FIRST CHARTER CORP /NC/
Form 10-Q
May 02, 2002

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

Commission File Number 0-15829

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

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

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

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

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

As of May 1, 2002 the Registrant had outstanding 30,809,090 shares of Common Stock, no par value.

FIRST CHARTER CORPORATION

MARCH 31, 2002 FORM 10-Q

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CHARTER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	MARCH 31 2002	De

(Dollars in thousands, except share data)	(UNAUDITED)	
ASSETS:		
Cash and due from banks	$ 89,611	$
Federal funds sold	1,363	
Interest bearing bank deposits	16,984	
Cash and cash equivalents	107,958	
Securities available for sale (cost of $1,113,484 at March 31, 2002 and $1,066,743 at December 31, 2001; carrying amount of pledged collateral at March 31, 2002, $147,173)	1,107,939	
Loans	2,029,737	
Less: Unearned income	(277)	
Allowance for loan losses	(26,576)	
Loans, net	2,002,884	
Premises and equipment, net	96,917	
Other assets	89,922	
TOTAL ASSETS	$ 3,405,620	$
LIABILITIES:		
Deposits, domestic:		
Noninterest bearing demand	$ 257,864	$
Interest bearing	1,952,444	
Total deposits	2,210,308	
Other borrowings	836,769	
Other liabilities	54,798	
TOTAL LIABILITIES	3,101,875	
SHAREHOLDERS' EQUITY:		
Preferred stock - no par value; authorized 2,000,000 shares; no shares issued and outstanding	--	
Common stock - no par value; authorized 100,000,000 shares; issued and outstanding 30,805,474 and 30,742,532 shares	135,751	
Common stock held in Rabbi Trust for deferred compensation	(410)	
Deferred compensation payable in common stock	410	
Retained earnings	171,379	
Accumulated other comprehensive (loss) income:		
Unrealized (loss) gain on securities available for sale, net	(3,385)	
TOTAL SHAREHOLDERS' EQUITY	303,745	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,405,620	$

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except share and per share data)	FOR THE THREE MONTHS ENDED MARCH 31 2002	2001
INTEREST INCOME:		
Loans	$ 32,815	$ 43,816
Federal funds sold	3	31
Interest bearing bank deposits	29	156
Securities	16,193	10,067
Total interest income	49,040	54,070
INTEREST EXPENSE:		
Deposits	13,749	21,129
Federal funds purchased and securities sold under agreements to repurchase	597	1,520
Federal Home Loan Bank and other borrowings	7,144	6,042
Total interest expense	21,490	28,691
NET INTEREST INCOME	27,550	25,379
PROVISION FOR LOAN LOSSES	2,105	750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,445	24,629
NONINTEREST INCOME:		
Service charges on deposit accounts	4,665	2,918
Financial management income	668	775
Gain on sale of securities	3,763	267
(Loss) income from equity method investments	(2,959)	111
Mortgage loan fees	407	509
Brokerage services income	637	394
Insurance services income	2,231	1,991
Trading gains	420	--
Other	1,096	1,455
Total noninterest income	10,928	8,420
NONINTEREST EXPENSE:		
Salaries and employee benefits	12,897	10,353
Occupancy and equipment	4,241	3,570
Data processing	622	596
Advertising	640	643
Postage and supplies	1,189	1,189
Professional services	1,662	1,164
Telephone	546	291
Other	2,759	2,237
Total noninterest expense	24,556	20,043

INCOME BEFORE INCOME TAXES	11,817	13,006
INCOME TAXES	3,226	4,162
NET INCOME	$ 8,591	$ 8,844
NET INCOME PER SHARE:		
Basic	$ 0.28	$ 0.28
Diluted	$ 0.28	$ 0.28
WEIGHTED AVERAGE SHARES:		
Basic	30,798,728	31,696,764
Diluted	30,993,981	31,833,564

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except share data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	COMMON STOCK HELD IN RABBI TRUST FOR DEFERRED COMPENSATION	DEFERRED COMPENSATION PAYABLE IN COMMON STOCK	
BALANCE, DECEMBER 31, 2000	31,601,263	$ 151,486	$ --	$ --	$
Comprehensive income:					
Net income	--	--	--	--	
Unrealized gain on securities available for sale, net	--	--	--	--	
Total comprehensive income					
Cash dividends	--	--	--	--	
Stock options exercised and Dividend Reinvestment Plan stock issued	109,055	1,388	--	--	
BALANCE, MARCH 31, 2001	31,710,318	$ 152,874	$ --	$ --	$
BALANCE, DECEMBER 31, 2001	30,742,532	$ 135,167	$(388)	$388	$
Comprehensive income:					
Net income	--	--	--	--	
Unrealized loss on securities available for sale, net	--	--	--	--	
Total comprehensive loss					
Common stock purchased by Rabbi Trust for deferred compensation	--	--	(22)	--	
Deferred compensation payable in common stock	--	--	--	22	

Cash dividends	--	--	--	--	
Stock options exercised	62,942	643	--	--	
Purchase and retirement of common stock	--	(67)	--	--	
Other	--	8	--	--	
BALANCE, MARCH 31, 2002	30,805,474	$ 135,751	$(410)	$410	$

See accompanying notes to consolidated financial statements.

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

	THRE ENDED
(Dollars in thousands)	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 8,591
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	2,105
Depreciation	2,461
Premium amortization and discount accretion, net	(187)
Net gain on securities available for sale transactions	(3,763)
Net loss (gain) on sale of other real estate	65
Loss (income) from equity method investees	2,959
Net loss on sale of premises and equipment	--
Origination of mortgage loans held for sale	(21,127)
Proceeds from sale of mortgage loans held for sale	23,060
Decrease in other assets	1,142
Increase (decrease) in other liabilities	2,860
Net cash provided by operating activities	18,166
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales of securities available for sale	124,803
Proceeds from maturities of securities available for sale	105,486
Purchase of securities available for sale	(273,078)
Net (increase) decrease in loans	(78,523)
Proceeds from sales of other real estate	1,384
Net purchases of premises and equipment	(2,403)
Net cash used in investing activities	(122,331)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (decrease) increase in demand, money market and savings accounts	(2,111)
Net increase in certificates of deposit	49,474
Net increase in securities sold under repurchase agreements and other borrowings	28,257
Purchase and retirement of common stock	(67)
Proceeds from issuance of common stock	651

Dividends paid	(5,546)
Net cash provided by financing activities	70,658
Net decrease in cash and cash equivalents	(33,507)
Cash and cash equivalents at beginning of period	141,465
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 107,958
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 22,127
Cash paid for income taxes	191
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:	
Transfer of loans and premises and equipment to other real estate owned	652
Unrealized gain on securities available for sale (net of tax effect of $(6,707) and $3,306 for the three months ended March 31, 2002 and 2001, respectively)	(9,225)
Loans securitized and retained in the available for sale portfolio	--

See accompanying notes to consolidated financial statements.

FIRST CHARTER CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

First Charter Corporation (the "Corporation") is a bank holding company established as a North Carolina Corporation in 1983. Its principal asset is the stock of its subsidiary, First Charter Bank ("FCB" or the "Bank"). FCB is a full service bank, which now operates 52 financial centers, five insurance offices and one mortgage origination office in addition to its main office, as well as 99 ATMs (automated teller machines). These facilities are located in Ashe, Alleghany, Avery, Buncombe, Cabarrus, Cleveland, Guilford, Iredell, Jackson, Lincoln, McDowell, Mecklenburg, Rowan, Rutherford, Swain, Transylvania and Union counties of North Carolina. Further, FCB recently opened one mortgage origination office in Virginia.

Through its financial center locations, the Bank provides a wide range of banking products, including interest bearing and non-interest bearing checking accounts; "Money Market Rate" accounts; certificates of deposit; individual retirement accounts; overdraft protection; commercial, consumer, agriculture, real estate, residential mortgage and home equity loans; personal and corporate trust services; safe deposit boxes; and automated banking. In addition, through First Charter Brokerage Services, a subsidiary of FCB, the Registrant offers full service and discount brokerage services, annuity sales and financial planning services pursuant to a third party arrangement with UVEST Investment Services. The Bank also operates six other subsidiaries: First Charter Insurance Services, Inc., First Charter of Virginia Realty Investments, Inc., First Charter Realty Investments, Inc., FCB Real Estate, Inc., First Charter Real Estate Holding, LLC., and First Charter Leasing, Inc. First Charter Insurance Services, Inc. is a North Carolina corporation formed to meet the insurance needs of businesses and individuals throughout the Charlotte metropolitan area. First Charter of Virginia Realty Investments, Inc. is a Virginia corporation engaged in the mortgage origination business and also acts as a holding company for First Charter Realty Investments, Inc., a Delaware real estate investment trust. FCB Real Estate, Inc. is a North Carolina real estate investment trust and First Charter Real Estate Holdings, LLC is a North Carolina limited liability company. First Charter Leasing, Inc. is a North Carolina corporation, which leases commercial equipment. The Bank also has a majority ownership in Lincoln Center at Mallard Creek, LLC. Lincoln Center is a three-story office building occupied in part by a branch of FCB.

NOTE ONE - ACCOUNTING POLICIES

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

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

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

Accounting policies followed by the Corporation are presented on pages 43 to 48 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001.

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

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

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

SFAS 141 requires, upon adoption of SFAS 142, that the Corporation evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Corporation reassessed the useful lives and residual values of all identifiable intangible assets acquired in purchase business combinations, and as a result did not make any necessary amortization period adjustments. In addition, any intangible assets classified as goodwill under SFAS 142 are subjected to a transitional impairment test during the first six months of 2002 based on the level of goodwill as of January 1, 2002. Any impairment losses identified as a result of this transitional impairment test will be recognized in the 2002 statement of income as the effect of a change in accounting principle. The Corporation expects to complete the transitional impairment test during the second quarter of 2002.

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

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard provides guidance on differentiating between long-lived assets to be held and used, long-lived assets to be disposed of other than by sale and long-lived assets to be disposed of by sale. SFAS No. 144 supersedes FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 also supersedes Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, the Corporation adopted SFAS No. 144 on January 1, 2002, with no material impact on its 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.

NOTE TWO - NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the year.

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, restricted stock and shares issuable under the Corporation's share repurchase agreement were issued.

The numerators of the basic net income per share computations are the same as the numerators of the diluted net income per share computations for all periods presented. The effect of potential common stock is excluded from the computation of diluted earnings per common share in periods in which the effect would be antidilutive. A reconciliation of the basic average common shares outstanding to the diluted average common shares outstanding is as follows:

	THREE MONTHS ENDED MARCH 31	
	2002	2001
Basic weighted average number of common shares outstanding	30,798,728	31,696,764
Dilutive effect arising from potential common stock	195,253	136,800
Diluted weighted average number of common shares outstanding	30,993,981	31,833,564

The Corporation paid cash dividends of $0.18 per share for both the three months ended March 31, 2002 and 2001.

NOTE THREE - GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a summary of the gross carrying amount and accumulated amortization of amortized intangible assets as of March 31, 2002 and December 31, 2001 and the carrying amount of unamortized intangible assets as of March 31, 2002:

	MARCH 31 2002		December 31 2001	
(Dollars in thousands)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	Gross Carrying Amount	Ac Amo
Amortized intangible assets:				
Noncompete agreements (1)	$ 946	$ 626	$ 946	
Customer lists (1)	417	86	417	
Branch acquisitions (2)	14,739	2,589	14,739	
TOTAL	$16,102	$3,301	$16,102	
Unamortized intangible assets:				
Goodwill (3)	$ 6,018		$6,018	

(1) Noncompete agreements and customer lists intangible assets are recorded in the Other Operating Segments as defined in the 2001 Annual Report on Form 10-K.

(2) Branch acquisition intangible assets are recorded in the FCB segment as defined in the 2001 Annual Report on Form 10-K.

(3) Goodwill is recorded in the Other Operating Segments as defined in the 2001 Annual Report on Form 10-K.

There was no change in the carrying amount of goodwill at March 31, 2002 compared to December 31, 2001.

Amortization expense totaled $339,000 and $490,000 for the three months ended March 31, 2002 and 2001, respectively.

The estimated amortization expense for intangible assets for the years ended December 31, 2002, 2003, 2004, 2005, 2006 and 2007 and thereafter is as follows:

(Dollars in thousands)	ESTIMATED AMORTIZATION EXPENSE
2002	$ 1,294
2003	1,244
2004	970
2005	943
2006	863
2007 and after	$ 7,486
TOTAL	12,801

The following table presents the adjusted effect on net income and on basic and diluted earnings per share excluding the amortization of goodwill for the three months ended March 31, 2002 and 2001 and for the years ended December 31, 2001, 2000 and 1999:

(Dollars in thousands, except earnings per share amounts)	FOR THE THREE MONTHS ENDED MARCH 31 2002	2001
Net income	$ 8,591	$ 8,844
Add back: Goodwill amortization	--	97
ADJUSTED NET INCOME	$ 8,591	$ 8,941

Basic earnings per share:

As reported	$ 0.28	$ 0.28
Goodwill amortization	--	--
ADJUSTED NET INCOME	$ 0.28	$ 0.28
Diluted earnings per share:		
As reported	$ 0.28	$ 0.28
Goodwill amortization	--	--
ADJUSTED NET INCOME	$ 0.28	$ 0.28

(Dollars in thousands, except earnings per share amounts)	FOR THE YEARS ENDED DECEMBER 31		
	2001	2000	1999
Net income	$ 35,325	$ 24,841	$ 35,291
Add back: Goodwill amortization	441	363	203
ADJUSTED NET INCOME	$ 35,766	$ 25,204	$ 35,494
Basic earnings per share:			
As reported	$ 1.12	$ 0.79	$ 1.12
Goodwill amortization	0.02	0.01	-
ADJUSTED NET INCOME	$ 1.14	$ 0.80	$ 1.12
Diluted earnings per share:			
As reported	$ 1.12	$ 0.79	$ 1.11
Goodwill amortization	0.01	0.01	0.01
ADJUSTED NET INCOME	$ 1.13	$ 0.80	$ 1.12

NOTE FOUR - IMPAIRED LOANS

The recorded investment in impaired loans was $22.6 million (of which $16.1 million was on nonaccrual status) and $14.2 million (of which $11.9 million was on nonaccrual status) at March 31, 2002 and December 31, 2001, respectively. The related allowance for loan losses on impaired loans was $2.8 million and $1.8 million at March 31, 2002 and December 31, 2001, respectively. The average recorded investment in impaired loans for the three months ended March 31, 2002 and 2001 was $19.1 million and $18.6 million, respectively.

NOTE FIVE - STOCK REPURCHASE PROGRAM

On January 23, 2002, the Corporation's Board of Directors authorized the repurchase of up to 1.5 million additional shares of the Corporation's common stock. As of March 31, 2002, no shares have been repurchased under this authorization.

NOTE SIX - TRADING ACTIVITY

The Corporation engages in writing over-the-counter covered call options on specific fixed income securities in the available for sale portfolio. Under these agreements the Corporation agrees to sell, upon election by the optionholder, a fixed income security at a fixed price. The Corporation receives a premium from the optionholder in exchange for writing the option contract. For the quarter ended March 31, 2002, the Corporation recognized income of $0.4 million from writing covered call options. There were no written covered call options outstanding at March 31, 2002, and there were no such contracts written during the quarter ended March 31, 2001.

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NOTE SEVEN - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation engages in business transactions with certain of its directors. Such transactions are competitively negotiated at arms-length by the Corporation and are not considered to include terms which are unfavorable to the Corporation.

During 2001, the Corporation decided to upgrade its service offerings to include an automatic overdraft product, which allows customers the ability to overdraw their account and have their transactions honored for a fee. During the fourth quarter of 2001, the Corporation engaged Impact Financial Services ("Impact") to provide this product. Impact will receive a fee from the Corporation equal to 13 percent of the incremental income from this new product for a twenty four month period commencing the fourth full month after the Corporation began to offer the product. John Godbold, a director of the Corporation, is the president and owner of Godbold Financial Associates, Inc. ("GFA"), which acts as an independent sales representative for Impact for Maryland, North Carolina, South Carolina and Virginia and as such GFA and Mr. Godbold will receive commissions from Impact based on fees earned by Impact. As described above, no fees were required to be paid to Impact until the fourth full month following introduction of the new product, therefore, no fees were payable to Impact and no commissions were payable to GFA and Mr. Godbold during January or February of 2002. For the quarter ended March 31, 2002, the Corporation received revenues of approximately $1.0 million which resulted in fees of $40,000 to Impact and resulted in Impact paying commissions to GFA and Mr. Godbold of $28,000.

NOTE EIGHT - BUSINESS SEGMENT INFORMATION

Refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001 for information with respect to the Corporation's policies for defining and accounting for its segments. Financial information by segment for the three months ended March 31, 2002 and 2001 is as follows:

2002				
(Dollars in thousands)	FCB	Other Operating Segments (1)	Other (2)	Total
Total interest income	$ 48,894	$ 79	$ 67	$ 49,0
Total interest expense	21,343	--	147	21,4
Net interest income	27,551	79	(80)	27,5
Provision for loan losses	2,105	--	--	2,1

Total noninterest income	9,086	3,949	(2,107)	10,9
Total noninterest expense	20,455	4,035	66	24,5
Net income (loss) before income taxes	14,077	(7)	(2,253)	11,8
Income taxes expense (benefit)	3,844	(3)	(615)	3,2
Net income (loss)	$ 10,233	$ (4)	$ (1,638)	$ 8,5
Total loans, net	$1,997,484	$ 5,400	$ --	$2,002,8
Total assets	3,356,137	16,934	32,549	3,405,6

2001

(Dollars in thousands)	FCB	Other Operating Segments (1)	Other (2)	Totals
Total interest income	$ 53,947	$ 81	$ 42	$ 54,0
Total interest expense	28,691	--	--	28,6
Net interest income	25,256	81	42	25,3
Provision for loan losses	750	--	--	7
Total noninterest income	4,513	3,776	131	8,4
Total noninterest expense	16,976	3,091	(24)	20,0
Net income before income taxes	12,043	766	197	13,0
Income taxes	3,836	263	63	4,1
Net income	$ 8,207	$ 503	$ 134	$ 8,8
Total loans, net	$1,947,270	$ 11,166	$ --	$1,958,4
Total assets	3,033,652	21,992	25,618	3,081,2

(1) Included in other operating segments are revenues, expenses and assets of insurance services, brokerage, mortgage and financial management.

(2) Included in "other" are revenues, expenses and assets of the parent company and eliminations.

NOTE NINE - EQUITY METHOD INVESTMENTS

The Corporation's equity method investments represent investments in venture capital limited partnerships which invest in early stage companies.

The Corporation's recognition of earnings or losses from equity method investments is determined by the Corporation's share of the investee's earnings on a quarterly basis. The limited partnerships provide their quarterly financial information on a quarter lag basis, so the Corporation's policy is to record its share of earnings or losses on these equity method investments on a quarter lag basis.

These limited partnerships record their investments in investee companies on a fair value basis, with changes in the underlying fair values being reflected as an adjustment to their earnings in the period such changes are determined. The earnings of these limited partnerships, and therefore the amount recorded on an equity-method basis by the Corporation, are impacted significantly by changes in the underlying value of the companies in which these limited partnerships invest. All of the companies in which these limited partnerships invest are privately held, and their market values are not readily available. Estimations of these values are made quarterly by the management of the limited partnerships, and are subject to review by the Corporation for reasonableness. The assumptions in the valuation of these investments by the limited partnerships include the viability of the business model, the ability of the company to obtain alternative financing, their ability to generate revenues in future periods and other subjective factors. Given the inherent risks associated with this type of investment in the current economic environment, there can be no guarantee that there will not be widely varying gains or losses on these equity method investments in future periods.

At March 31, 2002 and December 31, 2001 the total investment in equity method investments was $5.8 million and $8.7 million, respectively, and is included in other assets on the consolidated balance sheet. At March 31, 2002, the Corporation's remaining commitment to fund the equity method investments was $1.3 million, all of which is callable in 2002 and is unrelated to the investment discussed in the following paragraph.

During the first quarter of 2002, the Corporation received the final fourth quarter 2001 valuation for one of its limited partnerships, indicating a decline in the value of one of its investments. As a result, the Corporation recorded a loss on this equity method investment in the first quarter of 2002 of $3.3 million. This loss represents the elimination of a portion of previously recorded unrealized gains on this investee company, and does not represent a loss of the original principal invested in this company. Partially offsetting this $3.3 million loss were gains on other equity method investments of approximately $300,000. Given the inherent risks associated with this type of investment in the current economic environment, there can be no guarantee that there will not be additional losses on these equity method investments in future periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDTION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Corporation and the notes thereto.

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

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

OVERVIEW

The Corporation is a regional financial services company with assets of $3.41 billion and is the holding company for First Charter Bank ("FCB" or the "Bank"). FCB is a full-service bank and trust company with 52 financial centers, five insurance offices and one mortgage origination office located in 17 counties throughout North Carolina. Further, FCB recently opened one mortgage origination office in Virginia. FCB provides businesses and individuals with a broad range of financial services, including banking, comprehensive financial planning, funds management, investments, insurance, mortgages and a full array of employee benefit programs.

CRITICAL ACCOUNTING POLICIES

The Corporation's significant accounting policies are set forth on pages 43 to 48 of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001. Of these policies, the Corporation considers its policy regarding the allowance for loan losses to be one of its most critical accounting policies, because it requires management's most subjective and complex judgments. The Corporation has developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses, recognizing that this process requires a number of assumptions and estimates with respect to its loan portfolio. The Corporation's assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations and the discovery of information with respect to borrowers which is not known to management at the time of the issuance of the consolidated financial statements. For additional discussion concerning the Corporation's allowance for loan losses and related matters, see ALLOWANCE FOR LOAN LOSSES.

In addition, the Corporation also considers its policy regarding equity method investments to be a critical accounting policy due to the assumptions in the valuation of these investments and other subjective factors. The Corporation's equity method investments represent investments in venture capital limited partnerships which invest in early stage companies.

The Corporation's recognition of earnings or losses from equity method investments is determined by the Corporation's share of the investment's earnings on a quarterly basis. The limited partnerships provide their quarterly financial information on a quarter lag basis, so the Corporation's policy is to record its share of earnings or losses on these equity method investments on a quarter lag basis.

These limited partnerships record their investments in investee companies on a fair value basis, with changes in the underlying fair values being reflected as an adjustment to their earnings in the period such changes are determined. The earnings of these limited partnerships, and therefore the amount recorded on an equity-method basis by the Corporation, are impacted significantly by changes in the underlying value of the companies in which these limited partnerships invest. All of the companies in which these limited partnerships invest are privately held, and their market values are not readily available. Estimations of these values are made quarterly by the management of the limited partnerships, and are subject to review by the Corporation for reasonableness. The assumptions in the valuation of these investments by the limited partnerships include the viability of the business model, the ability of the company to obtain alternative financing, their ability to generate revenues in future periods and other subjective factors. Given the inherent risks associated with this type of investment in the current economic environment, there can be no guarantee that there will not be widely varying gains or losses on these equity method investments in future periods.

RESULTS OF OPERATIONS

Refer to TABLE ONE for quarterly selected financial data.

EARNINGS SUMMARY

Net income amounted to $8.6 million, or $0.28 per diluted common share, for the three months ended March 31, 2002, compared to $8.8 million, or $0.28 per diluted common share, for the three months ended March 31, 2001. The decrease in net income was primarily due to a $1.4 million increase in the provision for loan losses and a $4.5 million increase in noninterest expense partially offset by a $2.2 million increase in net interest income, a $2.5 million increase in noninterest income and a $0.9 million decrease in income tax expense. Net income for the three months ended March 31, 2002 and 2001 was also impacted by certain other items, which are set forth in TABLE ONE. These other items are considered nonrecurring in nature by management and therefore should be considered in year over year analysis of results of operations.

TABLE ONE
SELECTED FINANCIAL DATA

	FOR THE THREE MONTHS ENDED MARCH 31	
(Dollars in thousands, except per share amounts)	2002	2001
INCOME STATEMENT		
Interest income	$ 49,040	$ 54,070
Interest expense	21,490	28,691
Net interest income	27,550	25,379
Provision for loan losses	2,105	750
Noninterest income	10,928	8,420
Noninterest expense	24,556	20,043
Income before income taxes	11,817	13,006
Income taxes	3,226	4,162

Net income	$ 8,591	$ 8,844
PER COMMON SHARE		
Basic net income	$ 0.28	$ 0.28
Diluted net income	0.28	0.28
Cash dividends declared	0.18	0.18
Period-end book value	9.86	10.06
Average shares outstanding - basic	30,798,728	31,696,764
Average shares outstanding - diluted	30,993,981	31,833,564
RATIOS		
Return on average shareholders' equity (1)	10.82%	11.46%
Return on average assets (1)	1.03	1.24
Net interest margin (1)	3.64	3.90
Average loans to average deposits	90.82	103.56
Average equity to average assets	9.53	10.85
Efficiency ratio (2)	69.82	58.90
Dividend payout	64.94	64.79
SELECTED PERIOD END BALANCES		
Securities available for sale	$ 1,107,939	$ 875,946
Loans, net	2,002,884	1,958,436
Allowance for loan losses	26,576	28,049
Total assets	3,405,620	3,081,263
Total deposits	2,210,308	2,012,087
Borrowings	836,769	696,134
Total liabilities	3,101,875	2,762,284
Total shareholders' equity	303,745	318,979
SELECTED AVERAGE BALANCES		
Loans, net	1,983,455	2,043,217
Earning assets	3,093,516	2,676,436
Total assets	3,377,791	2,884,703
Total deposits	2,183,990	1,973,002
Borrowings	826,381	550,797
Total shareholders' equity	321,966	313,081

SCHEDULE OF OTHER ITEMS INCLUDED IN EARNINGS		
Noninterest income		
Equity portfolio restructuring gains	834	--
Bond portfolio restructuring gains	2,070	--
Equity investment write down	(20)	(144)
Equity method (loss) income	(2,959)	111
Total other items	$ (75)	$ (33)
Other items, net of tax	$ (55)	$ (22)

(1) Annualized

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

NET INTEREST INCOME

An analysis of the Corporation's net interest income on a taxable-equivalent basis and average balance sheets for the three months ended March 31, 2002 and 2001 is presented in TABLE TWO. The changes in net interest income for the three months ended March 31, 2002 and 2001 are analyzed in TABLE THREE.

Net interest income, the difference between total interest income and total interest expense, is the Corporation's principal source of earnings. Net interest income amounted to $27.6 million for the three months ended March 31, 2002, an increase of $2.2 million from net interest income of $25.4 million for the same period in 2001. The increase in net interest income was driven by decreased interest expense, increased loan growth and increased securities interest income. The reduced interest expense for 2002 was due to the lower cost of funding in a declining interest rate environment. The increased securities interest income was due to the increase in the Corporation's average securities available for sale portfolio since the first quarter of 2001. The Corporation began to increase its securities available for sale portfolio late in the first quarter of 2001, to offset the effects of the dampened loan growth.

Average interest earning assets increased approximately $417.1 million to $3.09 billion for the three months ended March 31, 2002 compared to $2.68 billion for the same 2001 period. This increase is primarily due to a $590.6 million increase in the Corporation's average securities available for sale portfolio for the three months ended March 31, 2002, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001. The increase in average securities available for sale was primarily due to net purchases of additional securities beginning late in the first quarter of 2001 and continuing through the end of 2001. The increase in average interest earning assets was partially offset by a decrease of $169.2 million in the Corporation's average loan portfolio, excluding the impact of the securitization of $167.0 million of mortgage loans during the first quarter of 2001. The decrease in average yield on interest earning assets to 6.46 percent for the three months ended March 31, 2002, compared to 8.25 percent for the three months ended March 31, 2001, resulted principally from the decrease in the average prime rate during the three months ended March 31, 2002 to 4.50 percent, from 8.68 percent for the three months ended March 31, 2001. The decrease in the average prime rate is attributable to the Federal Reserve's 475 basis point decrease in the Fed Funds rate during 2001. The average yield earned on loans was 6.73 percent for the three months ended March 31, 2002, compared to 8.72 percent for the same 2001 period.

In addition to the increase in average interest earning assets, the Corporation experienced an increase in average interest-bearing liabilities of $470.0 million to $2.76 billion for the three months ended March 31, 2002 due to the use of Federal Home Loan Bank ("FHLB") advances to fund securities purchases and increases in deposits. The average rate paid on interest bearing liabilities decreased to 3.16 percent for the three months ended March 31, 2002, compared to 5.09 percent in the same 2001 period, primarily due to a decline in the average rate of borrowings. The average rate paid on interest-bearing deposits was 2.89 percent for the three months ended March 31, 2002, down from 4.94 percent in the same 2001 period. Similarly, the rate paid on other borrowed funds decreased to 3.80 percent for the three months ended March 31, 2002, compared to 5.57 percent in the same 2001 period.

The net interest margin (tax adjusted net interest income divided by average interest-earning assets) decreased 26 basis points to 3.64 percent for the three months ended March 31, 2002, compared to 3.90 percent in the same 2001 period. The decrease reflects the impact of the declining interest rate environment in 2001, which had a negative impact on the net interest margin as assets repriced faster than liabilities. The addition of lower yielding securities, higher levels of borrowings and competitive forces related to loan and deposit pricing also had a negative impact on the net interest margin.

The following table includes for the three months ended March 31, 2002 and 2001 interest income on interest earning assets and related average yields, as well as interest expense on interest bearing liabilities and related average rates paid. In addition, the table includes the net interest margin. Average balances were calculated based on daily averages.

TABLE TWO
AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	FIRST QUARTER 2002			F
(Dollars in thousands)	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	AVERAGE YIELD/RATE PAID (5)	Ave Bal
INTEREST EARNING ASSETS:				
Loans (1) (2) (3)	$ 1,983,455	$ 32,920	6.73%	$ 2,0
Securities - taxable	1,016,391	15,190	5.98	5
Securities - nontaxable	85,292	1,353	6.34	
Federal funds sold	792	4	1.95	
Interest bearing bank deposits	7,586	28	1.47	
Total earning assets (4)	3,093,516	49,495	6.46	2,6
Cash and due from banks	98,834			
Other assets	185,442			1
TOTAL ASSETS	$ 3,377,791			$ 2,8
INTEREST BEARING LIABILITIES:				
Demand deposits	559,566	1,431	1.04	4
Savings deposits	116,200	354	1.23	1
Other time deposits	1,254,038	11,964	3.87	1,1
Other borrowings	826,381	7,741	3.80	5
Total interest bearing liabilities	2,756,185	21,490	3.16	2,2
Noninterest bearing sources:				
Noninterest bearing deposits	254,186			2
Other liabilities	45,454			
Shareholders' equity	321,966			3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,377,791			$ 2,8
Net interest spread			3.30	
Impact of noninterest bearing sources			0.34	
NET INTEREST INCOME/ YIELD ON EARNINGS ASSETS		$ 28,005	3.64%	

(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 $633 and $679 for the first quarter of 2002 and 2001, respectively.

(4) Yields on nontaxable securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent, applicable state taxes and TEFRA disallowances for the first quarter of 2002 and 2001. The adjustments made to convert to a taxable-equivalent basis were $455 and $497 for the first quarter of 2002 and 2001, respectively.

(5) Annualized

The following tables presents the changes in net interest income from the three months ended March 31, 2001 to March 31, 2002:

TABLE THREE
VOLUME AND RATE VARIANCE ANALYSIS

	THREE MONTHS ENDED MARCH 31			
	INCREASE (DECREASE) IN NET INTEREST INCOME DUE TO CHANGE IN (1)			
(DOLLARS IN THOUSANDS)	2001 INCOME/ EXPENSE	RATE	VOLUME	2002 INCOME/ EXPENSE
INTEREST INCOME:				
Loans	$43,931	$ (9,873)	$(1,138)	$32,920
Securities - taxable	8,976	(1,580)	7,794	15,190
Securities - nontaxable	1,473	(10)	(110)	1,353
Federal funds sold	31	(16)	(11)	4
Interest bearing bank deposits	156	(100)	(28)	28
TOTAL INTEREST INCOME	$54,567	$(11,579)	$ 6,507	$49,495
INTEREST EXPENSE:				
Demand deposits	$ 3,122	$ (2,006)	$ 315	$ 1,431
Savings deposits	590	(225)	(11)	354
Other time deposits	17,417	(7,034)	1,581	11,964
Other borrowings	7,562	(3,003)	3,182	7,741
TOTAL INTEREST EXPENSE	28,691	(12,268)	5,067	21,490
NET INTEREST INCOME	$25,876	$ 689	$ 1,440	$28,005

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

PROVISION FOR LOAN LOSSES

The provision for loan losses for the three months ended March 31, 2002 amounted to $2.1 million, compared to the provision for loan losses of $0.8 million for the same period in 2001. The increase in the provision for loan losses was due to $74.7 million in net loan growth and higher net charge-offs during the first quarter of 2002.

Net charge-offs for the three months ended March 31, 2002 were $1.4 million or 0.28 percent of average loans compared to $0.7 million or 0.15 percent of average loans for the same period in 2001. The increase in net charge-offs was primarily due to the effects of slower economic growth on some customers within the portfolio. First Charter continues to monitor the asset quality of the loan portfolio and charge-offs are recorded based upon the financial condition of the borrower and the likelihood of repayment.

NONINTEREST INCOME

Noninterest income increased 30 percent to $10.9 million for the three months ended March 31, 2002 compared to $8.4 million for the comparable 2001 period. The increase in noninterest income was driven by increased service charge income on deposit accounts, trading gains, brokerage revenues, the continued growth of First Charter Insurance Services and securities gains. Premiums earned on written covered call options on fixed income securities comprised the majority of our trading gains. The effects of these items were offset to a certain degree by net losses on equity method investments of $3.0 million during the first quarter of 2002. As discussed in NOTE NINE of the consolidated financial statements, the components of the $3.0 million net loss were a loss of $3.3 million on one equity investment that was partially offset by a gain on other equity method investments of approximately $300,000. These net losses are included in the Other segment as presented in NOTE EIGHT of the consolidated financial statements.

During the first quarter of 2002, we restructured a portion of our securities available for sale investment portfolio. We sold approximately $87.3 million of longer maturities and replaced them with securities having shorter maturities. In addition, our equity securities portfolio was reduced in order to focus our efforts on other activities that we believe could result in greater returns. These restructurings resulted in gains aggregating approximately $2.9 million. In addition, gains on sales of callable securities amounted to $0.9 million for the first quarter of 2002. As part of the active management of our securities available for sale investment portfolio, callable securities which appear to be on the verge of being called are sold in order to recognize their gain in value.

During the first quarter of 2002, net losses from equity method investments of $3.0 million offset a portion of the increases experienced in noninterest income. First Charter's equity method investments represent investments in venture capital limited partnerships. First Charter recognizes gains or losses from equity method investments based upon changes in our share of the fair market value of the limited partnerships' investments as reported by such limited partnerships.

NONINTEREST EXPENSE

Noninterest expense increased $4.5 million to $24.6 million for the three months ended March 31, 2002 from $20.0 million in the comparable 2001 period. The major contributors to that expense increase for the first quarter were the increase in occupancy and equipment associated with the move into the First Charter Center, expenses related to the implementation of a new computer operating system and the costs associated with the human resources added during 2001. Additionally, as revenues increased in certain noninterest income categories, incentive compensation based on that revenue increased as well. The efficiency ratio for the first quarter of 2002 increased to 69.8 percent compared to 58.9 percent for the first quarter of 2001. Although this ratio has increased as infrastructure was added during 2001, the majority of the increase relates to the losses from equity method investments recognized during the first quarter of 2002. The efficiency ratio for the first quarter of 2002 would have been 64.4 percent excluding the $3.0 million of losses from equity method investments.

INCOME TAXES

Total income tax expense for the three months ended March 31, 2002 was $3.2 million for an effective tax rate of 27.3 percent compared to $4.2 million for an effective tax rate of 32.0 percent for the same period in 2001. The decrease in the tax expense for the three months ended March 31, 2002, was attributable to a decrease in taxable income and the effective tax rate. The decrease in the effective tax rate was due to tax-planning initiatives undertaken for 2002.

FINANCIAL CONDITION

SUMMARY

Total assets at March 31, 2002 amounted to $3.41 billion, compared to $3.33 billion at December 31, 2001 and $3.08 billion at March 31, 2001. Gross loans at March 31, 2002 amounted to $2.03 billion, compared to $1.96 billion at December 31, 2001 and $1.99 billion at March 31, 2001. This increase from prior periods was due to increased loan demand experienced during the first quarter of 2002. As the economy begins to signal improvement, we remain cautious in our underwriting and approval process in consideration of the current economic environment.

The securities available for sale portfolio increased to $1.11 billion at March 31, 2002, compared to $1.08 billion at December 31, 2001, and $875.9 million at March 31, 2001. The increase in securities available for sale was due to the purchases beginning in early 2001, and continuing throughout 2001, to increase earning assets in order to offset the lack of loan growth that was forecasted for the remainder of 2001.

The carrying value of securities available for sale was approximately $5.5 million below their amortized cost at March 31, 2002, which represents gross unrealized gains of $10.5 million and gross unrealized losses of $16.0 million.

Total deposits at March 31, 2002 amounted to $2.21 billion, compared to $2.16 billion at December 31, 2001 and $2.01 billion at March 31, 2001. Other borrowings increased to $836.8 million at March 31, 2002 compared to $808.5 million at December 31, 2001, and $696.1 million at March 31, 2001. The increase was primarily due to increases in Federal Home Loan Bank advances, the proceeds of which were principally used to fund loan growth and security purchases.

Shareholders' equity at March 31, 2002 was $303.7 million, which represented a book value per share of $9.86 and an equity-to-assets percentage of 9.53 percent. The securities available for sale portfolio's had an unrealized net loss of $3.4 million (net of tax) at March 31, 2002, compared to an unrealized net gain of $5.8 million (net of tax) at December 31, 2001.

NONPERFORMING ASSETS

The total of nonperforming assets increased to $34.8 million at March 31, 2002 compared to $31.9 million and $30.6 million at December 31, 2001 and March 31, 2001, respectively. As a percentage of total assets, nonperforming assets have increased to 1.02 percent at March 31, 2002 compared to 0.96 percent and 0.99 at December 31, 2001 and March 31, 2001, respectively. The increase in nonperforming assets during the first quarter of 2002 was primarily due to the addition of two commercial relationships, which are secured by real estate, to nonaccrual status during the quarter ended March 31, 2002.

Total nonperforming assets and loans 90 days or more past due and still accruing interest at March 31, 2002 were $34.8 million or 1.71 percent of total loans and other real estate, compared to $32.0 million or 1.62 percent of total loans and other real estate at December 31, 2001. Nonaccrual loans at March 31, 2002 increased to $27.6 million, compared to $23.8 at December 31, 2001. Nonaccrual loans at March 31, 2002 were not concentrated in any one industry and primarily consisted of several large credits secured by real estate. The components of nonperforming assets and loans 90 days or more past due and still accruing are presented in the table below:

TABLE FOUR
NONPERFORMING AND PROBLEM ASSETS

(Dollars in thousands)	MARCH 31 2002	December 31 2001
Nonaccrual loans	$ 27,558	$ 23,824
Other real estate	7,208	8,049
Total nonperforming assets	34,766	31,873
Loans 90 days or more past due and still accruing interest	38	152
Total nonperforming assets and loans 90 days or more past due and still accruing interest	$ 34,804	$ 32,025

ALLOWANCE FOR LOAN LOSSES

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

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

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

As part of the continual grading process, individual commercial loans are assigned a credit risk grade based on their credit quality, which is subject to change as conditions warrant. Any changes in those risk assessments as determined by the outside risk assessment group, regulatory examiners or the Corporation's Risk Management Division are also considered in the allowance for loan losses analysis. Management considers certain commercial loans on nonaccrual status to be individually impaired and measures such impairment and the related allowance for loan loss based primarily upon collateral values. An estimate of an allowance is made for all other graded loans in

the portfolio based on their assigned credit risk grade, type of loan, historical loss experience and other matters related to credit risk. In the allowance for loan loss analysis process, the Bank also aggregates non-graded loans into pools of similar credits and reviews the historical loss experience associated with these pools as additional criteria to allocate the allowance to each category. The Bank also considers the impact of the area, local, regional and national economies in making estimates of the allowance for loan losses.

At March 31, 2002 the allowance for loan losses was $26.6 million or 1.31 percent of gross loans compared to $25.8 million or 1.32 percent at December 31, 2001 and $28.0 million, or 1.41 percent at March 31, 2001. The decrease in the allowance for loan losses ratio from December 31, 2001 was primarily the result of loan growth experienced during the first quarter of 2002. The decrease in the ratio of the allowance for loan losses to gross loans from March 31, 2001 to March 31, 2002 was primarily due to higher net loan charge-offs associated with two large commercial relationships which were written down during the fourth quarter of 2001. These commercial loans had been identified as impaired during 2000 and had specific allocated reserves.

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

Such agencies may require the recognition of adjustments to the allowances based on their judgments of information available to them at the time of their examinations.

TABLE FIVE
ALLOWANCE FOR LOAN LOSSES

	THREE MONTHS ENDED MARCH 31	
(Dollars in thousands)	2002	2001
BALANCE, BEGINNING OF PERIOD	$ 25,843	$ 28,447
LOAN CHARGE-OFFS:		
Commercial, financial and agricultural	600	454
Real estate - construction	--	--
Real estate - mortgage	32	--
Installment	925	496
Total loans charged-off	1,557	950
RECOVERIES OF LOANS PREVIOUSLY CHARGED-OFF:		
Commercial, financial and agricultural	22	80
Real estate - construction	--	--
Real estate - mortgage	19	54
Installment	109	85
Other	35	--
Total recoveries of loans previously charged-off	185	219
Net charge-offs	1,372	731
Provision for loan losses	2,105	750
Adjustment for loans sold and securitized	--	(417)
BALANCE, MARCH 31	$ 26,576	$ 28,049
Average loans, net of unearned income	$1,983,455	$ 2,043,217
Net charge-offs to average loans (annualized)	0.28%	0.15%
Allowance for loan losses to gross loans at March 31	1.31	1.41

LIQUIDITY

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 deposits, flexible repricing schedules in a sizable portion of the loan portfolio, current earnings, a strong capital base and the ability to use alternative funding sources that complement normal sources. Management's asset-liability policy is to maximize net interest income while continuing to provide adequate liquidity to meet continuing loan demand and deposit withdrawal requirements and to service normal operating expenses.

The Corporation's primary source of funding is from customer deposits, loan repayments, and securities available for sale. If additional funding sources are needed, the Bank has access to federal fund lines at correspondent banks and borrowings from the Federal Reserve discount window. In addition to these sources, as described above, the Bank is a member of the FHLB, which provides access to FHLB lending sources. At March 31, 2002, the Bank had an available line of credit with the FHLB totaling $788.9 million with $119.2 million available. At March 31, 2002, FCB also had federal funds back-up lines of credit totaling $50.0 million, of which there were no amounts outstanding. At March 31, 2002, the Corporation had lines of credit with SunTrust Bank totaling $25.0 million with $15.0 million outstanding and commercial paper outstandings of $8.1 million.

Another source of liquidity is the securities available for sale portfolio. See "FINANCIAL CONDITION - Summary" for further discussion. Management believes the Bank's sources of liquidity are adequate to meet loan demand, operating needs and deposit withdrawal requirements.

The Corporation has obligations under existing contractual obligations that will require payments in future periods. The following table presents aggregated information about such payments to be made in future periods. The Corporation anticipates refinancing during 2002 any contractual obligations that are due in less than one year.

TABLE SIX
CONTRACTUAL OBLIGATIONS
As of March 31, 2002

	PAYMENTS DUE BY PERIOD			
(DOLLARS IN THOUSANDS)	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	OVER 5 YEARS
Other borrowings	$ 368,449	$ 40,080	$ 65,080	$363,160
Lease obligations	1,731	2,830	1,971	1,400
Equity method investees funding	1,250	--	--	--
Deposits (1)	1,954,975	199,455	55,468	410
TOTAL CONTRACTUAL CASH OBLIGATIONS	$2,326,405	$242,365	$122,519	$364,970

(1) Deposits with no stated maturity (demand, money market, and savings deposits) are presented in the less than one year category.

ASSET-LIABILITY MANAGEMENT AND INTEREST RATE SENSITIVITY

The primary objective of the Corporation's asset-liability management strategy is to reduce the risk of a significant decrease in net interest income caused by interest rate changes without unduly penalizing current earnings. One method used to manage interest rate sensitivity is to measure, over various time periods, the interest rate sensitivity positions, or gaps; however, this method addresses only the magnitude of timing differences and does not address earnings or market value. Management uses an earnings simulation model to assess the amount of earnings at risk due to changes in interest rates. This model is updated monthly and is based on a range of interest rate scenarios. Under the Corporation's policy, the limit for interest rate risk is 10 percent of net interest income when considering an increase or decrease in interest rates of 300 basis points over a twelve-month period. Management believes this method more accurately measures interest rate risk. Assuming a 300 basis point pro-rata increase in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would positively impact net interest income by approximately 1.57 percent of net interest income at December 31, 2001. Assuming a 150 basis point pro-rata decrease in interest rates over a twelve-month period, the Corporation's sensitivity to interest rate risk would negatively impact net interest income by approximately 0.61 percent of net interest income at December 31, 2001. Both scenarios are within Management's acceptable range.

From time to time, the Corporation may use derivative financial instruments including futures, forwards, interest rate swaps, option contracts, and other financial instruments with similar characteristics. At March 31, 2002, the Corporation had no such derivative financial instruments. Refer to NOTE SIX to consolidated financial statements and RESULTS OF OPERATIONS for a discussion of the Corporation's use of written over-the-counter covered call options during 2002 and 2001. The Corporation does not have any special purpose entities or off-balance sheet financing arrangements.

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. Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the Corporation until the instrument is exercised. See "FINANCIAL CONDITION - Loans Portfolio".

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

TABLE SEVEN
COMMITMENTS
As of March 31, 2002

	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	$ 83,224	$ 2,030	$ 5,071	$201,461	$291,786
Standby Letters of Credit	6,779	265	--	--	7,044
Loan Commitments	156,081	51,499	15,817	8,657	232,054
TOTAL COMMITMENTS	$246,084	$53,794	$20,888	$210,118	$530,884

CAPITAL RESOURCES

At March 31, 2002, total shareholders' equity was $303.7 million, representing a book value of $9.86 per share, compared to $309.3 million or a book value of $10.06 per share at December 31, 2001. The decrease was primarily due to the recognition of $9.2 million in after-tax unrealized losses on available for sale securities combined with net earnings (net income less dividends) of $3.0 million and the receipt of $0.6 million from the sale of approximately 62,942 shares of common stock issued for stock options.

At March 31, 2002, the Corporation and the Bank were in compliance with all existing capital requirements. The most recent notifications from the Corporation's and the Bank's various regulators categorized the Corporation and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no events or conditions since those notifications that management believes have changed either of the entities' categories. The Corporation's capital requirements are summarized in the table below:

			RISK-BASE	
	LEVERAGE CAPITAL		TIER 1 CAPITAL	
(DOLLARS IN THOUSANDS)	AMOUNT	PERCENTAGE (1)	AMOUNT	PERCENTAGE (2)
Actual	$ 288,156	8.58%	$ 288,156	12.60%
Required	134,348	4.00	91,448	4.00
Excess	153,808	4.58	196,708	8.60

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

(2) Percentage of risk-weighted assets.

REGULATORY RECOMMENDATIONS

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

ACCOUNTING AND REGULATORY MATTERS

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

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

SFAS 141 requires, upon adoption of SFAS 142, that the Corporation evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS 141 for recognition apart from goodwill. Upon adoption of SFAS 142, the Corporation reassessed the useful lives and residual values of all identifiable intangible assets acquired in purchase business combinations, and as a result did not make any necessary amortization period adjustments. In addition, any intangible assets classified as goodwill under SFAS 142 are subjected to a transitional impairment test during the first six months of 2002 based on the level of goodwill as of January 1, 2002. Any impairment losses identified as a result of this transitional impairment test will be recognized in the 2002 statement of income as the effect of a change in accounting principle. The Corporation expects to complete the transitional impairment test during the second quarter of 2002.

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

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This standard provides guidance on differentiating between long-lived assets to be held and used, long-lived assets to be disposed of other than by sale and long-lived assets to be disposed of by sale. SFAS No. 144 supersedes FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 also supersedes Accounting Principals Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, the Corporation adopted SFAS No. 144 on January 1, 2002, with no material impact on its 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

The following table presents information concerning market risk sensitive instruments as of March 31, 2002:

MARKET RISK

March 31, 2002

		EXPECTED MATU			
(Dollars in thousands)	TOTAL	1 YEAR	2 YEARS	3 YEARS	4
ASSETS					
Debt securities					
Fixed rate					
Book value	$1,069,978	$ 187,957	$140,970	$164,044	$14
Weighted average effective yield	5.88%				
Fair value	$1,062,974				
Loans					
Fixed rate					
Book value	$ 913,339	178,842	146,511	148,987	13
Weighted average effective yield	7.67%				
Fair value	$ 940,072				
Variable rate					
Book value	$1,089,545	331,860	130,941	118,907	10
Weighted average effective yield	5.33%				
Fair value	$1,083,664				
LIABILITIES					
Deposits					
Fixed rate					
Book value	$1,270,725	1,019,129	148,339	47,379	
Weighted average effective yield	3.58%				
Fair value	$1,270,864				
Variable rate					
Book value	$ 681,719	677,982	3,519	218	
Weighted average effective yield	1.19%				
Fair value	$ 681,896				
Other borrowings					
Fixed rate					
Book value	$ 537,280	83,960	25,040	40	
Weighted average effective yield	5.05%				

Fair value	$ 536,026			
Variable rate				
Book value	$ 299,489	284,489	--	15,000
Weighted average effective yield	2.20%			
Fair value	$ 299,531			

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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 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

The following reports on Form 8-K were filed by the Corporation during the quarter ended March 31, 2002:

Current Report on Form 8-K dated January 15, 2002 and filed January 15, 2002, Items 5 and 7.

Current Report on Form 8-K dated January 16, 2002 and filed January 16, 2002, Items 7 and 9.

SIGNATURES

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

FIRST CHARTER CORPORATION
(Registrant)

Date: May 2, 2002

By: /s/ Robert O. Bratton

Robert O. Bratton
Executive Vice President &
Chief Financial Officer