. First Charter competes against three of the largest banks in the country as well as other local banks, savings and loan associations, credit unions and finance companies. Management believes that by focusing on core values, striving to expand our clients expectations, being an employer of choice and providing exceptional value to shareholders, First Charter can achieve the profitability and growth goals it has set for itself.

Please refer to First Charter s Annual Report on Form 10-K for the year ended December 31, 2005, for additional information with respect to the Corporation s recent accomplishments and significant challenges.

Table One
Selected Financial Data

(Dollars in thousands, except per share amounts)	For the Three Months Ended **March 31, 2006**	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Income statement					
Total interest income	**$ 59,646**	$ 58,639	$ 59,080	$ 55,604	$ 51,282
Total interest expense	**27,556**	26,710	27,990	24,314	20,708
Net interest income	**32,090**	31,929	31,090	31,290	30,574
Provision for loan losses	**1,519**	1,795	2,770	2,878	1,900
Total noninterest income	**18,241**	39	17,043	17,317	15,814
Total noninterest expense	**31,512**	44,046	28,943	29,364	28,869
Net income (loss) before income taxes	**17,300**	(13,873)	16,420	16,365	15,619
Income tax expense (benefit)	**5,856**	(5,543)	4,368	5,085	5,310
Net income (loss)	**$ 11,444**	$ (8,330)	$ 12,052	$ 11,280	$ 10,309
Per share data:					
Basic net income (loss)	**$ 0.37**	$ (0.27)	$ 0.39	$ 0.37	$ 0.34
Diluted net income (loss)	**0.37**	(0.27)	0.39	0.37	0.34
Cash dividends declared	**0.190**	0.190	0.190	0.190	0.190
Period-end book value	**10.77**	10.53	10.82	10.73	10.31
Average shares outstanding basic	**30,859,461**	30,678,743	30,575,440	30,409,307	30,234,683
Average shares outstanding diluted	**31,153,338**	30,678,743	30,891,887	30,679,636	30,630,601
Ratios					
Return on average shareholders equity [1]	**14.12%**	(10.21)%	14.57%	14.12%	13.21%
Return on average assets [1]	**1.10**	(0.77)	1.02	1.00	0.94
Net interest margin [1]	**3.40**	3.27	2.92	3.03	3.06
Average loans to average deposits	**105.75**	103.30	103.30	103.68	97.04
Average equity to average assets	**7.82**	7.52	7.03	7.05	7.13
Efficiency ratio [2]	**61.89**	59.90	59.44	59.70	61.41
Selected period end balances					
Securities available for sale	**$ 900,424**	$ 899,111	$ 1,374,163	$ 1,412,885	$ 1,440,494
Loans held for sale	**8,719**	6,447	7,309	8,159	6,006
Loans, net	**2,981,458**	2,917,020	2,900,357	2,829,127	2,676,707
Allowance for loan losses	**29,505**	28,725	29,788	29,032	27,483
Total assets	**4,283,356**	4,232,420	4,699,722	4,633,236	4,513,053
Total deposits	**2,800,346**	2,799,479	2,872,993	2,751,385	2,702,708
Borrowings	**1,103,784**	1,068,573	1,438,388	1,503,322	1,451,756
Total liabilities	**3,949,729**	3,908,824	4,368,677	4,305,538	4,200,799
Total shareholders equity	**333,627**	323,596	331,045	327,698	312,254
Selected average balances					
Loans and loans held for sale	**2,945,908**	2,932,195	2,904,954	2,788,438	2,551,876
Earning Assets [3]	**3,868,519**	3,969,620	4,331,780	4,236,232	4,122,175

Total assets	**4,203,273**	4,303,821	4,665,301	4,543,846	4,439,768
Total deposits	**2,785,632**	2,838,566	2,812,165	2,689,390	2,629,795
Borrowings	**1,049,529**	1,099,350	1,471,482	1,491,636	1,443,909
Total shareholders equity	**328,763**	323,753	328,115	320,412	316,476

(1) *Annualized*

(2) *Noninterest expense less debt extinguishment expense and derivative termination costs divided by the sum of taxable equivalent net interest income plus noninterest income less (loss) gain on sale of securities.*

(3) *The amounts in 2005 have been adjusted to correct the average balances presented in Table Six of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.*

Critical Accounting Estimates and Policies

The Corporation s significant accounting policies are described in Note One of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005, on pages 57 to 69, as supplemented in this report with respect to the Corporation s recently adopted stock-based compensation policy. These policies are essential in understanding management s discussion and analysis of financial condition and results of operations. Some of the Corporation s accounting policies require significant judgment to estimate values of either assets or liabilities. In addition, certain accounting principles require significant judgment with respect to their application to complicated transactions to determine the most appropriate treatment.

The Corporation has identified three accounting policies as being critical in terms of judgments and the extent to which estimates are used: allowance for loan losses, tax contingencies and derivative instruments. In many cases, there are numerous alternative judgments that could be used in the process of estimating values of assets or liabilities. Where alternatives exist, the Corporation has used the factors that it believes represent the most reasonable value in developing the inputs for the valuation. Actual performance that differs from the Corporation s estimates of the key variables could impact net income. For more information on the Corporation s critical accounting policies, refer to pages 26 to 29 of the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

Earnings Performance

Net Interest Income and Margin

Net interest income, the difference between total interest income and total interest expense, is the Corporation s principal source of earnings. An analysis of the Corporation s net interest income on a taxable-equivalent basis and average balance sheets for the three months ended March 31, 2006 and 2005 is presented in ***Table Two***. Net interest income on a taxable-equivalent basis (FTE) is a non-GAAP (Generally Accepted Accounting Principles) performance measure used by management in operating the business which management believes provides investors with a more accurate picture of the interest margin for comparative purposes. The changes in net interest income (on a taxable-equivalent basis) for the three months ended March 31, 2006 and 2005 are analyzed in ***Table Three***.

For the three months ended March 31, 2006, net interest income on a FTE basis amounted to $32.7 million, an increase of approximately 5 percent from $31.1 million for the three months ended March 31, 2005. The increase was primarily due to a $394.0 million increase in average loan balances, an increase in the percentage of earning assets funded by low-cost core deposits (money market, demand and savings accounts) and the balance sheet repositioning which occurred in late October 2005.

The net interest margin (tax-adjusted net interest income divided by average interest-earning assets) increased 34 basis points to 3.40 percent for the three months ended March 31, 2006, compared to 3.06 percent in the same 2005 period. The improvements were primarily the result of the previously disclosed October 2005 balance sheet repositioning and improved pricing discipline.

The increase in earning asset yields of 121 basis points was driven by two factors. First, loan yields increased 111 basis points to 6.91 percent and securities yields increased 39 basis points to 4.31 percent. Second, the percentage of higher yielding assets improved as a result of the balance sheet repositioning. The percentage of investment securities to total earning assets was reduced from 35 percent to 23 percent. Interest earning asset average balances decreased $253.7 million to $3.87 billion at March 31, 2006 compared to $4.12 billion for the same 2005 period. The decrease was primarily due to the balance sheet repositioning which resulted in a $646.1 million decline in average securities balances. This was partially offset by $394.0 million growth in the Corporation s loan average balances compared to March 31, 2005. Loan balances increased, in part, due to the purchase of whole loan ARMs during the first quarter of 2005, which contributed $73.3 million to the increase in average balances.

The cost of interest bearing liabilities increased 102 basis points compared to the first quarter of 2005. This was comprised of a 94 basis point increase in interest bearing deposit costs to 2.83 percent while other borrowing costs increased 143 basis points to 4.25 percent. Interest-bearing liability average balances decreased $278.4 million compared to March 31, 2005. The decrease was primarily due to the balance sheet repositioning which resulted in a $394.4 million decline in other borrowings average balances. This decline in interest bearing liabilities average balances was partially offset by a $155.8 million increase in interest-bearing deposit average balances compared to March 31, 2005, driven by a $103.6 million increase in money market average balances.

The following table compares interest income and yields for interest earning asset average balances and interest expense and rates paid on interest bearing liability average balances for the three months ended March 31, 2006 and 2005. In addition, the table includes the net interest margin.

Table Two
Average Balances and Net Interest Income Analysis

	First Quarter 2006			First Quarter 2005		
(Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid[5]**	Average Balance	Interest Income/ Expense	Average Yield/Rate Paid[5]
Interest earning assets:						
Loans and loans held for sale [1] [2] [3]	**$2,945,908**	**$50,306**	**6.91%**	$2,551,876	$36,499	5.80%
Securities taxable	**808,399**	**8,308**	**4.11**	1,448,157	13,813	3.82
Securities nontaxable	**106,361**	**1,544**	**5.81**	112,717	1,493	5.30
Federal funds sold	**3,223**	**36**	**4.53**	1,528	9	2.43
Interest bearing bank deposits	**4,628**	**39**	**3.42**	7,897	43	2.20
Total earning assets [4]	**3,868,519**	**60,233**	**6.29**	4,122,175	51,857	5.08
Cash and due from banks	**97,893**			93,505		
Other assets	**236,861**			224,088		
Total assets	**$4,203,273**			$4,439,768		
Interest bearing liabilities:						
Demand deposits	**931,780**	**4,298**	**1.87**	807,835	1,536	0.77
Savings deposits	**120,096**	**64**	**0.22**	123,221	70	0.23
Other time deposits	**1,321,036**	**12,200**	**3.75**	1,325,878	8,908	2.72
Other borrowings	**1,049,529**	**10,994**	**4.25**	1,443,909	10,194	2.82
Total interest bearing liabilities	**3,422,441**	**27,556**	**3.27**	3,700,843	20,708	2.25
Noninterest bearing sources:						
Noninterest bearing deposits	**412,720**			372,861		
Other liabilities	**39,349**			49,588		

Shareholders equity	**328,763**			316,476		
Total liabilities and shareholders equity	**$4,203,273**			$4,439,768		
Net interest spread			**3.02**			2.83
Impact of noninterest bearing sources			**0.38**			0.23
Net interest income/ yield on earning assets		**$32,677**	**3.40**%		$31,149	3.06%

(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 loan fees and amortization of deferred loan fees of approximately $745 and $467 for the first quarter of 2006 and 2005, 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 for the first quarter of 2006 and 2005. The*

adjustments made to convert to a taxable-equivalent basis were $587 and $575 for the first quarter of 2006 and 2005, respectively.

(5) *Annualized*

Changes in net interest income for the three months ended March 31, 2006 and March 31, 2005 are as follows:

Table Three

Volume and Rate Variance Analysis

	Three Months Ended March 31, 2006 versus March 31, 2005 Increase (Decrease) in Net Interest Income Due to Change in Rate and Volume [1]			
(Dollars in thousands)	**2006 Income/ Expense**	**Rate**	**Volume**	**2005 Income/ Expense**
Interest income:				
Loans and loans held for sale [2]	**$50,306**	**$ 7,624**	**$ 6,183**	**$36,499**
Securities taxable	**8,308**	**834**	**(6,339)**	**13,813**
Securities nontaxable [2]	**1,544**	**139**	**(88)**	**1,493**
Federal funds sold	**36**	**11**	**16**	**9**
Interest bearing bank deposits	**39**	**19**	**(23)**	**43**
Total interest income	**$60,233**	**$ 8,627**	**$ (251)**	**$51,857**
Interest expense:				
Demand deposits	**$ 4,298**	**$ 2,359**	**$ 403**	**$ 1,536**
Savings deposits	**64**	**(4)**	**(2)**	**70**
Other time deposits	**12,200**	**3,331**	**(39)**	**8,908**
Other borrowings	**10,994**	**4,257**	**(3,457)**	**10,194**
Total interest expense	**27,556**	**9,943**	**(3,095)**	**20,708**
Net interest income	**$32,677**	**$(1,316)**	**$ 2,844**	**$31,149**

(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.

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

Noninterest Income

The major components of noninterest income are derived from service charges on deposit accounts, mortgage, brokerage, insurance and wealth management. In addition, the Corporation realizes securities gains and losses, gains and losses from transactions involving bank owned property and income from its BOLI policies.

Noninterest income increased $2.4 million, or 15 percent, to $18.2 million for the three months ended March 31, 2006 compared to the same period in 2005. This improvement was primarily due to a $0.8 million increase in insurance revenues resulting from the early receipt of revenue traditionally received in the second quarter, a $0.5 million increase in service charges resulting from increased NSF volume and a $0.5 million increase in ATM, debit card and merchant income as a result of increased transaction volume. Mortgage loan fees increased $0.4 million as the Corporation sold a majority of its current mortgage loan production, in contrast to the 2005 first quarter. In addition, the Corporation realized gains of $0.5 million in its SBIC/Venture Capital portfolio, compared to a loss of $0.1 million in the first quarter of 2005. Property sale gains of $0.1 million were recognized in the first quarter of 2006 compared to $0.6 million in the first quarter of 2005.

The following table compares noninterest income for the periods indicated.

Table Four

Noninterest Income

	Three Months Ended March 31		Increase/(Decrease)	
(Dollars in thousands)	**2006**	2005	Amount	Percent
Service charges on deposit accounts	**$ 6,698**	$ 6,236	$ 462	7.4%
Wealth management income	**1,664**	1,580	84	5.3
Loss on sale of securities		(49)	49	N/A
Gain (loss) from equity method investments	**545**	(58)	603	1,039.7
Mortgage services income	**808**	394	414	105.1
Brokerage services income	**711**	802	(91)	(11.3)
Insurance services income	**4,290**	3,512	778	22.2
Bank owned life insurance	**827**	827		
Gain on sale of property	**81**	529	(448)	(84.7)
ATM & debit card income	**1,898**	1,450	448	30.9
Other	**719**	591	128	21.7
Total noninterest income	**$18,241**	$15,814	$2,427	15.3%

Noninterest Expense

Noninterest expense is primarily comprised of operating expenses for the Corporation. The major components are salaries and employee benefits, occupancy and equipment, professional fees and other operating expenses.

Noninterest expense increased $2.6 million to $31.5 million compared to the first quarter of 2005. Of this, $1.3 million is attributable to expenses related to the Corporation s Raleigh investments and a recent de novo financial center in Charlotte.

Salaries and employee benefits increased $2.1 million compared to the first quarter of 2005, of which $0.8 million is due to additional personnel related to the Raleigh market expansion and the Charlotte de novo branch. Expenses associated with equity-based compensation (SFAS No. 123(R)) totaled $0.5 million, while increased commission-based compensation and higher medical costs contributed $0.4 million and $0.1 million, respectively, toward the increase. In addition, occupancy and equipment increased $0.4 million due to additional financial center lease and depreciation expenses, of which $0.3 million was related to additional financial centers in Raleigh and Charlotte.

Marketing costs increased $0.2 million over the first quarter of 2005 primarily due to the Raleigh market entry and other initiatives.

The following table compares noninterest expense for the periods indicated.

Table Five

Noninterest Expense

	Three Months Ended March 31		Increase/(Decrease)	
(Dollars in thousands)	**2006**	2005	Amount	Percent
Salaries and employee benefits	**$17,693**	$15,569	$2,124	13.6%
Occupancy and equipment	**4,770**	4,381	389	8.9
Data processing	**1,453**	1,321	132	10.0
Marketing	**1,288**	1,080	208	19.3

Postage and supplies	**1,231**	1,208	23	1.9
Professional services	**1,950**	1,913	37	1.9
Amortization of intangibles	**150**	131	19	14.5
Telephone	**579**	528	51	9.7
Other	**2,398**	2,738	(340)	(12.4)
Total noninterest expense	**$31,512**	$28,869	$2,643	9.2%

Income Tax Expense

Income tax expense for the three months ended March 31, 2006 was $5.9 million for an effective tax rate of 33.9 percent, compared to $5.3 million representing an effective tax rate of 34.0 percent for the same period of 2005.

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. Valuations are determined as of a date within close proximity to the end of the reporting period based on available quoted market prices or quoted market prices for similar securities if a quoted market price is not available.

At March 31, 2006, securities available-for-sale were $900.4 million or 22.9 percent of total earning assets, compared to $899.1 million or 23.3 percent of total earning assets at December 31, 2005. Pre-tax unrealized net losses on securities available-for-sale were $20.1 million at March 31, 2006, compared to pre-tax unrealized net losses of $18.6 million at December 31, 2005. To mitigate the risk of unrealized losses increasing due to rising interest rates, the Corporation s current investment strategy focuses on holding shorter duration securities with more predictable cash flows in a variety of interest rate scenarios. This will allow the Corporation to reinvest the cash flows of the portfolio into higher rate securities or fund loan growth in a rising interest rate environment. The weighted average duration of the portfolio was 2.3 years at March 31, 2006 compared to 2.5 years at December 31, 2005.

Loan Portfolio

The Corporation s loan portfolio consists of six major categories: Commercial Non Real Estate, Commercial 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 tenor can range out to 30 years. In addition, the Corporation has a program in which it buys and sells portions of commercial real estate, commercial non real estate and construction 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 program enables the Corporation to diversify both its geographic and its total exposure risk.

Gross loans increased $65.2 million, or 9 percent annualized, to $3.01 billion at March 31, 2006 compared to $2.95 billion at December 31, 2005. The growth was driven by construction and commercial real estate loans which increased $65.9 million and $39.7 million, respectively. Mortgage loans declined $7.8 million due, in part, to normal loan amortization and the Corporation s strategy of selling most of its new mortgage production in the secondary market. Home equity loans declined $9.6 million partly as a result of customers refinancing adjustable rate home equity loans into fixed rate first mortgage loans. Commercial non real estate loans declined $20.1 million and consumer loans declined $3.0 million. In late 2005 and early 2006, the Corporation expanded into the Raleigh, North Carolina market with four de novo financial centers. On March 31, 2006 First Charter had $42.1 million in loans balances from the Raleigh market.

The table below summarizes loans in the classifications indicated.

Table Six

Loan Portfolio Composition

(Dollars in thousands)	**March 31, 2006**	% of Total Loans	December 31, 2005	% of Total Loans
Commercial real estate	**$ 820,318**	27.2%	$ 780,597	26.5%
Commercial non real estate	**213,338**	7.1	233,409	7.9
Construction	**583,288**	19.4	517,392	17.6
Mortgage	**565,166**	18.8	573,007	19.4
Consumer	**355,636**	11.8	358,592	12.2
Home equity	**473,342**	15.7	482,921	16.4
Total loans	**3,011,088**	100.0	2,945,918	100.0
Less allowance for loan losses	**(29,505)**	(1.0)	(28,725)	(1.0)
Unearned income	**(125)**	(0.0)	(173)	(0.0)
Loans, net	**$2,981,458**	99.0%	$2,917,020	99.0%

Deposits

Deposits totaled $2.80 billion at March 31, 2006, a slight increase from December 31, 2005. The growth in deposits was primarily focused in lower-cost core deposits. Period-end core deposits increased $32.4 million to $1.5 billion at March 31, 2006. Retail certificates of deposit (CDs) declined $38.8 million from December 31, 2005 to $877.8 million due in large part to maturing municipal CDs which the Corporation elected not to bid on at unprofitable levels. The Corporation utilizes brokered CDs, which increased $7.3 million to $412.5 million, as an alternative source of cost-effective funding.

Other Borrowings

Other borrowings consist of Federal Funds purchased, securities sold under agreements to repurchase, commercial paper and other short-term borrowings, and long-term borrowings. At March 31, 2006, the Bank had available federal funds lines totaling $100.0 million with $12.5 million outstanding compared to $25.0 million outstanding at December 31, 2005. Securities sold under agreements to repurchase totaled $249.1 million at March 31, 2006 compared to $287.3 million at December 31, 2005.

The Corporation issues commercial paper as another source of short-term funding. Commercial paper outstanding at March 31, 2006 was $24.3 million compared to $58.4 million at December 31, 2005.

Other short-term borrowings include FHLB borrowings with an original maturity of one year or less. During the first quarter of 2006, short-term FHLB borrowings increased $35 million to $175.0 million, as rates were lower than other wholesale funding sources.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities. At March 31, 2006, the Bank had $581.0 million of long-term FHLB borrowings compared to $496.0 million at December 31, 2005. In addition, the Corporation had $61.9 million of subordinated debentures at both March 31, 2006 and December 31, 2005.

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 flow through an independent closing unit to ensure proper documentation. 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 watch list 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 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 (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. Commitments over $5.0 million are further reviewed by senior lending officers of the Bank, the Chief Risk Officer and the Credit Risk Management Committee comprised of executive and senior management. In addition, commitments over $10.0 million are reviewed by the Board of Directors Loan Committee. These oversight committees provide policy, process, product and specific relationship direction to the lending personnel. As of March 31, 2006, the Corporation had a legal lending limit of $58.8 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.

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 decisioning 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, 2006, the substantial majority of the total loan portfolio, as well as a substantial portion of the commercial and real estate portfolio, represents loans to borrowers within the Charlotte and Raleigh

Metro regions. The diversity of the Charlotte and Raleigh Metro regions economic base tends to provide a stable lending environment; however, an economic downturn in the Corporation s primary market area could adversely affect its business. No significant concentration of credit risk has been identified due to the diverse industrial base in the region.

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

Derivatives

The Corporation enters into interest rate swap agreements or other derivative transactions as business conditions warrant. As previously discussed, the Corporation repositioned its balance sheet in the fourth quarter of 2005. As a result, the Corporation extinguished $222 million in debt and terminated the related interest rate swaps. As of March 31, 2006 and December 31, 2005, the Corporation had no interest rate swap agreements or other derivative transactions outstanding.

Nonperforming Assets

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

Management s policy for any accruing loan greater than 90 days past due is to perform an analysis of the loan, including a consideration of the financial position of the borrower and any guarantor, as well as the value of the collateral, and use this information to make an assessment as to whether collectibility of the principal and interest appears probable. If such collectibility is not probable, the loans are placed on nonaccrual status. Loans are returned to accrual status when management determines, based on an evaluation of the underlying collateral together with the borrower s payment record and financial condition, that the borrower has the ability and intent to meet the contractual obligations of the loan agreement. As of March 31, 2006, no loans were 90 days or more past due and still accruing interest.

The table below summarizes the Corporation s nonperforming assets and loans 90 days or more past due and still accruing interest as of the dates indicated.

Table Seven

Nonperforming Assets

(Dollars in thousands)	**March 31 2006**	December 31 2005	September 30 2005	June 30 2005	March 31 2005
Nonaccrual loans	**$ 9,211**	$ 10,811	$ 7,071	$ 9,858	$ 9,282
Other real estate owned	**6,072**	5,124	6,079	6,390	7,648
Total nonperforming assets	**15,283**	15,935	13,150	16,248	16,930
Loans 90 days or more past due and still accruing interest					
Total nonperforming assets and loans 90 days or more past due and still accruing interest	**$15,283**	$ 15,935	$ 13,150	$16,248	$16,930

Nonperforming assets as a percentage of:					
Total assets	**0.36**%	0.38%	0.28%	0.35%	0.38%
Total loans and other real estate owned	**0.51**	0.54	0.45	0.57	0.62
Nonaccrual loans as a percentage of loans	**0.31**	0.37	0.24	0.34	0.34
Ratio of allowance for loan losses to nonperforming loans	**3.20**x	2.66x	4.21x	2.95x	2.96x

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Nonaccrual loans totaled $9.2 million at March 31, 2006, representing a $1.6 million decrease from $10.8 million at December 31, 2005. The decrease was primarily due to a previously disclosed $1.6 million paydown of one commercial loan which moved to nonaccrual status in the fourth quarter of 2005 and the transfer of several consumer loans to OREO. Correspondingly, OREO increased $1.0 million from December 31, 2005. Nonperforming assets as a percentage of total loans and other real estate owned decreased to 0.51 percent at March 31, 2006 compared to 0.54 percent at December 31, 2005 and 0.62 percent at March 31, 2005.

Nonaccrual loans at March 31, 2006 and December 31, 2005 were not concentrated in any one industry and primarily consisted of loans secured by real estate. Nonaccrual loans as a percentage of loans may increase as economic conditions change. Management has taken current economic conditions into consideration when estimating the allowance for loan losses. See **Allowance for Loan Losses** for a more detailed discussion.

Allowance for Loan Losses

The Corporation s allowance for loan losses consists of three components: (i) valuation allowances computed on impaired loans in accordance with SFAS No. 114; (ii) valuation allowances determined by applying historical loss rates to those loans not specifically identified as impaired; and (iii) valuation allowances for factors which management believes are not reflected in the historical loss rates or that otherwise need to be considered when estimating the allowance for loan losses. These three components are estimated quarterly by Credit Risk Management 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. Since 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 area. Changes in these areas can increase or decrease the provision for loan losses.

During the three months ended March 31, 2006, the Corporation made no changes to its estimated loss percentages for economic factors. As a part of its quarterly assessment of the allowance for loan losses, the Corporation reviews key local, regional and national economic information and assesses its impact on the allowance for loan losses. Based on its review for the three months ended March 31, 2006, the Corporation noted that economic conditions are mixed; however, management concluded that the impact on borrowers and local industries in the Corporation s primary market area did not change significantly during the period. Accordingly, the Corporation did not modify its loss estimate percentage attributable to economic factors in its allowance for loan losses model.

The Corporation continuously reviews its portfolio for any concentrations of loans to any one borrower or industry. To analyze its concentrations, the Corporation prepares various reports showing total loans to borrowers by industry, as well as reports showing total loans to one borrower. At the present time, the Corporation does not believe it is overly concentrated in any 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. The percent of additional allocation for the operational reserve has not changed in recent periods.

Table Eight
Allowance For Loan Losses

(Dollars in thousands)	Three Months Ended March 31, **2006**	2005
Balance, January 1	**$ 28,725**	$ 26,872
Loan charge-offs:		
Commercial non real estate	**251**	511
Commercial real estate	**75**	553
Mortgage	**11**	49
Consumer	**501**	601
Home equity	**391**	204
Total loans charged-off	**1,229**	1,918
Recoveries of loans previously charged-off:		
Commercial non real estate	**328**	439
Consumer	**162**	190
Total recoveries of loans previously charged-off	**490**	629
Net charge-offs	**739**	1,289
Provision for loan losses	**1,519**	1,900
Balance, March 31	**$ 29,505**	$ 27,483
Average loans	**$2,939,233**	$2,547,226
Net charge-offs to average loans (annualized)	**0.10%**	0.21%
Allowance for loan losses to gross loans	**0.98**	1.02

The allowance for loan losses was $29.5 million or 0.98 percent of gross loans at March 31, 2006 compared to $28.7 million or 0.98 percent of gross loans at December 31, 2005 and $27.5 million or 1.02 percent of gross loans at March 31, 2005. The lower allowance for loan loss ratio compared to a year ago is related to the Corporation s improved credit quality trends.

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

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 mix of types of loans; (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 amounts of loans outstanding, which are used to estimate current probable loan losses. In addition, the Corporation considers other, more subjective factors which impact the credit quality of the portfolio as a whole and estimates allocations of allowance for loan losses for these factors, as well. These factors include loan concentrations, economic conditions and operational risks. Changes in these components of the allowance can arise from fluctuations in the underlying percentages used as related loss estimates for these factors, as well as variations in the portfolio balances to which they are applied. The net change in all of these components of

the allowance for loan losses results in the provision for loan losses. For a more detailed discussion of the Corporation s process for estimating the allowance for loan losses, see **Allowance for Loan Losses.**

The provision for loan losses for the three months ended March 31, 2006 amounted to $1.5 million compared to $1.9 million a year ago. The decrease in the provision for loan losses was primarily attributable to a $0.6 million decrease in net charge-offs. Net charge-offs for the three months ended March 31, 2006 amounted to $0.7 million, or 0.10 percent of average loans, compared to $1.3 million, or 0.21 percent of average loans for the same 2005 period.

Market Risk Management

Asset-Liability Management and Interest Rate Risk

The Corporation s primary interest rate risk management objective is to maximize net interest income across a broad range of interest rate scenarios, subject to risk tolerance approval by Management and the Board of Directors. Management primarily analyzes interest rate risk in two fundamentally different ways: earnings simulation and market value of equity. The first method uses an earnings simulation model to assess the amount of near-term earnings at risk (net interest income at risk over a 12 month horizon) due to changes in interest rates. In analyzing interest rate sensitivity for policy measurement, net interest income is simulated in plus and minus 200 basis point rate shock scenarios relative to the implied forward interest rate scenario for the next 12 months. Under the Corporation s policy, the limit for near-term earnings at risk is 10 percent of net interest income. At March 31, 2006, First Charter estimated that its net interest income at risk to a plus and minus 200 basis point rate shock relative to the implied forwards was a positive 5 percent and negative 5 percent, respectively.

The second method management uses to analyze interest rate risk is to calculate the market value of equity for the Corporation. This calculation discounts the anticipated cash flows of a static balance sheet using current rates. Management then recalculates the Corporation s market value of equity in plus and minus 200 basis point rate shock scenarios. The Corporations has established a 15 percent limit for the market value of equity at risk for a 200 basis point rate shock. At March 31, 2006, the Corporation s market value at risk for a 200 basis point increase and decrease relative to the implied forward rate forecast was a negative 8 percent and positive 5 percent, respectively.

Management also analyzes interest rate risk in parallel current and forward interest rate scenarios beyond the 200 basis point rate shocks mentioned above. In addition, Management analyzes interest rate risk under various interest rate scenarios that involve changes in the relationship between various market rate indices.

Management uses a variety of tools to manage the Corporation s interest rate risk including, but not limited to, loan and deposit pricing, its choice of tenor and repricing characteristics on its wholesale borrowings, its choice of the tenor and repricing characteristics of its investment portfolio, and from time to time, various derivative products.

Table Nine summarizes the expected maturities and weighted average effective yields and rates associated with certain of the Corporation s significant non-trading financial instruments. Cash and cash equivalents, federal funds sold and interest-bearing bank deposits are excluded from ***Table Nine*** as their respective carrying values approximate fair values. 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 outside evaluation of the average remaining life of each security based on expected prepayment speeds of the underlying mortgages at March 31, 2006. These expected maturities, weighted average effective yields and fair values will change if interest rates change. Demand deposits, money market accounts and certain savings deposits are presented in the earliest maturity window

because they have no stated maturity. For interest rate risk analytical purposes, these non-maturity deposits are believed to have average lives longer than shown here.

Table Nine

Market Risk

March 31, 2006

				Expected Maturity			
(Dollars in thousands)	**Total**	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**Thereafter**
Assets							
Debt securities							
Fixed rate							
Book value	$ 768,912	$ 198,004	$272,597	$185,871	$ 38,731	$ 33,707	$ 40,002
Weighted average effective yield	4.31%						
Fair value	$ 752,211						
Variable rate							
Book value	$ 102,513	37,657	38,005	21,851			5,000
Weighted average effective yield	4.37%						
Fair value	$ 98,808						
Loans and loans held for sale							
Fixed rate							
Book value	$ 774,589	155,002	144,011	155,908	83,645	106,933	129,090
Weighted average effective yield	6.40%						
Fair value	$ 762,951						
Variable rate							
Book value	$2,245,093	850,520	343,983	249,173	103,396	100,128	597,893
Weighted average effective yield	7.31%						
Fair value	$2,249,593						
Liabilities							
Deposits							
Fixed rate							
Book value	$1,290,254	1,064,822	178,800	34,434	7,904	3,966	328
Weighted average effective yield	3.75%						
Fair value	$1,288,791						
Variable rate							
Book value	$1,087,908	277,718	277,206	276,403	121,705	63,582	71,294
Weighted average effective yield	1.87%						
Fair value	$1,025,956						
Long-term borrowings							
Fixed rate							
Book value	$ 260,986	110,052	50,054	50,057	60	50,074	689
	4.09%						

Weighted average effective yield				
Fair value	$ 257,098			
Variable rate				
Book value	$ 381,857	200,000	120,000	61,857
Weighted average effective yield	5.66%			
Fair value	$ 382,341			

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

The following table presents aggregated information about commitments of the Corporation, which could impact future periods.

Table Ten

Commitments

As of March 31, 2006

	Amount of Commitment Expiration Per Period				
(Dollars in thousands)	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**Over 5 Years**	**Total Amounts Committed**
Lines of Credit	$ 32,345	$ 2,741	$ 1,841	$ 421,629	$ 458,556
Standby Letters of Credit	13,496	2,534			16,030
Loan Commitments	500,401	131,338	32,482	14,997	679,218
Total Commitments	$546,242	$136,613	$34,323	$ 436,626	$ 1,153,804

Liquidity Risk

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

Liquidity is managed at two levels. The first is the liquidity of the Corporation. The second is the liquidity of the Bank. The management of liquidity at both levels is essential, because each of 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 equity securities. In addition, the Corporation had a $25.0 million bank line of credit with no outstandings and commercial paper outstandings of $24.3 million at March 31, 2006. Primary uses of funds for the Corporation include repayment of commercial paper, share repurchases and dividends paid to shareholders. During the second and third quarter of 2005, the Corporation issued Trust Securities through specially formed trusts. The Trust Securities are presented as long-term borrowings in the **Consolidated Balance Sheet** and are includable in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

Primary sources of funding for the Bank include customer deposits, wholesale deposits, other borrowings, loan repayments and securities available-for-sale. 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, 2006, the Bank had an available line of credit with the FHLB totaling $1.27 billion with $756.0 million outstanding. At March

31, 2006, the Bank also had $100.0 million of federal funds lines with $12.5 million outstanding. Primary uses of funds include repayment of maturing obligations and growing the loan portfolio.

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

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.

Shareholders equity at March 31, 2006 increased to $333.6 million, representing 7.8 percent of period-end assets compared to $323.6 million or 7.6 percent of period-end assets at December 31, 2005. The increase was due mainly to net income of $11.4 million partially offset by cash dividends of $0.19 per share, which resulted in cash dividend payments of $5.5 million for the three months ended March 31, 2006. In addition, the after-tax unrealized loss on securities-available-for-sale increased $0.9 million to $12.1 million at March 31, 2006 compared to $11.3 million at December 31, 2005. This increase was due to a rise in interest rates across the yield curve.

On January 23, 2002, the Corporation s Board of Directors authorized the repurchase of up to 1.5 million shares of the Corporation s common stock. As of March 31, 2006, the Corporation had repurchased a total of 1.4 million shares of its common stock at an average per-share price of $17.52 under this authorization, which has reduced shareholders equity by $24.5 million. No shares were repurchased under this authorization during the three months ended March 31, 2006.

On October 24, 2003, the Corporation s Board of Directors authorized the repurchase of up to 1.5 million additional shares of the Corporation s common stock. At March 31, 2006 no shares had been repurchased under this authorization.

The Corporation anticipates repurchasing shares under one or both of these plans in 2006 under certain conditions.

During the second quarter and third quarter of 2005, the Corporation issued Trust Securities through specially formed trusts. The Trust Securities are presented as long-term borrowings in the **Consolidated Balance Sheet** and are includable in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

The Corporation s and the Bank s various regulators have issued regulatory capital guidelines for U.S. banking organizations. Failure to meet the capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a material effect on the Corporation s financial statements. At March 31, 2006, the Corporation and the Bank were classified as well capitalized under these regulatory frameworks.

The Corporation s and the Bank s actual capital amounts and ratios are presented in the table below:

Table Eleven

Capital Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Minimum Ratio**	**Amount**	**Minimum Ratio**
At March 31, 2006:						
Total Capital (to Risk Weighted Assets)						
First Charter Corporation	**$413,690**	**12.08%**	**$273,939**	**8.00%**	**None**	**None**
First Charter Bank	**392,171**	**11.49**	**273,022**	**8.00**	**$341,277**	**10.00%**
Tier I Capital (to Risk Weighted Assets)						
First Charter Corporation	**$384,035**	**11.22%**	**$136,970**	**4.00%**	**None**	**None**
First Charter Bank	**362,665**	**10.63**	**136,511**	**4.00**	**$204,766**	**6.00%**
Tier I Capital (to Adjusted Average Assets)						
First Charter Corporation	**$384,035**	**9.14%**	**$167,993**	**4.00%**	**None**	**None**
First Charter Bank	**362,665**	**8.67**	**167,414**	**4.00**	**$209,267**	**5.00%**

Regulatory Recommendations

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

Accounting Matters

In July 2005, the FASB issued an exposure draft, Accounting for Uncertain Tax Positions , a proposed interpretation of SFAS No. 109, Accounting for Income Taxes (the proposed Interpretation). The proposed Interpretation would clarify the accounting for uncertain tax positions and require the Corporation to recognize management s best estimate of the impact of a tax position. The initial proposed effective date of the Interpretation was fiscal years ending after December 31, 2005; however, the provisions of the Interpretation have not been finalized. Management is currently evaluating the effect of the initial proposed Interpretation and its impact on the consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 is an amendment of SFAS No. 133 and SFAS No. 140. SFAS No. 155 permits companies to elect, on a deal by deal basis, to apply a fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The Corporation does not expect SFAS No. 155 to have a material impact on the consolidated financial statements of the Corporation.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets. SFAS No. 156 amends SFAS No. 140. SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value. For subsequent measurements, SFAS No. 156 permits companies to choose between using an amortization method or a fair value measurement method for reporting purposes. SFAS No. 156 is effective as of the beginning of a company s first fiscal year that begins after September 15, 2006. The Corporation does not expect SFAS No. 156 to have a material impact on the consolidated financial statements of the Corporation.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See **Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk Management Asset-Liability Management and Interest Rate Risk** on page 29 for Quantitative and Qualitative Disclosures about Market Risk.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, an evaluation of the effectiveness of the Registrant s disclosure controls and procedures (as defined in Rule 13(a)-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was performed under the supervision and with the participation of the Registrant s management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, the Registrant s Chief Executive Officer and Chief 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 recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms.

(b) Changes in internal control over financial reporting. During the Registrant s first fiscal quarter, there has been no change in the Registrant s internal controls 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 controls over financial reporting.

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 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, 2005.

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

(c) Issuer Purchases of Equity Securities

The following table summarizes the Corporation s repurchases of its common stock during the quarter ended March 31, 2006.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2006-January 31, 2006				1,625,400
February 1, 2006-February 28, 2006				1,625,400
March 1, 2006-March 31, 2006				1,625,400
Total				1,625,400

(1) On January 24, 2002, the Corporation announced that its Board of Directors had authorized a stock repurchase plan to acquire up to 1.5 million shares of the Corporation s common stock from time to time. As of September 30, 2005, the Corporation had repurchased 1,374,600 shares under this authorization. No shares were repurchased under this authorization during the quarter ended March 31, 2006. On November 3, 2003, the Corporation announced that its Board of Directors had 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, 2006, no shares have been repurchased under this authorization. These stock repurchase plans have no set expiration or termination date.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibit No. (per Exhibit Table in item 601 of Regulation S-K)	Description of Exhibits
10.1	Description of 2006 Compensation for Non-Employee Directors, incorporated herein by reference to Item 1.01 of the Corporation s Current Report on Form 8-K dated January 25, 2006.
10.2	Form of Performance Shares Award Agreement under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.1 of the Corporation s Current Report on Form 8-K dated February 27, 2006.
10.3	Form of Restricted Stock Award Agreement under the First Charter Corporation 2000 Omnibus Stock Option and Award Plan, incorporated herein by reference to Exhibit 10.2 of the Corporation s Current Report on Form 8-K dated February 27, 2006.
10.4	Form of First Charter Corporation Restricted Stock Award Agreement for use with the First Charter Corporation Restricted Stock Award Program, incorporated herein by reference to Exhibit 10.5 of the Corporation s Current Report on Form 8-K dated February 27, 2006.
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 Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: May 10, 2006

By: /s/ Charles A. Caswell

Charles A. Caswell
Executive Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer duly authorized to sign on behalf of the registrant)