FIRST CHARTER CORP /NC/
Form 10-Q
August 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 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 Filer o

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 August 8, 2006 the Registrant had outstanding 31,193,480 shares of Common Stock, no par value.

First Charter Corporation

Form 10-Q for the Quarterly Period Ended June 30, 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)	**June 30, 2006** **(Unaudited)**	December 31, 2005
Assets:		
Cash and due from banks	**$ 115,557**	$ 119,080
Federal funds sold	**2,347**	2,474
Interest bearing bank deposits	**13,432**	3,998
Cash and cash equivalents	**131,336**	125,552
Securities available for sale (cost of $913,016 and $917,710; carrying amount of pledged collateral $539,550 and $557,132)	**884,370**	899,111
Loans held for sale	**8,382**	6,447
Loans	**3,072,346**	2,945,918
Less: Unearned income	**(58)**	(173)
Allowance for loan losses	**(29,520)**	(28,725)
Loans, net	**3,042,768**	2,917,020
Premises and equipment, net	**107,244**	106,773
Goodwill and other intangible assets	**22,025**	21,897
Other assets	**167,149**	155,620
Total assets	**$4,363,274**	$ 4,232,420
Liabilities:		
Deposits, domestic:		
Noninterest bearing demand	**$ 449,732**	$ 429,758
Interest bearing	**2,539,070**	2,369,721
Total deposits	**2,988,802**	2,799,479
Federal funds purchased and securities sold under agreements to repurchase	**219,823**	312,283
Commercial paper and other short-term borrowings	**133,057**	198,432
Long-term debt	**642,827**	557,859
Other liabilities	**41,830**	40,772
Total liabilities	**4,026,339**	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 31,120,421 and 30,736,936 shares	**141,388**	133,408
Common stock held in Rabbi Trust for deferred compensation	**(1,051)**	(893)
Deferred compensation payable in common stock	**1,051**	893
Retained earnings	**212,881**	201,442
Accumulated other comprehensive loss:		
Unrealized loss on securities available for sale, net	**(17,334)**	(11,255)
Total shareholders equity	**336,935**	323,595
Total liabilities and shareholders equity	**$4,363,274**	$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 June 30 **2006**	2005	For the Six Months Ended June 30 **2006**	2005
Interest income:				
Loans	**$ 54,123**	$ 41,965	**$ 104,383**	$ 78,411
Securities	**9,522**	13,601	**18,833**	28,385
Federal funds sold and interest bearing bank deposits	**97**	38	**172**	90
Total interest income	**63,742**	55,604	**123,388**	106,886
Interest expense:				
Deposits	**18,343**	12,210	**34,905**	22,724
Federal funds purchased and securities sold under agreements to repurchase	**3,114**	2,801	**5,921**	4,127
Federal Home Loan Bank and other borrowings	**9,638**	9,304	**17,825**	18,171
Total interest expense	**31,095**	24,314	**58,651**	45,022
Net interest income	**32,647**	31,290	**64,737**	61,864
Provision for loan losses	**880**	2,878	**2,399**	4,778
Net interest income after provision for loan losses	**31,767**	28,412	**62,338**	57,086
Noninterest income:				
Service charges on deposit accounts	**7,469**	7,061	**14,167**	13,297
Wealth management income	**1,535**	1,596	**3,199**	3,176
Gain (loss) on sale of securities	**32**	18	**32**	(31)
Gain (loss) from equity method investments	**11**	(174)	**556**	(232)
Mortgage services income	**916**	817	**1,724**	1,211
Brokerage services income	**692**	793	**1,403**	1,595
Insurance services income	**2,857**	3,099	**7,147**	6,611
Bank owned life insurance	**850**	1,762	**1,677**	2,589
Gain on sale of properties	**107**	188	**188**	717
ATM & debit card income	**2,117**	1,719	**4,015**	3,169
Other	**654**	438	**1,373**	1,029
Total noninterest income	**17,240**	17,317	**35,481**	33,131
Noninterest expense:				
Salaries and employee benefits	**16,824**	15,908	**34,517**	31,477
Occupancy and equipment	**4,887**	4,687	**9,657**	9,068
Data processing	**1,491**	1,333	**2,944**	2,654
Marketing	**1,196**	1,065	**2,484**	2,145

Postage and supplies	**1,328**	1,187	**2,559**	2,395
Professional services	**2,305**	1,984	**4,255**	3,897
Telephone	**528**	551	**1,107**	1,079
Amortization of intangibles	**154**	126	**304**	257
Other	**2,723**	2,523	**5,121**	5,261
Total noninterest expense	**31,436**	29,364	**62,948**	58,233
Income before income taxes	**17,571**	16,365	**34,871**	31,984
Income tax expense	**6,025**	5,085	**11,881**	10,395
Net income	**$ 11,546**	$ 11,280	**$ 22,990**	$ 21,589
Net income per share:				
Basic	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.71
Diluted	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.71
Weighted average shares:				
Basic	**31,058,858**	30,409,307	**30,959,711**	30,285,244
Diluted	**31,339,325**	30,679,636	**31,249,049**	30,607,931

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Common Stock held in Rabbi Trust for Deferred Compensation	Deferred Compensation Payable in Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2004	30,054,256	$121,464	$ (808)	$ 808	$198,085	$ (4,862)	$314,687
Comprehensive loss:							
Net income					21,589		21,589
Unrealized loss on securities available for sale, net						(5,961)	(5,961)
Total comprehensive loss							15,628
Common stock purchased by Rabbi Trust for deferred compensation			(48)				(48)
Deferred compensation payable in common stock				48			48
Cash dividends declared					(11,140)		(11,140)
Stock options exercised and Dividend Reinvestment Plan stock issued	464,778	8,175					8,175
Shares issed in connection with business acquisition	3,117	84					84
Restricted stock issued	11,400	264					264
Balance, June 30, 2005	30,533,551	$129,987	$ (856)	$ 856	$208,534	$(10,823)	$327,698
Balance, December 31, 2005	**30,736,936**	**$133,408**	**$ (893)**	**$ 893**	**$201,442**	**$(11,255)**	**$323,595**
Comprehensive loss:							
Net income					**22,990**		**22,990**
Unrealized loss on securities available for sale, net						**(6,079)**	**(6,079)**
Total comprehensive loss							**16,911**
Common stock purchased by Rabbi Trust for deferred compensation			**(158)**				**(158)**
Deferred compensation payable in common stock				**158**			**158**
Cash dividends declared					**(11,551)**		**(11,551)**
	279,439	**4,474**					**4,474**

Stock options exercised and Dividend Reinvestment Plan stock issued							
Shares issed in connection with business acquisition	**14,463**	**362**					**362**
Restricted stock issued	**89,583**	**2,121**					**2,121**
Tax benefit from employees stock option and restricted stock plans		**328**					**328**
Stock-based compensation		**695**					**695**
Balance, June 30, 2006	**31,120,421**	**$141,388**	**$(1,051)**	**$1,051**	**$212,881**	**$(17,334)**	**$336,935**

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Six Months Ended June 30	
	2006	2005
Cash flows from operating activities:		
Net income	**$ 22,990**	$ 21,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**2,399**	4,778
Depreciation	**4,761**	4,897
Amortization of intangibles	**304**	257
Stock-based compensation expense	**1,068**	124
Premium amortization and discount accretion, net	**579**	1,218
Net (gain) loss on securities available for sale transactions	**(32)**	31
Net (gain) loss on sale of foreclosed assets	**(89)**	34
Write-downs on foreclosed assets	**355**	128
(Gain) loss from equity method investments	**(556)**	232
Net gain on sale property	**(188)**	(717)
Payment on BOLI claims		(925)
Origination of mortgage loans held for sale	**(93,448)**	(66,935)
Proceeds from sale of mortgage loans held for sale	**91,514**	64,102
Change in cash surrender value of bank owned life insurance	**1,677**	(973)
Change in other assets	**(5,579)**	2,509
Change in other liabilities	**406**	(7,009)
Net cash provided by operating activities	**26,161**	23,340
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	**24,603**	165,413
Proceeds from maturities of securities available for sale	**48,719**	100,837
Purchase of securities available for sale	**(69,174)**	(37,566)
Net change in loans	**(130,822)**	(426,608)
Proceeds from sales of other real estate	**1,170**	2,525
Net purchases of premises and equipment	**(5,232)**	(8,313)
Net cash used in investing activities	**(130,736)**	(203,712)
Cash flows from financing activities:		
Net change in demand, money market and savings accounts	**92,467**	(1,656)
Net change in certificates of deposit	**96,856**	143,195
Net change in federal funds purchased and securities sold under repurchase agreements	**(92,460)**	174,986
Net change in commerical paper and other short-term borrowings	**(65,374)**	5,017
Proceeds from issuance of long-term debt and trust preferred securities	**220,000**	111,083

Retirement of long-term debt	**(135,032)**	(237,501)
Proceeds from issuance of common stock	**3,721**	7,364
Tax benefit from employees stock option and restricted stock plans	**328**	
Dividends paid	**(10,147)**	(9,824)
Net cash provided by financing activities	**110,359**	192,664
Net change in cash and cash equivalents	**5,784**	12,292
Cash and cash equivalents at beginning of period	**125,552**	98,011
Cash and cash equivalents at end of period	**$ 131,336**	$ 110,303
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 55,949**	$ 41,602
Income taxes	**11,875**	16,264
Supplemental disclosure of non-cash transactions:		
Transfer of loans to other real estate	**2,674**	5,232
Unrealized loss on securities available for sale (net of tax effect of ($3,968) and ($3,953), respectively)	**(6,079)**	(5,961)
Issuance of common stock for business acquisition	**362**	

See accompanying notes to consolidated financial statements.

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First Charter Corporation and Subsidiaries
Notes to Interim Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2006 and 2005

First Charter Corporation (the Corporation) is a regional financial services company with assets of approximately $4.4 billion and is the holding company for First Charter Bank. As of June 30, 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 Merger Activity

As previously disclosed, on June 1, 2006 the Corporation entered into and announced a definitive Agreement and Plan of Merger (the Merger Agreeement) to acquire all outstanding shares of GBC Bancorp, Inc. (GBC), parent of Gwinnett Banking Company, headquartered in Lawrenceville, Georgia (the Merger). Under the terms of the Merger Agreement, First Charter Corporation will issue a combination of common stock and cash for the outstanding common shares of GBC. The Merger requires 70 percent of the shares of GBC common stock to be exchanged for First Charter Corporation common stock, with the remainder of the consideration being cash. Following closing of the transaction, GBC shareholders will receive an aggregate of 2,975,000 First Charter Corporation shares and approximately $30.6 million in cash, representing an approximate transaction value of $102 million, based on an estimated value of First Charter Corporation common stock of $24.00 per share. GBC shareholders have the option to receive 1.989 shares of First Charter Corporation common stock or $47.74 in cash for each share of GBC common stock, or a combination of stock and cash, subject to the transaction s stock and cash limits mentioned above. The Merger is expected to close during the fourth quarter of 2006 and is subject to approval by the GBC shareholders and customary bank regulatory approvals.

Note Three 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 and six months ended June 30, 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 June 30		**Six Months Ended June 30**	
	2006	2005	**2006**	2005
Basic weighted average number of common shares outstanding	**31,058,858**	30,409,307	**30,959,711**	30,285,244
Dilutive effect arising from potential common stock issuances	**280,467**	270,329	**289,338**	322,687
Diluted weighted average number of common shares outstanding	**31,339,325**	30,679,636	**31,249,049**	30,607,931

The effects of outstanding antidilutive stock options are excluded from the computation of diluted net income per share. These amounts were 258,000 and 259,000 shares for the three and six months ended June 30, 2006, respectively, and 1.0 million shares for both the three and six months ended June 30, 2005.

Dividends declared by the Corporation were $0.195 per share and $0.19 per share for the three months ended June 30, 2006 and 2005, respectively. For the six months ended June 30, 2006 and 2005 dividends declared by the Corporation were $0.385 per share and $0.38 per share, respectively.

Note Four 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,

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investment securities and investments in venture capital limited partnerships) and liabilities (including commercial paper and subordinated debentures) are included in the Other category.

Information regarding the separate results of operations and assets for the Bank and Other for the three months ended June 30, 2006 and 2005, is provided in the following tables:

	Three Months Ended June 30, 2006			
(Dollars in thousands)	**The Bank**	**Other**	**Eliminations**	**Totals**
Total interest income	**$ 63,653**	**$ 89**	**$**	**$ 63,742**
Total interest expense	**29,935**	**1,160**		**31,095**
Net interest income (loss)	**33,718**	**(1,071)**		**32,647**
Provision for loan losses	**880**			**880**
Total noninterest income (loss)	**17,249**	**(9)**		**17,240**
Total noninterest expense	**31,397**	**39**		**31,436**
Net income (loss) before income taxes	**18,690**	**(1,119)**		**17,571**
Income taxes expense (benefit)	**6,408**	**(383)**		**6,025**
Net income (loss)	**$ 12,282**	**$ (736)**	**$**	**$ 11,546**
Total loans held for sale and loans, net	**$3,051,150**	**$**	**$**	**$3,051,150**
Total assets	**4,312,784**	**443,647**	**(393,157)**	**4,363,274**

	Three Months Ended June 30, 2005			
(Dollars in thousands)	The Bank	Other	Eliminations	Totals
Total interest income	$ 55,602	$ 2	$	$ 55,604
Total interest expense	24,058	256		24,314
Net interest income (loss)	31,544	(254)		31,290
Provision for loan losses	2,878			2,878
Total noninterest income	17,231	86		17,317
Total noninterest expense	29,308	56		29,364
Net income (loss) before income taxes	16,589	(224)		16,365
Income taxes expense (benefit)	5,154	(69)		5,085
Net income (loss)	$ 11,435	$ (155)	$	$ 11,280
Total loans held for sale and loans, net	$2,837,286	$	$	$2,837,286
Total assets	4,615,003	407,190	(388,957)	4,633,236

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Information regarding the separate results of operations and assets for the Bank and Other for the six months ended June 30, 2006 and 2005, is provided in the following tables:

	Six Months Ended June 30, 2006			
(Dollars in thousands)	**The Bank**	**Other**	**Eliminations**	**Totals**
Total interest income	**$ 123,280**	**$ 108**	**$**	**$ 123,388**
Total interest expense	**56,411**	**2,240**		**58,651**
Net interest income (loss)	**66,869**	**(2,132)**		**64,737**
Provision for loan losses	**2,399**			**2,399**
Total noninterest income	**35,402**	**79**		**35,481**
Total noninterest expense	**62,845**	**103**		**62,948**
Net income (loss) before income taxes	**37,027**	**(2,156)**		**34,871**
Income taxes expense (benefit)	**12,615**	**(734)**		**11,881**
Net income (loss)	**$ 24,412**	**$ (1,422)**	**$**	**$ 22,990**
Total loans held for sale and loans, net	**$3,051,150**	**$**	**$**	**$3,051,150**
Total assets	**4,312,784**	**443,647**	**(393,157)**	**4,363,274**

	Six Months Ended June 30, 2005			
(Dollars in thousands)	The Bank	Other	Eliminations	Totals
Total interest income	$ 106,867	$ 19	$	$ 106,886
Total interest expense	44,524	498		45,022
Net interest income (loss)	62,343	(479)		61,864
Provision for loan losses	4,778			4,778
Total noninterest income	33,062	69		33,131
Total noninterest expense	58,127	106		58,233
Net income (loss) before income taxes	32,500	(516)		31,984
Income taxes expense (benefit)	10,563	(168)		10,395
Net income (loss)	$ 21,937	$ (348)	$	$ 21,589
Total loans held for sale and loans, net	$2,837,286	$	$	$2,837,286
Total assets	4,615,003	407,189	(388,956)	4,633,236

Note Five 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 June 30, 2006 and December 31, 2005:

June 30, 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**	**$ 994**	**$ 43**	$ 1,037	$ 979	$ 58
Customer lists	**2,854**	**1,257**	**1,597**	2,676	998	1,678
Other intangibles[(1)]	**379**	**159**	**220**	379	127	252
Total	**$ 4,270**	**$ 2,410**	**$ 1,860**	$ 4,092	$ 2,104	$ 1,988
Unamortized intangible assets:						
Goodwill	**$ 20,164**	**$**	**$ 20,164**	$ 19,910	$	$ 19,910

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

The gross carrying amount of customer lists increased to $2.9 million at June 30, 2006 from $2.7 million at December 31, 2005 and goodwill increased to $20.2 million at June 30, 2006 from $19.9 million at December 31, 2005. The increase was due to payments based on the 2005 performance of an insurance agency acquired in 2004.

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Amortization expense totaled $154,000 and $304,000 for the three and six months ended June 30, 2006, respectively, and $126,000 and $257,000 for the three and six months ended June 30, 2005, respectively.

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

(Dollars in thousands)	**Noncompete Agreements**	**Customer Lists**	**Other Intangibles**	**Total**
July December 2006	$ 15	$ 250	$ 30	$ 295
2007	28	430	54	512
2008		334	46	380
2009		238	36	274
2010		145	27	172
2011 and after		200	27	227
Total	$ 43	$1,597	$ 220	$1,860

Note Six 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:

	For the Six Months Ended June 30,					
	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	**$ 34,871**	**$11,881**	**$22,990**	$31,984	$10,395	$ 21,589
Other comprehensive loss:						
Unrealized losses on securities:						
Unrealized losses arising during period	**(10,015)**	**(3,955)**	**(6,060)**	(9,945)	(3,965)	(5,980)
Less: Reclassification for realized gains (losses)	**32**	**13**	**19**	(31)	(12)	(19)
Unrealized losses, net of reclassification	**$(10,047)**	**$ (3,968)**	**$ (6,079)**	$ (9,914)	$ (3,953)	$ (5,961)
Total comprehensive income	**$ 24,824**	**$ 7,913**	**$16,911**	$22,070	$ 6,442	$ 15,628

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Note Seven Securities Available-for-Sale

Securities available-for-sale are summarized as follows:

	June 30, 2006			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
US government obligations	**$ 14,959**	**$**	**$ 62**	**$ 14,897**
US government agency obligations	**327,441**		**8,953**	**318,488**
Mortgage-backed securities	**403,484**	**70**	**19,998**	**383,556**
State, county, and municipal obligations	**96,883**	**691**	**718**	**96,856**
Asset-backed securities	**14,989**	**5**	**30**	**14,964**
Equity securities	**45,260**	**349**		**45,609**
Other	**10,000**			**10,000**
Total	**$913,016**	**$1,115**	**$29,761**	**$884,370**

	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
Asset-backed securities	5,000		6	4,994
Equity securities	44,198	188		44,386
Total	$917,710	$1,669	$20,268	$899,111

Equity securities primarily 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 $38.6 million and $37.5 million at June 30, 2006 and December 31, 2005, respectively, and the cost basis of Federal Reserve Bank stock was $5.7 million and $5.6 million at June 30, 2006 and December 31, 2005, respectively.

For the Corporation s securities designated as temporarily impaired on June 30, 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 June 30, 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

AAA/AA-RATED SECURITIES						
US government obligations	$ 14,897	$ (62)	$	$	$ 14,897	$ (62)
US government agency obligations	15,968	(38)	302,520	(8,915)	318,488	(8,953)
Mortgage-backed securities	87,376	(2,380)	293,001	(17,618)	380,377	(19,998)
State, county and muncipal obligations	9,022	(199)	13,439	(519)	22,461	(718)
Total AAA/AA-rated securities	127,263	(2,679)	608,960	(27,052)	736,223	(29,731)
A/BBB-RATED SECURITIES						
Asset-backed securities	9,970	(30)			9,970	(30)
Total A/BBB-rated securities	9,970	(30)			9,970	(30)
Total temporarily impaired securities	$137,233	$(2,709)	$608,960	$(27,052)	$746,193	$(29,761)

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

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flows of the underlying collateral or the issuer. At June 30, 2006, the Corporation had the ability and the intent to hold these investments to recovery of fair market value.

Note Eight Loans and Allowance for Loan Losses

Loans are categorized as follows:

	June 30, 2006		December 31, 2005	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Commercial real estate	**$ 885,981**	**28.8%**	$ 780,597	26.5%
Commercial non real estate	**220,433**	**7.2**	233,409	7.9
Construction	**584,094**	**19.0**	517,392	17.6
Mortgage	**557,338**	**18.1**	573,007	19.4
Consumer	**355,815**	**11.6**	358,592	12.2
Home equity	**468,685**	**15.3**	482,921	16.4
Total loans	**$3,072,346**	**100.0%**	$2,945,918	100.0%

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in thousands)	**2006**	2005	**2006**	2005
Balance, beginning of period	**$29,505**	$27,483	**$28,725**	$26,872
Provision for loan losses	**880**	2,878	**2,399**	4,778
Charge-offs	**(1,135)**	(1,516)	**(2,364)**	(3,434)
Recoveries	**270**	187	**760**	816
Net charge-offs	**(865)**	(1,329)	**(1,604)**	(2,618)
Balance, June 30	**$29,520**	$29,032	**$29,520**	$29,032

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)	**June 30, 2006**	December 31, 2005
Nonaccrual loans	**$ 7,763**	$10,811
Other real estate owned	**5,902**	5,124
Total nonperforming assets	**13,665**	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	**$13,665**	$15,935

At June 30, 2006, the recorded investment in individually impaired loans was $0.8 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 and six months ended June 30, 2006 was $1.3 million and $1.8 million, respectively. The average recorded investment in individually impaired loans for the three and six months ended June 30, 2005 was $10.5 million and $11.2 million, respectively.

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Note Nine Stock-Based Compensation

First Charter Comprehensive Stock Option Plan. In April, 1992, the shareholders approved the First Charter Corporation Comprehensive Stock Option Plan (the Comprehensive Stock Option Plan). Under the terms of the Comprehensive Stock Option Plan, stock options (which can be incentive stock options or non-qualified stock options) may be periodically granted to key employees of the Corporation or its subsidiaries. The terms and vesting schedules of options granted under the Comprehensive 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 six months ended June 30, 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 six months ended June 30, 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. For the three months ended June 30, 2006, no shares were issued under this plan. For the six months ended June 30, 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. For the three and six months ended June 30, 2006, the Corporation issued 7,366 and 81,915 service-based nonvested shares, respectively, under this plan.

Stock-based compensation costs totaled $0.6 million for the three months ended June 30, 2006, which consisted of $0.2 million related to stock options, $0.1 million related to performance-based nonvested shares and $0.3 million related to service-based nonvested shares. For the six months ended June 30, 2006, stock-based compensation costs totaled $1.1 million, which consisted of $0.5 million related to stock options, $0.2 million related to performance-based nonvested shares and $0.4 million related to service-based nonvested shares.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	**2006**	2005
Dividend yield	**N/A**	3.34%	**3.21%**	3.16%
Risk free interest rate	**N/A**	4.10%	**4.72%**	3.87%
Expected lives	**N/A**	7 years	**8 years**	7 years
Volatility	**N/A**	26%	**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 June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	**2006**	2005	**2006**	2005
Net income, as reported	**$ 11,546**	$ 11,280	**$ 22,990**	$ 21,589
Total stock-based employee compensation expense included in the determination of reported net income	**361**	50	**807**	75
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effect of $194 and $26 for the three months ended June 30, 2006 and June 30, 2005, respectively and $261 and $69 for the six months ended June 30, 2006 and June 30, 2005, respectively	**(361)**	(550)	**(807)**	(1,172)
Pro forma net income	**$ 11,546**	$ 10,780	**$ 22,990**	$ 20,492
Net income per share:				
Basic-as reported	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.71
Basic-pro forma	**$ 0.37**	$ 0.35	**$ 0.74**	$ 0.68
Diluted-as reported	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.71
Diluted-pro forma	**$ 0.37**	$ 0.35	**$ 0.74**	$ 0.67

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

	2006	
	Weighted-Average	Weighted-Average

	Shares	Exercise (Option) Price	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**		
Granted				
Exercised	**(96,946)**	**18.06**		**603,731**
Forfeited	**(23,941)**	**21.97**		
Expired	**(2,798)**	**20.48**		
Outstanding at June 30	**2,437,406**	**21.48**	**4.12**	**7,780,008**
Options exercisable at June 30	**1,850,200**	**21.26**	**2.84**	**6,370,051**
Weighted-average Black-Scholes fair value of options granted during the year		**$ 5.85**		

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The weighted-average Black-Scholes fair value of options granted during the three and six months ended June 30, 2005 was $5.30 and $5.53, respectively, and the aggregate intrinsic value of options exercised was $1.1 million and $2.4 million, respectively.

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

	Service-Based		Performance-Based	
	Shares	Weighted Average Grant Price	Shares	Weighted Average Grant Price
Outstanding at December 31, 2005	**32,647**	**$ 22.97**		**$**
Granted	**89,549**	**23.68**	**58,500**	**23.66**
Vested				
Forfeited	**(895)**	**22.34**		
Outstanding at March 31, 2006	**121,301**	**23.50**	**58,500**	**23.66**
Granted	**7,366**	**24.10**		
Vested				
Forfeited	**(1,571)**	**23.66**		
Outstanding at June 30, 2006	**127,096**	**23.53**	**58,500**	**23.66**

As of June 30, 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. This cost is expected to be recognized over a weighted-average period of 2.5 years.

As of June 30, 2006, there were $1.1 million of total unrecognized compensation costs related to performance-based nonvested share-based compensation arrangements granted under the Omnibus Plan. This cost is expected to be recognized over a weighted-average period of 2.5 years.

Note Ten 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 June 30, 2006 of standby letters of credit issued or modified during the three and six months ended June 30, 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)	**June 30, 2006**	December 31, 2005
Lines of Credit	**$ 467,102**	$ 441,855
Standby Letters of Credit	**19,152**	15,600
Loan Commitments	**702,260**	668,356
Total Commitments	**$1,188,514**	$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 (the DOR) for 1999 through 2001 and is subject to examination for subsequent tax years. As a result of the examination, the DOR issued a proposed assessment of $3.6 million for tax and interest for tax years 1999 and 2000. The Corporation is currently appealing the proposed assessment.

The DOR recently announced a Settlement Initiative (the Initiative) allowing companies that have entered into certain eligible transactions to participate in the Initiative by June 15, 2006. The Initiative provides the Corporation an opportunity to resolve matters with a significant reduction in potential penalties. Resolution under the Initiative would be expected to include all open tax years. While management believes the Corporation is in compliance with existing state tax statutes, it intends to continue discussions with the DOR and is currently participating in the Initiative. The Corporation may withdraw from participation in the Initiative at any time prior to March 15, 2007.

The examination and the Corporation s participation in the Initiative is also expected to impact tax years after 2000. The Corporation estimates that the maximum tax liability that may be asserted by the DOR for tax years 1999 through the current tax year is approximately $9.0 million, in excess of amounts reserved, net of federal benefit. The Corporation would disagree with such potential liability if assessed, and would intend to continue to defend its position. The Corporation believes its current tax reserves are adequate.

There can be no assurance regarding the ultimate outcome of this matter, the timing of its resolution or the eventual loss or penalties that may result from it, which may be more or less than the amounts reserved by the Corporation.

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

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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 approximately $4.4 billion and is the holding company for First Charter Bank. As of June 30, 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.

As previously disclosed, on June 1, 2006 the Corporation entered into and announced a definitive Agreement and Plan of Merger (the Merger Agreeement) to acquire all outstanding shares of GBC Bancorp, Inc. (GBC), parent of Gwinnett Banking Company, headquartered in Lawrenceville, Georgia (the Merger). Under the terms of the Merger Agreement, First Charter Corporation will issue a combination of common stock and cash for the outstanding common shares of GBC. The Merger requires 70 percent of the shares of GBC common stock to be exchanged for First Charter Corporation common stock, with the remainder of the consideration being cash. Following closing of the transaction, GBC shareholders will receive an aggregate of 2,975,000 First Charter Corporation shares and approximately $30.6 million in cash, representing an approximate transaction value of $102 million, based on an estimated value of First Charter Corporation common stock of $24.00 per share. GBC shareholders have the option to receive 1.989 shares of First Charter Corporation common stock or $47.74 in cash for each share of GBC common stock, or a combination of stock and cash, subject to the transaction s stock and cash limits mentioned above. The Merger is expected to close during the fourth quarter of 2006 and is subject to approval by the GBC shareholders and customary bank regulatory approvals.

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.

Fiscal 2006 Financial Summary

The Corporation s second quarter 2006 net income was $11.5 million, an increase of 2 percent from a year ago. Earnings per share were $0.37 per fully diluted share for the second quarter of 2006, equal to a year ago. Total revenues increased 3 percent to $49.9 million, compared to $48.6 million a year ago. The increase was driven by a $1.3 million increase in net interest income on a taxable-equivalent basis and the net interest margin improved 33 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. Noninterest income decreased slightly to $17.2 million from $17.3 million a year ago. This reflects a $0.9 million BOLI gain recognized in the second quarter of 2005 with no similar gain in 2006. Noninterest expense increased $2.1 million to $31.4 million due to costs associated with the Corporation s Raleigh

investment and expenses associated with equity-based compensation (SFAS No. 123(R)). Loan growth was strong as average balances increased $242.4 million or 9 percent compared to a year ago. Average deposits increased $100.8 million or 4 percent compared to a year ago. Credit quality continues to be very strong with net charge-offs 0.11 percent of average total loans in the second quarter of 2006 compared to 0.19 percent a year ago. Raleigh balance sheet growth exceeded expectations as loans increased $39.3 million to $81.2 million and deposits increased $26.6 million to $30.0 million.

For the six months ended June 30, 2006 net income was $23.0 million, an increase of 6 percent from the same year ago period. Earnings per share were $0.74 per fully diluted share compared to $0.71 a year ago. Total revenues increased 5 percent to $100.2 million, compared to $95.0 million a year ago. The increase was driven by two factors. First, net interest income on a taxable-equivalent basis increased $2.9 million to $65.9 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 7 percent due to higher insurance, mortgage and deposit revenues. Noninterest expense increased $4.7 million to $62.9 million due to costs associated with the Corporation s Raleigh investment and expenses associated with SFAS No. 123(R). Loan growth was strong as average balances increased $317.8 million or 12 percent compared to a year ago. Average deposits increased $128.4 million or 5 percent compared to a year ago.

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 exceed 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.

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Table One
Selected Quarterly Financial Data

	For the Three Months Ended				
(Dollars in thousands, except per share amounts)	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
Income statement					
Total interest income	$ 63,742	$ 59,646	$ 58,639	$ 59,080	$ 55,604
Total interest expense	31,095	27,556	26,710	27,990	24,314
Net interest income	32,647	32,090	31,929	31,090	31,290
Provision for loan losses	880	1,519	1,795	2,770	2,878
Total noninterest income	17,240	18,241	39	17,043	17,317
Total noninterest expense	31,436	31,512	44,046	28,943	29,364
Net income (loss) before income taxes	17,571	17,300	(13,873)	16,420	16,365
Income tax expense (benefit)	6,025	5,856	(5,543)	4,368	5,085
Net income (loss)	$ 11,546	$ 11,444	$ (8,330)	$ 12,052	$ 11,280
Per share data:					
Basic net income (loss)	$ 0.37	$ 0.37	$ (0.27)	$ 0.39	$ 0.37
Diluted net income (loss)	0.37	0.37	(0.27)	0.39	0.37
Cash dividends declared	0.195	0.190	0.190	0.190	0.190
Period-end book value	10.83	10.77	10.53	10.82	10.73
Average shares outstanding basic	31,058,858	30,859,461	30,678,743	30,575,440	30,409,307
Average shares outstanding diluted	31,339,325	31,153,338	30,678,743	30,891,887	30,679,636
Ratios					
Return on average shareholders equity[1]	13.78	14.12	(10.21)%	14.57%	14.12%
Return on average assets[1]	1.08	1.10	(0.77)	1.02	1.00
Net interest margin [1]	3.36	3.40	3.27	2.92	3.03
Average loans to average deposits	108.62	105.75	103.30	103.30	103.68
Average equity to average assets	7.86	7.82	7.52	7.03	7.05
Efficiency ratio [2]	62.33	61.89	59.90	59.44	59.70
Selected period end balances					
Securities available for sale	$ 884,370	$ 900,424	$ 899,111	$ 1,374,163	$ 1,412,885
Loans held for sale	8,382	8,719	6,447	7,309	8,159
Loans, net	3,042,768	2,981,458	2,917,020	2,900,357	2,829,127
Allowance for loan losses	29,520	29,505	28,725	29,788	29,032
Total assets	4,363,274	4,283,356	4,232,420	4,699,722	4,633,236
Total deposits	2,988,802	2,800,346	2,799,479	2,872,993	2,751,385
Borrowings	995,707	1,103,784	1,068,573	1,438,388	1,503,322
Total liabilities	4,026,339	3,949,729	3,908,824	4,368,677	4,305,538
Total shareholders equity	336,935	333,627	323,596	331,045	327,698
Selected average balances					
Loans and loans held for sale	3,030,815	2,945,908	2,932,195	2,904,954	2,788,438

Earning assets	**3,960,835**	3,868,519	3,969,620	4,331,780	4,236,232
Total assets	**4,276,335**	4,203,273	4,303,821	4,665,301	4,543,846
Total deposits	**2,790,197**	2,785,632	2,838,566	2,812,165	2,689,390
Borrowings	**1,108,734**	1,049,529	1,099,350	1,471,482	1,491,636
Total shareholders equity	**335,979**	328,763	323,753	328,115	320,412

(1) *Annualized*

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

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Table Two
Selected Financial Data

(Dollars in thousands, except per share amounts)	For the Six Months Ended June 30, 2006	2005
Income statement		
Interest income	$ 123,388	$ 106,886
Interest expense	58,651	45,022
Net interest income	64,737	61,864
Provision for loan losses	2,399	4,778
Noninterest income	35,481	33,131
Noninterest expense	62,948	58,233
Income before income taxes	34,871	31,984
Income taxes	11,881	10,395
Net income	$ 22,990	$ 21,589
Per common share		
Basic net income	$ 0.74	$ 0.71
Diluted net income	0.74	0.71
Cash dividends declared	0.385	0.380
Period-end book value	10.83	10.73
Average shares outstanding basic	30,959,711	30,285,244
Average shares outstanding diluted	31,249,049	30,607,931
Ratios		
Return on average shareholders equity[1]	13.95%	13.67%
Return on average assets[1]	1.09	0.97
Net interest margin[1]	3.38	3.04
Average loans to average deposits	107.20	100.42
Average equity to average assets	7.84	7.09
Efficiency ratio[2]	62.11	60.54
Selected period end balances		
Securities available for sale	$ 884,370	$ 1,412,885
Loans held for sale	8,382	8,159
Loans, net	3,042,768	2,829,127
Allowance for loan losses	29,520	29,032
Total assets	4,363,274	4,633,236
Total deposits	2,988,802	2,751,385
Borrowings	995,707	1,503,322
Total liabilities	4,026,339	4,305,538
Total shareholders equity	336,935	327,698
Selected average balances		
Loans and loans held for sale	2,988,596	2,670,810
Earning assets	3,914,969	4,179,586

Total assets	**4,240,006**	4,492,094
Total deposits	**2,787,928**	2,659,757
Borrowings	**1,079,295**	1,467,904
Total shareholders equity	**332,391**	318,455

(1) Annualized

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

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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, income taxes 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 and six months ended June 30, 2006 and 2005 is presented in ***Tables Three and Four,*** respectively. 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 and six months ended June 30, 2006 and 2005 are analyzed in ***Tables Five and Six***.

For the three months ended June 30, 2006, net interest income on a FTE basis amounted to $33.2 million, an increase of approximately 4 percent from $31.9 million for the three months ended June 30, 2005. The increase was primarily due to a $242.4 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 33 basis points to 3.36 percent for the three months ended June 30, 2006, compared to 3.03 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 119 basis points was driven by two factors. First, loan yields increased 113 basis points to 7.17 percent and securities yields increased 45 basis points to 4.37 percent. Second, the percentage of higher yielding assets improved as a result of the balance sheet repositioning. The percentage of investment securities (which have lower yields than loans, on average) to total earning assets was reduced from 33 percent to 22 percent over the past year. Interest earning asset average balances decreased $275.4 million to $3.96 billion at June 30, 2006 compared to $4.24 billion for the same 2005 period. The decrease was primarily due to the balance sheet repositioning which resulted in a $520.8 million decline in average securities balances. This was partially offset by $242.4 million growth in the Corporation s loan average balances compared to June 30, 2005.

The cost of interest bearing liabilities increased 104 basis points compared to the second quarter of 2005. This was comprised of a 98 basis point increase in interest bearing deposit costs to 3.11 percent while other borrowing costs increased 140 basis points to 4.61 percent. Interest-bearing liability average balances decreased $322.1 million compared to June 30, 2005. The decrease was primarily due to the balance sheet repositioning which resulted in a $382.9 million decline in other borrowings average balances. This decline in interest bearing liabilities average balances was partially offset by a $60.8 million increase in interest-bearing deposit average balances compared to June 30, 2005, driven by a $122.9 million increase in money market average balances.

For the six months ended June 30, 2006, net interest income on a FTE basis amounted to $65.9 million, an increase of approximately 5 percent from $63.0 million for the six months ended June 30, 2005. The increase was primarily due to a $317.8 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 3.38 percent for the six months ended June 30, 2006, compared to 3.04 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 120 basis points was driven by two factors. First, loan yields increased 111 basis points to 7.04 percent and securities yields increased 42 basis points to 4.34 percent. Second, the percentage of higher yielding assets improved as a result of the balance sheet repositioning. The percentage of investment securities (which have lower yields than loans, on average) to total earning assets was reduced from 33 percent to 22 percent over the past year. Interest earning asset average balances decreased $264.6 million to $3.91 billion for the six months ended June 30, 2006 compared to $4.18 billion for the same 2005 period. The decrease was primarily due to the balance sheet repositioning which resulted in a $583.1 million decline in average securities balances. This was partially offset by $317.8 million growth in the Corporation s loan average balances compared to the six months ended June 30, 2005.

The cost of interest bearing liabilities increased 102 basis points compared to the six months ended June 30, 2005. This was comprised of a 96 basis point increase in interest bearing deposit costs to 2.97 percent while other borrowing costs increased 142 basis points to 4.44 percent. Interest-bearing liability average balances decreased $300.4 million compared to the six months ended June 30, 2005. The decrease was primarily due to the balance sheet repositioning which resulted in a $388.7 million decline in other borrowings average balances. This decline in interest bearing liabilities average balances was partially offset by a $88.2 million increase in interest-bearing deposit average balances compared to the six months ended June 30, 2005, driven by a $96.3 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 June 30, 2006 and 2005. In addition, the table includes the net interest margin.

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Table Three
Average Balances and Net Interest Income Analysis

(Dollars in thousands)	**Second Quarter 2006** Average Balance	Interest Income/ Expense	Average Yield/Rate Paid[5]	Second Quarter 2005 Average Balance	Interest Income/ Expense	Average Yield/Rate Paid[5]
Interest earning assets:						
Loans and loans held for sale[1][2][3]	**$3,030,815**	**$54,167**	**7.17%**	$2,788,438	$42,016	6.04%
Securities taxable	**819,886**	**8,534**	**4.16**	1,331,470	12,594	3.78
Securities nontaxable	**101,140**	**1,520**	**6.01**	110,383	1,551	5.62
Federal funds sold	**3,011**	**37**	**4.93**	1,641	12	2.88
Interest bearing bank deposits	**5,983**	**60**	**4.02**	4,300	26	2.47
Total earning assets[4]	**3,960,835**	**64,318**	**6.51**	4,236,232	56,199	5.32
Cash and due from banks	**77,115**			91,346		
Other assets	**238,385**			216,268		
Total assets	**$4,276,335**			$4,543,846		
Interest bearing liabilities:						
Demand deposits	**928,151**	**5,103**	**2.21**	782,768	1,821	0.93
Savings deposits	**121,130**	**65**	**0.22**	125,049	70	0.23
Other time deposits	**1,312,993**	**13,175**	**4.02**	1,393,675	10,319	2.97
Other borrowings	**1,108,734**	**12,752**	**4.61**	1,491,636	12,104	3.21
Total interest bearing liabilities	**3,471,008**	**31,095**	**3.59**	3,793,128	24,314	2.55
Noninterest bearing sources:						
Noninterest bearing deposits	**427,923**			387,898		
Other liabilities	**41,425**			42,408		
Shareholders equity	**335,979**			320,412		
Total liabilities and shareholders equity	**$4,276,335**			$4,543,846		
Net interest spread			**2.92**			2.77
Impact of noninterest bearing sources			**0.44**			0.26
		$33,223	**3.36%**		$31,885	3.03%

Net interest income/ yield on earning assets

(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 $701 and $529 for the second 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 and applicable state taxes for the second quarter of 2006 and 2005. The adjustments made to convert to a taxable-equivalent basis were $576 and $595 for the second quarter of 2006 and 2005, respectively.*

(5) *Annualized*

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 six months ended June 30, 2006 and 2005. In addition, the table includes the net interest margin.

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Table Four
Average Balances and Net Interest Income Analysis

	Six Months Ended June					
	2006			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]	**$2,988,596**	**$104,473**	**7.04%**	$2,670,810	$ 78,516	5.93%
Securities taxable	**814,175**	**16,842**	**4.14**	1,389,491	26,406	3.80
Securities nontaxable	**103,735**	**3,063**	**5.91**	111,543	3,044	5.46
Federal funds sold	**3,115**	**73**	**4.70**	1,585	21	2.66
Interest bearing bank deposits	**5,348**	**99**	**3.75**	6,157	69	2.27
Total earning assets[4]	**3,914,969**	**124,550**	**6.40**	4,179,586	108,056	5.20
Cash and due from banks	**87,409**			92,351		
Other assets	**237,628**			220,157		
Total assets	**$4,240,006**			$4,492,094		
Interest bearing liabilities:						
Demand deposits	**929,956**	**9,399**	**2.04**	795,232	3,357	0.85
Savings deposits	**120,616**	**130**	**0.22**	124,140	140	0.23
Other time deposits	**1,316,992**	**25,376**	**3.89**	1,359,964	19,227	2.85
Other borrowings	**1,079,295**	**23,746**	**4.44**	1,467,904	22,298	3.02
Total interest bearing liabilities	**3,446,859**	**58,651**	**3.43**	3,747,240	45,022	2.41
Noninterest bearing sources:						
Noninterest bearing deposits	**420,364**			380,421		
Other liabilities	**40,392**			45,978		
Shareholders equity	**332,391**			318,455		
Total liabilities and Shareholders equity	**$4,240,006**			$4,492,094		
Net interest spread			**2.97**			2.80
Impact of noninterest bearing sources			**0.41**			0.24

Net interest income/ yield on earning assets	**$ 65,899**	**3.38%**	$ 63,034	3.04%

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

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

(3) Includes amortization of deferred loan fees of approximately $1,446 and $996 for the six months ended June 30, 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 and applicable state taxes for the first six months of 2006 and 2005. The adjustments made to convert to a taxable-equivalent basis were $1,162 and $1,170 for the six months ended June 30, 2006 and 2005, respectively.

(5) Annualized

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Changes in net interest income for the three months ended June 30, 2006 and June 30, 2005 are as follows:

Table Five

Volume and Rate Variance Analysis

	Three Months Ended June 30, 2006 versus June 30, 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]	**$54,167**	**$ 8,159**	**$ 3,992**	**$ 42,016**
Securities taxable	**8,534**	**1,024**	**(5,084)**	**12,594**
Securities nontaxable[2]	**1,520**	**103**	**(134)**	**1,551**
Federal funds sold	**37**	**12**	**13**	**12**
Interest bearing bank deposits	**60**	**20**	**14**	**26**
Total interest income	**$64,318**	**$ 9,318**	**$(1,199)**	**$56,199**
Interest expense:				
Demand deposits	**$ 5,103**	**$ 2,711**	**$ 571**	**$ 1,821**
Savings deposits	**65**	**(3)**	**(2)**	**70**
Other time deposits	**13,175**	**3,560**	**(704)**	**10,319**
Other borrowings	**12,752**	**4,405**	**(3,757)**	**12,104**
Total interest expense	**31,095**	**10,673**	**(3,892)**	**24,314**
Net interest income	**$33,223**	**$ (1,355)**	**$ 2,693**	**$ 31,885**

[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 Three** for further details.*

Changes in net interest income for the six months ended June 30, 2006 and June 30, 2005 are as follows:

Table Six

Volume and Rate Variance Analysis

	Six Months Ended June 30, 2006 versus June 30, 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]	**$104,473**	**$15,732**	**$ 10,225**	**$ 78,516**
Securities taxable	**16,842**	**1,853**	**(11,417)**	**26,406**
Securities nontaxable[2]	**3,063**	**241**	**(222)**	**3,044**
Federal funds sold	**73**	**24**	**28**	**21**
Interest bearing bank deposits	**99**	**42**	**(12)**	**69**
Total interest income	**$124,550**	**$17,892**	**$ (1,398)**	**$108,056**
Interest expense:				
Demand deposits	**$ 9,399**	**$ 5,077**	**$ 965**	**$ 3,357**
Savings deposits	**130**	**(7)**	**(3)**	**140**
Other time deposits	**25,376**	**6,867**	**(718)**	**19,227**
Other borrowings	**23,746**	**8,676**	**(7,228)**	**22,298**
Total interest expense	**58,651**	**20,613**	**(6,984)**	**45,022**
Net interest income	**$ 65,899**	**$ (2,721)**	**$ 5,586**	**$ 63,034**

(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 Four*** *for further details.*

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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 decreased $0.1 million, or less than 1 percent, to $17.2 million compared to the second quarter of 2005. The year over year comparison of noninterest income was impacted by several unique transactions which include: Bank Owned Life Insurance (BOLI) claims of $0.9 million in the second quarter of 2005 versus none in the same quarter of 2006; $0.2 million of losses in the Corporation s SBIC/Venture Capital portfolio in the second quarter of 2005 versus $11,000 of gains in the same quarter of 2006; and $0.2 million of gains on the sale of bank property in the second quarter of 2005 versus $0.1 million in the second quarter of 2006. Excluding these transactions, noninterest income increased $0.7 million, or 5 percent, compared to the second quarter of 2005.

Deposit service charges increased $0.4 million due to checking account growth and increases in NSF volume. ATM and merchant income increased $0.4 million due primarily to growth in ATM and debit card fees as a result of increased transaction volume. Insurance services income decreased $0.2 million primarily as a portion of revenue traditionally recorded in the second quarter was received in the first quarter of 2006.

Noninterest income increased $2.4 million to $35.5 million for the six months ended June 30, 2006 compared to the same period in 2005. The year over year comparison of noninterest income was impacted by several transactions which include: Bank Owned Life Insurance (BOLI) claims of $0.9 million in the first half of 2005 versus none in the same 2006 period; $0.2 million of losses in the Corporation s SBIC/Venture Capital portfolio in the first half of 2005 versus $0.6 million of gains in the same 2006 period; and $0.7 million of gains on the sale of bank property in the first half of 2005 versus $0.2 million in the second 2006 period.

Deposit service charges increased $0.9 million due to checking account growth and increases in NSF volume. ATM and debit card income increased $0.8 million due primarily to growth in ATM and debit card fees as a result of increased transaction volume. Insurance services revenues increased $0.5 million due to an increase in contingency income. Mortgage loan fees increased $0.5 million due to an increase in the volume of loans sold in 2006 compared to the first half of 2005.

The following table compares noninterest income for the periods indicated.

Table Seven
Noninterest Income

	Three Months Ended June 30,		Increase/(Decrease)		**Six Months Ended June 30,**		Increase/(Decrease)	
(Dollars in thousands)	**2006**	2005	Amount	Percent	**2006**	2005	Amount	Percent
Service charges on deposit accounts	**$ 7,469**	$ 7,061	$ 408	5.8%	**$14,167**	$13,297	$ 870	6.5%
Wealth management income	**1,535**	1,596	(61)	(3.8)	**3,199**	3,176	23	0.7
Gain (loss) on sale of securities	**32**	18	14	77.8	**32**	(31)	63	(203.2)
Gain (loss) from equity method investments	**11**	(174)	185	106.3	**556**	(232)	788	(339.7)
Mortgage services income	**916**	817	99	12.1	**1,724**	1,211	513	42.4
Brokerage services income	**692**	793	(101)	(12.7)	**1,403**	1,595	(192)	(12.0)
Insurance services income	**2,857**	3,099	(242)	(7.8)	**7,147**	6,611	536	8.1
	850	1,762	(912)	(51.8)	**1,677**	2,589	(912)	(35.2)

Bank owned life insurance								
Gain on sale of property	**107**	188	(81)	(43.1)	**188**	717	(529)	(73.8)
ATM & merchant income	**2,117**	1,719	398	23.2	**4,015**	3,169	846	26.7
Other	**654**	438	216	49.3	**1,373**	1,029	344	33.4
Total noninterest income	**$17,240**	$17,317	$ (77)	(0.4)%	**$35,481**	$33,131	$2,350	7.1%

Noninterest Expense

Noninterest expense increased $2.1 million to $31.4 million compared to the second quarter of 2005. Of this, $1.5 million is attributable to expenses related to First Charter s Raleigh investments and a recent de novo branch in South Charlotte.

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Salaries and employee benefits increased $0.9 million compared to the second quarter of 2005, of which $0.7 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 123(R)) totaled $0.6 million, while increased commission-based compensation contributed $0.4 million toward the increase in salary and employee benefits. These increases were partially offset by a $1.1 million expense associated with a legacy employee benefit plan in the second quarter of 2005, which did not recur in 2006 and by lower benefit expenses due to a reduction in incentive accruals and lower health care expenses.

Compared to the second quarter of 2005 professional services increased $0.3 million, data processing increased $0.2 million as a result of increased ATM and debit transaction costs and occupancy and equipment expense increased $0.2 million related to additional Raleigh financial centers and the Charlotte de novo branch.

Noninterest expense increased $4.7 million to $62.9 million for the six months ended June 30, 2006 compared to the same 2005 period. Of this, $2.8 million is attributable to expenses related to First Charter s Raleigh investments and a recent de novo branch in South Charlotte.

Salaries and employee benefits increased $3.0 million compared to the first half of 2005, of which $1.5 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 123(R)) totaled $1.1 million, while increased commission-based compensation and 401(k) expenses contributed $0.9 million and $0.5 million, respectively, toward the increase in salary and employee benefits. These increases were partially offset by a $1.1 million expense associated with a legacy employee benefit plan and by $1.0 million of expenses associated with the former CFO s retirement in 2005, which did not recur in 2006.

Occupancy and equipment expense increased $0.6 million related to additional Raleigh financial centers and the Charlotte de novo branch. Professional services increased $0.4 million as a result of consulting services on capital projects and marketing expenses increased $0.3 million due to the Raleigh market entry.

The following table compares noninterest expense for the periods indicated.

Table Eight

Noninterest Expense

	Three Months Ended June 30,		Increase/(Decrease)		**Six Months Ended June 30,**		Increase/(Decrease)	
(Dollars in thousands)	**2006**	2005	Amount	Percent	**2006**	2005	Amount	Percent
Salaries and employee benefits	**$16,824**	$15,908	$ 916	5.8%	**$34,517**	$31,477	$3,040	9.7%
Occupancy and equipment	**4,887**	4,687	200	4.3	**9,657**	9,068	589	6.5
Data processing	**1,491**	1,333	158	11.9	**2,944**	2,654	290	10.9
Marketing	**1,196**	1,065	131	12.3	**2,484**	2,145	339	15.8
Postage and supplies	**1,328**	1,187	141	11.9	**2,559**	2,395	164	6.8
Professional services	**2,305**	1,984	321	16.2	**4,255**	3,897	358	9.2
Amortization of intangibles	**154**	126	28	22.2	**304**	257	47	18.3
Telephone	**528**	551	(23)	(4.2)	**1,107**	1,079	28	2.6
Other	**2,723**	2,523	200	7.9	**5,121**	5,261	(140)	(2.7)
Total noninterest expense	**$31,436**	$29,364	$2,072	7.1%	**$62,948**	$58,233	$4,715	8.1%

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Income Tax Expense

Income tax expense for the three months ended June 30, 2006 was $6.0 million for an effective tax rate of 34.3 percent, compared to $5.1 million representing an effective tax rate of 31.1 percent for the same period of 2005. The income tax expense for the six months ended June 30, 2006 was $11.9 million representing an effective tax rate of 34.1 percent, compared to $10.4 million for an effective tax rate of 32.5 percent for the same 2005 period. The increase in the effective tax rate is primarily due to a decrease in estimated nontaxable adjustments relative to pre-tax income.

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 June 30, 2006, securities available-for-sale were $884.4 million or 22.2 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 $28.6 million at June 30, 2006, compared to pre-tax unrealized net losses of $18.6 million at December 31, 2005. This increase was due to a rise in interest rates across the yield curve. 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 June 30, 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 maturity can extend 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 $126.4 million, or 9 percent annualized, to $3.07 billion at June 30, 2006 compared to $2.95 billion at December 31, 2005. The growth was driven by commercial real estate and construction loans which increased $120.4 million and $51.6 million, respectively. Mortgage loans declined $15.7 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 $14.2 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 $13.0 million and consumer loans declined $2.8 million. In late 2005 and early 2006, the Corporation expanded into the Raleigh, North Carolina market with four de novo financial centers. On June 30, 2006 First Charter had $81.2 million in loan balances from the Raleigh market.

The table below summarizes loans in the classifications indicated.

Table Nine

Loan Portfolio Composition

(Dollars in thousands)	**June 30, 2006**	% of Total Loans	December 31, 2005	% of Total Loans
Commercial real estate	**$ 885,981**	28.8%	$ 780,597	26.5%
Commercial non real estate	**220,433**	7.2	233,409	7.9
Construction	**584,094**	19.0	517,392	17.6
Mortgage	**557,338**	18.1	573,007	19.4
Consumer	**355,815**	11.6	358,592	12.2
Home equity	**468,685**	15.3	482,921	16.4
Total loans	**3,072,346**	100.0	2,945,918	100.0
Less allowance for loan losses	**(29,520)**	(1.0)	(28,725)	(1.0)
Unearned income	**(58)**	(0.0)	(173)	(0.0)
Loans, net	**$3,042,768**	99.0%	$2,917,020	99.0%

Deposits

Deposits totaled $2.99 billion at June 30, 2006, a $189.3 million increase from December 31, 2005. Period-end core deposits (money market, demand and savings accounts) increased $92.5 million to $1.57 billion at June 30, 2006. Retail certificates of deposit (CDs) increased $55.8 million from December 31, 2005 to $972.4 million. The increase was largely driven by customer preferences for the higher yields offered by CDs relative to other bank deposit products at the time. The Corporation utilizes brokered CDs, which increased $41.0 million to $446.2 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 June 30, 2006, the Bank had available federal funds lines totaling $145.0 million with $10.0 million outstanding compared to $25.0 million outstanding at December 31, 2005. Securities sold under agreements to repurchase totaled $209.8 million at June 30, 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 June 30, 2006 was $43.1 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 half of 2006, short-term FHLB borrowings decreased $50.0 million to $90.0 million as short-term funding needs were met by deposit growth.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities (the Trust Securities). At June 30, 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 June 30, 2006 and December 31, 2005.

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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 Credit and Compliance Committee. These oversight committees provide policy, process, product and specific relationship direction to the lending personnel. As of June 30, 2006, the Corporation had a legal lending limit of $60.3 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 June 30, 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

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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 June 30, 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 June 30, 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 Ten

Nonperforming and Problem Assets

(Dollars in thousands)	**June 30, 2006**	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
Nonaccrual loans	**$ 7,763**	$ 9,211	$10,811	$ 7,071	$ 9,858
Other real estate owned	**5,902**	6,072	5,124	6,079	6,390
Total nonperforming assets	**13,665**	15,283	15,935	13,150	16,248
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	**$13,665**	$15,283	$15,935	$13,150	$16,248

Nonperforming assets as a percentage of:					
Total assets	**0.31%**	0.36%	0.38%	0.28%	0.35%
Total loans and other real estate owned	**0.44**	0.51	0.54	0.45	0.57
Nonaccrual loans as a percentage of loans	**0.25**	0.31	0.37	0.24	0.34
Ratio of allowance for loan losses to nonperforming loans	**3.80x**	3.20 x	2.66x	4.21 x	2.95 x

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Nonaccrual loans totaled $7.8 million at June 30, 2006, representing a $3.0 million decrease from $10.8 million at December 31, 2005. The decrease was due, in part, 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 $0.8 million from December 31, 2005. OREO balances were impacted by a $0.4 million commercial write down during the second quarter of 2006. Nonperforming assets as a percentage of total loans and other real estate owned decreased to 0.44 percent at June 30, 2006 compared to 0.54 percent at December 31, 2005 and 0.57 percent at June 30, 2005.

Nonaccrual loans at June 30, 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.

As noted above, the Corporation uses historical loss rates as a component of estimating future losses in the loan portfolio. The Corporation monitors the factors generated by the historical loss migration model and may from time to time adjust the rates included in the allowance for loan loss model. Since the Corporation has experienced favorable credit quality trends for an extended period of time, those trends have been reducing the calculated historical loss rates for certain predefined loan categories. Based on results from the historical loss migration model and Managements assessment of the risk inherent in the portfolio, effective on for the quarter ending June 30, 2006, the Corporation reduced its historical loss rates included in the allowance for loan loss model on certain commercial loan categories with similar risks resulting in a reduction of approximately $0.6 million in required allowance.

During the six months ended June 30, 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 six months ended June 30, 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

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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 Eleven
Allowance For Loan Losses

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2006**	2005	**2006**	2005
Balance, beginning of period	**$ 29,505**	$ 27,483	**$ 28,725**	$ 26,872
Loan charge-offs:				
Commercial non real estate	**108**	345	**359**	856
Commercial real estate	**260**	305	**335**	858
Mortgage	**10**	26	**21**	75
Consumer	**447**	615	**948**	1,216
Home equity	**310**	225	**701**	429
Total loans charged-off	**1,135**	1,516	**2,364**	3,434
Recoveries of loans previously charged-off:				
Commercial non real estate	**111**	83	**439**	522
Mortgage		36		36
Consumer	**159**	68	**321**	258
Total recoveries of loans previously charged-off	**270**	187	**760**	816
Net charge-offs	**865**	1,329	**1,604**	2,618
Provision for loan losses	**880**	2,878	**2,399**	4,778
Allowance related to loans sold				
Balance, June 30	**$ 29,520**	$ 29,032	**$ 29,520**	$ 29,032
Average loans	**$3,021,004**	$2,781,606	**$2,980,344**	$2,665,063
Net charge-offs to average loans (annualized)	**0.11%**	0.19%	**0.11%**	0.20%
Allowance for loan losses to gross loans	**0.96**	1.02	**0.96**	1.02

The allowance for loan losses was $29.5 million or 0.96 percent of gross loans at June 30, 2006 compared to $28.7 million or 0.98 percent of gross loans at December 31, 2005 and $29.0 million or 1.02 percent of gross loans at June 30, 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 and six months ended June 30, 2006 amounted to $0.8 million and $2.4 million, respectively. This compares to a provision for loan losses of $2.9 million and $4.8 million for the three and six months ended June 30, 2005, respectively. The decrease in the provision for loan losses was primarily attributable to improved credit quality trends and a decrease in net charge-offs. Net charge-offs for the three months ended June 30, 2006 amounted to $0.9 million, or 0.11 percent of average loans, compared to $1.3 million, or 0.19 percent of average loans for the same 2005 period. For the six months ended June 30, 2006, net charges-offs amounted to $1.6 million, or 0.11 percent of average loans, compared to $2.6 million, or 0.20 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. At June 30, 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 3 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 Corporation has established a 15 percent limit for the market value of equity at risk for a 200 basis point rate shock. At June 30, 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 11 percent and positive 7 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 Twelve 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 Twelve*** as their respective carrying values approximate fair values. These financial instruments generally expose the

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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 June 30, 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 Twelve

Market Risk

June 30, 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	$ 715,668	$ 229,222	$252,505	$157,044	$ 58,171	$ 6,206	$ 12,520
Weighted average effective yield	4.07%						
Fair value	$ 691,253						
Variable rate							
Book value	$ 152,088	27,548	27,592	27,210	19,389	2,207	48,142
Weighted average effective yield	4.40%						
Fair value	$ 147,508						
Loans and loans held for sale							
Fixed rate							
Book value	$ 826,863	173,332	154,923	149,171	104,534	106,591	138,312
Weighted average effective yield	6.54%						
Fair value	$ 812,664						
Variable rate							
Book value	$2,253,807	905,113	334,132	233,492	114,654	81,315	585,101
Weighted average effective yield	7.49%						
Fair value	$2,227,823						
Liabilities							
Deposits							
Fixed rate							
Book value	$1,418,597	1,239,187	138,605	27,881	7,214	4,567	1,143
Weighted average effective yield	4.17%						
Fair value	$1,421,312						
Variable rate							

Book value	$1,120,473	286,165	285,686	285,097	123,987	65,680	73,858
Weighted average effective yield	2.23%						
Fair value	$1,034,053						
Long-term borrowings							
Fixed rate							
Book value	$ 260,970	90,052	50,054	70,058	60	50,064	681
Weighted average effective yield	4.58%						
Fair value	$ 254,500						
Variable rate							
Book value	$ 381,857	200,000		120,000			61,857
Weighted average effective yield	5.86%						
Fair value	$ 383,490						

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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 Ten*** 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 Thirteen
Commitments
As of June 30, 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	$ 33,390	$ 2,402	$ 1,808	$429,502	$ 467,102
Standby Letters of Credit	17,587	1,565			19,152
Loan Commitments	524,869	133,915	30,322	13,154	702,260
Total Commitments	$575,846	$137,882	$32,130	$442,656	$1,188,514

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 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 $43.1 million at June 30, 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 June 30,

2006, the Bank had an available line of credit with the FHLB totaling $1.28 billion with $671.0 million outstanding. At June 30, 2006, the Bank also had $145.0 million of federal funds lines with $10.0 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 June 30, 2006 increased to $336.9 million, representing 7.7 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 $23.0 million and $4.5 million of stock options exercised and dividend reinvestment stock issued. These increases were partially offset by cash dividends of $0.385 per share, which resulted in cash dividend declarations of $11.6 million for the six months ended June 30, 2006. In addition, the after-tax unrealized loss on securities available-for-sale increased $6.1 million to $17.3 million at June 30, 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 June 30, 2006, the Corporation had repurchased a total of approximately 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 June 30, 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 June 30, 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 June 30, 2006, the Corporation and the Bank were classified as well capitalized under these regulatory frameworks.

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

Table Fourteen

Capital Ratios

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Minimum Ratio**	**Amount**	**Minimum Ratio**
At June 30, 2006:						
Total Capital (to Risk Weighted Assets)						
First Charter Corporation	**$421,938**	**12.04%**	**$280,296**	**8.00%**	**None**	**None**
First Charter Bank	**402,053**	**11.52**	**279,219**	**8.00**	**$349,024**	**10.00%**
Tier I Capital (to Risk Weighted Assets)						
First Charter Corporation	**$392,264**	**11.20%**	**$140,148**	**4.00%**	**None**	**None**
First Charter Bank	**372,533**	**10.67**	**139,610**	**4.00**	**$209,414**	**6.00%**
Tier I Capital (to Adjusted Average Assets)						
First Charter Corporation	**$392,264**	**9.17%**	**$171,123**	**4.00%**	**None**	**None**
First Charter Bank	**372,533**	**8.75**	**170,385**	**4.00**	**$212,981**	**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 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.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . The Interpretation clarifies the accounting for uncertain tax positions and requires the Corporation to recognize management s best estimate of the impact of a tax position only if it is considered more likely than not, as defined in SFAS No. 5, Accounting for Contingencies, of being sustained on audit based solely on the technical merits of the tax position. The Interpretation is effective as of the first fiscal year beginning after

December 15, 2006. Management is currently evaluating the effect of this Interpretation and its impact on the consolidated financial statements.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See **Management s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Management Asset-Liability Management and Interest Rate Risk** on page 35 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.

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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

As discussed in this report, on June 1, 2006 the Corporation entered into and announced a definitive Agreement and Plan of Merger to acquire all outstanding shares of GBC Bancorp, Inc. (GBC), parent of Gwinnett Banking Company (the Merger), which remains subject to various contingencies, including approval by the GBC shareholders and customary bank regulatory approvals. The following risk factor is being provided in addition to the 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.

Risks Associated with the Merger

The Corporation may fail to realize the anticipated benefits and cost savings associated with the Merger. Achievement of these benefits and cost savings relies heavily on the successful integration of the combined businesses, which also may divert the attention of management. Failure to successfully integrate and achieve these benefits and cost savings could have a material adverse affect on the Corporation. In addition, the Corporation has not previously operated in the extremely competitive greater Atlanta metropolitan market area and there may be unexpected challenges and difficulties that could adversely affect the Corporation following the consummation of the Merger.

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

(a) Sale of Unregistered Equity Securities

As previously disclosed, on December 1, 2004, the Corporation, through First Charter Bank, its primary banking subsidiary, acquired substantially all of the assets of Smith & Associates Insurance Services, Inc., a property and casualty insurance agency (the Agency), pursuant to an Asset Purchase Agreement, dated as of the same date (the Purchase Agreement). No underwriters were used in connection with this transaction. In connection with this transaction, the Corporation issued an aggregate of 27,726 shares of Common Stock valued at $750,000 to the Agency. Based on this agreement and the performance of the business, on May 1, 2006 the Corporation issued 14,463 additional shares of Common Stock valued at $362,000 for the period of December 1, 2004 through November 30, 2005. The issuance of the shares in connection with this transaction was exempt from the registration requirements of the Securities Act of 1933, as amended, in accordance with Section 4(2) thereof, as a transaction by an issuer not involving a public offering. The Purchase Agreement also contemplates additional, subsequent issuances of Common Stock based upon the future performance of the Agency. The Corporation presently expects the value of future issuances, if earned, to total approximately $490,000.

(c) Issuer Purchases of Equity Securities

The following table summarizes the Corporation s repurchases of its common stock during the quarter ended June 30, 2006.

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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
April 1, 2006 April 30, 2006				1,625,400
May 1, 2006 May 31, 2006				1,625,400
June 1, 2006 June 30, 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 June 30, 2006, the Corporation had repurchased 1,374,600 shares under this authorization. No shares were repurchased under this authorization during the quarter ended June 30, 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 June 30, 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

(a) First Charter Corporation s Annual Meeting of Shareholders was held on April 26, 2006.

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

1. To elect five directors to the Corporation s Board of Directors with terms expiring in 2009 and one director with a term expiring in 2007.

	For	Withheld
Terms Expiring in 2009		
Michael R. Coltrane	23,845,762	348,504
Charles A. James	23,887,144	307,122
Robert E. James, Jr.	23,862,425	331,841
Ellen L. Messinger	23,886,286	307,980
Hugh H. Morrison	23,894,179	300,087
Term Expiring in 2007		
Walter H. Jones, Jr.	19,830,592	4,363,314

2. To ratify the action of the Corporation s Audit Committee in appointing KPMG LLP, an independent registered public accounting firm, as their auditor for 2006.

For	23,820,472
Against	270,416
Abstain	103,375
Broker Non-Votes	3

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Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Exhibit No. (per Exhibit Table in item 601 of Regulation S-K)	Description of Exhibits
2.1	Agreement and Plan of Merger, dated June 1, 2006, between the Registrant and GBC Bancorp, Inc., incorporated herein by reference to Exhibit 2.1 of the Corporation s Current Report on Form 8-K dated June 1, 2006.
10.1	Change in Control Agreement, dated September 21, 2005 by and between the Registrant and Josephine Sawyer.
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

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SIGNATURES

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

FIRST CHARTER CORPORATION
(Registrant)

Date: August 9, 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)